People-people banking

Annual Report
and Accounts 2022

At Metro Bank we want to change the face of retail banking by building a bank that puts customers at the heart of what we do.

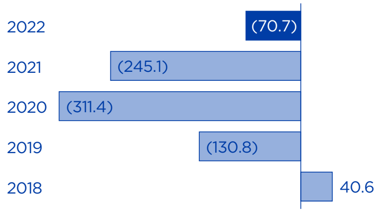
This is helping us achieve our ambition to be the number one community bank – a bank that is deeply rooted within local communities, allowing us to serve customers brilliantly in person, digitally and over the phone.

Read more about our purpose and strategy on pages 3 to 5

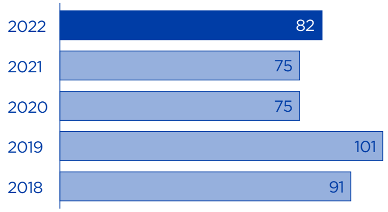
Summary of the year

Our results for the final year of our transformation plan reflect our progress against the priorities we set out three years ago. The execution of this strategy has seen us markedly reduce our losses for the year and return to profitability on an underlying basis in the fourth quarter, as well as continue to put legacy issues behind us. The next stage of our journey will see us focus on continued growth and delivering sustainable profitability.

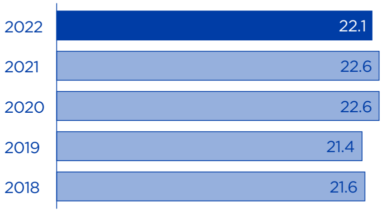
Statutory (loss)/profit before tax
(£m)



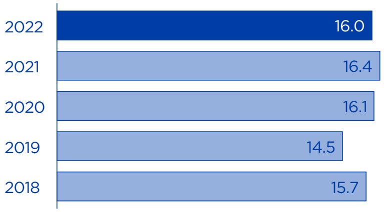
Loan to deposit ratio
(%)



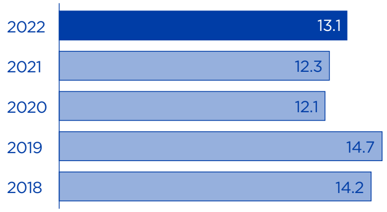
Assets
(£bn)



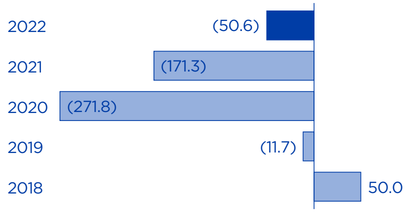
Deposits
(£bn)



Loans and advances
(£bn)



Underlying (loss)/profit before tax
(£m)



Strategic report

Governance

Financial statements

Additional information

Metro Bank at a glance

Our service is what makes us special. Putting FANS first is, and always will be, the key to our success. Through our energised and dedicated colleagues, we build long-lasting and personal relationships with our customers and our communities, giving them the banking they need.

Who we are

We opened our doors in the summer of 2010 and were the first high street bank to open in the UK in over 100 years. Since then, we've built a business that is providing meaningful competition against larger incumbents and offering a compelling alternative for retail, private, small business and commercial customers.

Our approach

Our approach is centred on our colleagues, customers and communities. This allows us to deliver our ambition to be the number one community bank and create FANS. Our community-centric model and focus on our localness informs everything we do and the decisions we make.

1 Independent Competition and Markets Authority (CMA) survey carried out in Great Britain by Ipsos MORI between January 2022 and December 2022 – Services in branches. Results at ipsos-mori.com.

Key statistics
As at 31 December 2022

£16.0bn
Customer deposits

£13.1bn
Loans and advances

2.7m
Customer accounts

76
Stores

24/7
Customer service centre

#1
Rated for store service[1]

Our purpose and strategy framework

Our ambition is to be the number one community bank

Community banking means being embedded in the local communities we serve and prioritising local decision-making. It also means we provide simple and straightforward retail, business and commercial banking services that meet the needs of our customers in the area.

Our purpose and strategy framework Continued

It's achieved through...

Our purpose

To create FANS
FANS are customers created through delivering exceptional customer service and who then champion us through actively recommending us to friends and family.

Strengthened by...

Our behaviours

Our behaviours strengthen everything we do and are ingrained throughout our organisation helping us drive our customer centric approach.

- **A** **ttend to every detail**
- **M** **ake every wrong right**
- **A** **sk if you're not sure – bump it up**
- **Z** **est is contagious, share it**
- **E** **xceed expectations**
- **I** **nspire colleagues to create FANS**
- **N** **urture colleagues so they grow**
- **G** **ame-change because this is a revolution**

Delivered via...

Our business model

We attract customers and create FANS by focusing on our business model. Our business model involves combining stores and digital channels with exceptional customer service to generate sustainable long-term value and tangible book growth.

Unique culture
Our colleagues deliver superior service and are the heart of our people-people banking approach.

Integrated model
Our model combines delivery through physical and digital channels.

Service-led core deposits
We attract core deposits through our service-led community banking model with an emphasis on our core retail and small and medium-sized enterprises (SME) franchise.

Risk-adjusted returns
We balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.

Our purpose and strategy framework Continued

Supported by...

Our strategic priorities

We have refreshed our strategic priorities for the next stage of our journey.

Revenue
Create FANS to deliver strong growth.

Balance sheet optimisation
Continued focus on risk-adjusted returns.

Cost
Target low marginal costs to support profitable growth and reinvestment.

Infrastructure
Protect value through safe, scalable infrastructure.

Communications
Engage colleagues, communities and other stakeholders to push forward our story.

Measured by...

Our key performance indicators

Our key performance indicators (KPIs) are the metrics we monitor to check we are on track with the delivery of our strategy as well as assess how our business model is performing.

Aligned with...

Performance based remuneration

Our approach to remuneration for management is based on a simple and clear scorecard in addition to a Long Term Incentive Plan (LTIP). Scorecard measures are aligned to the four components of our business model with the LTIP based upon the successful generation of sustainable long-term value and tangible book growth.

Chair's statement

"Having delivered on our transformation plan and returned to underlying profitability in the final quarter, our focus is on achieving sustainable growth

Robert Sharpe
Chair

Dear stakeholder

It gives me great pleasure to introduce Metro Bank's 2022 Annual Report and Accounts. This has been a pivotal year for the Bank in which we have made significant strides towards our goal of sustainable profitability. The successful delivery of our transformation plan means the Bank now looks to the future with renewed confidence.

While remaining COVID-19 restrictions were fully lifted in early 2022, the anticipated economic recovery proved short-lived as war in Ukraine and rising inflation provided new challenges for our customers and the communities in which we operate. It is truly impressive how people across the Bank once again stepped up to demonstrate unwavering support, with significant numbers of colleagues going beyond expectations. Not only have we continued to deliver the exceptional customer service that characterises Metro Bank, but on top of this colleagues have proactively extended additional help to our communities whether by raising funds for local good causes, coordinating collections for community food banks, or volunteering their time and skills to make a direct and practical difference to local support schemes.

I am immensely proud to be part of a team that is so deeply and genuinely committed to supporting customers and communities through thick and thin.

Results

The operating environment was challenging throughout 2022. Despite the economic headwinds, Daniel Frumkin, Chief Executive Officer (CEO) and his management team have achieved a great milestone in delivering our transformation plan. The fruits of the successful turnaround are reflected in our results for the year, which saw us markedly reduce losses with statutory loss before tax reducing to £70.7 million (2021: £245.1 million).

Crucially, we returned to profitability on an underlying basis for the fourth quarter of 2022, establishing momentum that I look forward to continuing into 2023 as we seek to meet our primary objective of returning the Bank to sustainable profitability.

We have continued our strategy of ensuring highly efficient use of capital and transitioning to an asset mix that generates higher risk-adjusted returns against regulatory capital. We continue to meet our regulatory requirements, although we are currently still operating in buffers. We ended the year with a total capital plus MREL ratio of 17.7% (31 December 2021: 20.5%) against a regulatory minimum of 17%. During the year the Prudential Regulation Authority (PRA) reduced our Pillar 2A capital requirement, which has had a positive impact on our capital headroom. We also announced in 2022 that our Pillar 2A requirement would reduce again in January 2023 meaning our MREL minimum requirement is 16.72% from 1 January 2023.

Chair's statement Continued

Legacy issues

I am pleased we have now drawn a line under the Financial Conduct Authority's (FCA) risk-weighted assets (RWA) investigation, following its conclusion and outcome at the end of 2022. The significant improvements we've made to our regulatory reporting processes and controls, risk management and governance stand us in good stead for the future.

In 2022 we also saw the conclusion of the US Office of Foreign Assets Control (OFAC) investigation into sanctions breaches, with no financial penalty.

Governance

In September, we welcomed James Hopkinson to the Board as our new Chief Financial Officer (CFO). James has a wealth of experience in banking, including growing businesses and managing finance teams. Also in September, Dorita Gilinski joined the Board as a shareholder appointed Non-Executive Director (NED). Dorita brings valuable finance industry perspective and banking expertise. Her appointment further enhances the Board's commitment to ensure that investor views are considered in all aspects of strategy and decision-making to maximise shareholder value. I am delighted that James and Dorita agreed to join the Board and their arrival is well timed as the Bank enters the next stage of its strategic journey.

During the year Sally Clarke stepped down from the Board after two years. Sally served as the Board's designated NED for Colleague Engagement (DNED), ensuring that views and experiences of colleagues were shared with the Board throughout the COVID-19 lockdowns and both during and after the successful integration of RateSetter. On behalf of the Board, I would like to thank Sally for her contribution to colleague engagement during this time. I was pleased that in the summer, Nick Winsor agreed to become the DNED following Sally's departure.

Additionally, at the end of the year we said farewell to our Company Secretary, Melissa Conway. Melissa made a significant contribution during her six years at Metro Bank and on behalf of the Board, I would like to thank her for her service. Stephanie Wallace, the Bank's General Counsel, has taken over the responsibility for the Company Secretarial Team and I look forward to working with her as we continue to embed good governance throughout the Bank. I wish Sally and Melissa all the best for the future.

Community banking and sustainability

Our commitment to community banking runs through every aspect of our proposition. From relationship-based banking and market-leading customer service, to our culture of diversity and inclusion (D&I) throughout our workforce – and our Board – which means we reflect the very communities we serve.

Being a community bank also means being environmentally responsible. I am proud of our policy not to finance extraction of fossil fuels nor their use for power generation, and to reaffirm our commitment to reducing our own carbon footprint on the way to becoming net zero across our operations by 2030.

Outlook

The completion of our transformation strategy is a necessary prerequisite to sustained growth alongside continuing to deliver on our ambition to be the number one community bank. I would like to extend my thanks to all my colleagues for their hard work in making this happen, as well as shareholders and other stakeholders for their ongoing support.

At the time of writing the economic outlook remains uncertain, but our strategic priorities ensure that Daniel and his management team's focus remains on continuous performance improvement, on delivering for our customers and on supporting our communities.

Robert Sharpe
Chair
15 March 2023

Case study
People-people banking in action

Helping Northampton's businesses thrive

I oversee Metro Bank's network across the East Midlands region and am based in our Northampton store. I cover all aspects of our full-service customer proposition from personal accounts to commercial lending, to private banking. Like many of our Local Directors, I am integrally involved in developing and promoting the local town centre as a vibrant hub for the community and I chair the local Business Improvement District, which brings together key local stakeholders. In addition, I lead the work across the Bank and our network of in-store Local Business Managers, to support female business leaders through every step of their journey as they start and scale up their businesses, including our commitment to the Investing in Women Code.

Kerry Reynolds
Area Director

Operating environment

The environment we operate in is both competitive and rapidly changing. This presents us with challenges but also creates exciting opportunities for us as we grow.

Economic and political outlook

How we see it

2022 has been a year of political and economic turbulence and this is forecast to continue, with the Bank of England predicting the UK will enter a recession during 2023. Alongside this, unemployment is forecast to rise, albeit from a historic low level, and house prices are predicted to fall back.

While it is anticipated that inflation will fall, levels are still likely to be high compared to recent history adding to pressure on household finances.

The political and central bank response to these issues continues to evolve and the continued inflationary environment will likely see base rates rise through the first half of 2023. As the country enters a period of recession we anticipate further volatility within financial markets, particularly in respect of yields and asset pricing.

How we are responding

We continue to take a prudent approach to our new lending, particularly in our consumer and mortgage portfolios.

In measuring our expected credit losses (ECL) we use independent forecasts, which incorporate the majority of these uncertainties, and where appropriate use post model overlays (PMOs) and adjustments (PMAs) to capture any additional risk.

We closely monitor all of our lending for signs of deterioration and where necessary work with our customers to offer support.

Competition

How we see it

Competition in the UK banking market remains strong, notably in the current account and mortgage spaces. Newer digital-only Fintechs continue to win market share and are performing strongly in customer satisfaction rankings, including the bi-annual CMA service quality surveys.

In the lending market, larger incumbent players are continuing to benefit from large legacy deposit bases and excess liquidity freed up from ring-fencing to competitively price mortgages.

In other areas of the market, specialist lenders continue to make inroads into non-relationship driven segments, often delivered via intermediaries or aggregators.

We also continue to see competition in other areas of our operations, notably for talent across the organisation as the UK continues to experience historic low levels of unemployment.

How we are responding

Our service-driven business model continues to resonate with customers; allowing us to continue to grow both personal and business current accounts and compete effectively in this market.

Over the past three years we have re-optimised our balance sheet, focusing on more underserved and higher-yielding areas of the markets, including consumer lending. Most recently this has seen us launch a motor finance product late in 2022.

We continue to invest in our colleagues and ensuring we remain an attractive place to work. We were pleased to be voted as one of the UK's top 10 Most Loved Workplaces in 2022.

Consumer behaviour

How we see it

We are continuing to see a shift in consumer behaviour to more digital offerings, with banks and retailers continuing to reduce their physical presence.

Despite this shift, customers place a strong value on the ability to deal with issues in person, even where a digital alternative is available. We have seen high street footfall recover to pre-pandemic levels in key areas although the level of recovery differs between locations.

Customers are more willing to switch current account providers and in doing so are putting greater value on both service levels and innovative approaches to banking, particularly amongst SMEs, which remain underserved in the marketplace.

We are also seeing customers starting to shift balances from current accounts into savings accounts as interest rates have risen, and therefore the opportunity cost of these deposits has increased.

How we are responding

While we have slowed the pace of our store openings, and closed three stores during the year, we remain committed to a physical presence and plan to resume store openings in 2024. These will be focused on key markets which have strong footfall. At the same time we will continue to build out a strong digital offering.

We refrain from the excessive use of marketing campaigns and switching incentives, instead focusing on our service-led proposition to expand our deposit base.

As well as working to attract new customers, we continue to listen to our existing customers and respond to their changing needs, ensuring we provide a competitive proposition and high levels of customer service.

Operating environment Continued

Regulatory environment

How we see it

The UK regulatory environment continues to evolve, with multiple changes on the horizon from key regulatory bodies.

At the end of 2022, the PRA issued a consultation paper in respect of the implementation of Basel 3.1. Separately the FCA has issued its guidance on fair treatment of vulnerable customers and Consumer Duty, which are aimed at driving better customer outcomes through the setting of higher standards for firms. Both of these initiatives will see significant changes across the financial services sector, with firms being required to make changes to many of their existing processes and systems.

During the year the Government published its final proposals for reforms to the UK's audit and corporate governance regimes (colloquially referred to as 'UK SOx'), which will have significant consequences for large firms and their directors.

How we are responding

We continue to monitor and respond to the evolving regulatory landscape. We are currently working through the potential impacts on our capital requirements from the Basel 3.1 changes.

Alongside this we are continuing to identify and respond to the needs of our vulnerable customers. Our customer focus puts us in a strong position to deliver for vulnerable customers, including ensuring appropriate customer outcomes. We are currently working to enhance our processes and systems where needed.

During the year, we have also continued work to enhance our control environment, particularly in respect of financial and regulatory reporting, ahead of any introduction of UK SOx requirements.

Capital and funding regime

How we see it

The UK continues to adopt a rigorous approach to capital management with financial institutions, including ourselves, that have total assets greater than £15-25 billion, subject to the most stringent MREL 'bail-in' requirements. A review of these requirements was undertaken by the regulator, but banks, including ourselves, will still be required to issue MREL debt. The rise in interest rates, as well as political and economic uncertainty during 2022, has made funding more expensive with corporate bond yields rising over the course of the year, a trend that is expected to continue into 2023.

In December 2022, the Government proposed the 'Edinburgh reforms' – a package of over 30 regulatory reforms aimed at unlocking investment and growth across the UK. These proposals included changes to the ring-fencing requirements, which would see retail-focused banks, like ourselves, exempt from the requirement to separate out our retail activities.

How we are responding

We continue to work to fulfil all of our minimum capital requirements required under the MREL and resolvability regime. This includes work on inserting a holding company, which will be in place by June 2023.

Our current growth ambitions will see us needing to access the debt capital markets during our planning horizon. Given the rising rate environment the cost of this funding will have increased, although the yields we are able to generate from this have also improved. We remain focused on delivering a reliable track record of profitability, which should allow us access to fresh debt capital at a reasonable funding cost.

We welcome the 'Edinburgh reforms' proposed by the Government, particularly in respect of ring-fencing; which given our growth plans may impact us in the future.

Focus on sustainability

How we see it

COP 26 has continued to shine a light on the need for climate action as well as a wider focus on sustainability.

Although climate change remains a key focus, sustainability is much wider than this. Sustainability in all its forms continues to be important for our stakeholders. These trends include a desire to shift away from over consumption and increase support towards local and independent businesses; a trend accelerated by the COVID-19 pandemic.

As with most companies, our stakeholders continue to expect more from us, and customers are increasingly choosing to interact with companies and brands that they see as being focused on sustainability.

How we are responding

We are working to deliver our 2030 net zero carbon emissions goal, as part of which we have reaffirmed our promise of not financing the extraction of fossil fuels or their use in power generation. Alongside this, as we grow we will minimise the resources we use – an approach that is good for all of our stakeholders as well as the planet. This includes reducing the amount of plastic we use, which in 2023 will see us change our in-store free pens to a significantly more environmentally friendly version.

We are also focused on sustainability in its wider forms and continue to apply our ethical approach to doing business.

We believe our ambition to be the number one community bank is an important part of helping build sustainable communities with thriving local economies that our stakeholders desire.

Chief Executive Officer's statement

Our ambition to be the number one community bank continues to set us apart

Daniel Frumkin
Chief Executive Officer

I am very pleased that the Bank ended 2022 in its strongest position for several years. We completed our transformation plan, despite facing into a series of challenging economic and external headwinds, and have built the foundations to drive sustainable profitable growth. Perhaps the most significant proof point of our progress is recording in Q4 2022 our first full quarter of underlying profit since Q2 2019 and ahead of our announced intention to break even in Q1 2023.

We've achieved this as a result of ongoing cost control, building a wider suite of asset products and the rising interest rate environment, in parallel to maintaining our unwavering commitment to local communities and our focus on excellent customer service. We are proud to have kept our position for the tenth time in a row as the top rated high street bank for overall service quality to personal customers, plus ranking as the best high street bank for in-store personal and business service in the CMA service quality survey.

We have a solid platform on which to build in 2023, having established strong momentum in 2022, although we recognise the economic challenges which are expected. This is a testament to tireless work by all my colleagues right across the Bank, and I would like to take this opportunity to thank them for their ongoing skill, effort, dedication and laser-like focus on creating FANS. I am proud to lead such an inspiring and hardworking team, and look forward to serving our customers and creating more FANS in 2023.

Strong momentum towards a sustainably profitable community bank

By delivering our transformation plan, we have proved what we have always known – that our model works and can deliver sustainable growth and profitability. Our delivery of market-leading service helps us attract core deposits allowing us to grow lending, which we flex and balance across a range of asset classes, to generate high-quality earnings.

Community banking via our store network is integral to this and will remain a core component of our model and service offering. Our newest store opened in Leicester at the start of 2022 and is performing well. Our transformation plan has enabled newer stores to open at much reduced cost and in 2023 we will undertake planning work with a view to resuming store openings in 2024, focused on locations in the North of England with large local populations and strong SME presence. We remain committed to the elements that have always made our 76 stores stand out, including being open seven days a week, 362 days a year, from early until late.

We know we cannot succeed without investing in excellent digital services to complement our store network. As customers' digital expectations evolve, we will continue to invest in and refine our digital customer services while remaining true to our guiding customer promises.

Chief Executive Officer's statement Continued

Successful completion of our transformation plan

Our strategic priorities were launched three years ago with the objective of setting the Bank on a path back to sustainable profitability and growth, while staying true to our community banking model. Execution against the strategic priorities has been excellent throughout the transformation period and has been instrumental in returning us to profitability.

Revenue

In a more normalised interest rate environment our model has really come into its own with the combination of core deposits attracted by our excellent customer service proposition and a strategically rebalanced asset mix towards higher yield lending leading to improved net interest margin.

We have continued to expand the range of products we offer to meet our customers' needs. For example, our new enhanced business overdraft product was launched in March and has quickly become popular with our business customers, due to the fully digital journey. In December we launched our motor finance lending product, which operates under our RateSetter brand using the latest technology to ensure a market-leading, fast and efficient customer journey. We've also supported customers by growing our mortgage and invoice finance propositions, including developing new products, such as asset based lending.

Costs

We have retained tight control of our costs by further ingraining discipline across all business functions. Examples of this in practice include simplifying our IT processes; improvements to our online and mobile app which have reduced calls to our AMAZE Direct contact centres; freeing up time to focus on more complex calls. We've also continued to embed Agile working practices to deliver better products and services more efficiently and safely. We recognise the need to continue to target low marginal costs and efficient operations to support our future profitability.

Like any responsible retailer we regularly review our store estate, and during 2022 we completed the closure of three stores. This was a difficult decision, but we ensured the impacts were minimal with customers supported and there were no redundancies. We don't have any plans for further closures and are pleased with how our stores are performing.

Infrastructure

Our objective is to make the Bank safer, more resilient and fit for the future. We have continued to invest in core infrastructure, enhance risk management and integrate channels to further improve our service offering.

We have implemented a programme to identify and respond to the needs of our vulnerable customers with our customary AMAZEING service. We have also invested in regulatory reporting, sanctions compliance, anti-money laundering controls and in systems scalability and resilience.

To prepare for the introduction of the Consumer Duty, we are enhancing our products, services, communications and customer journeys, along with monitoring customer outcomes to align with the requirements.

Balance sheet optimisation

We continued to shift the balance towards assets with better risk-adjusted returns on regulatory capital, growing our unsecured consumer finance under the RateSetter brand along with higher-yielding residential mortgage lines and asset finance.

Communication

Our commitment to supporting our colleagues and communities is deep and enduring. Inclusion is at the heart of our culture and we demonstrate this through the local colleagues we employ, the market-leading service we deliver to all our customers and the local causes we support. Our new D&I strategy celebrates our achievements and further raises our ambitions for the future. Being named as one of the UK's Most Loved Workplaces is a great testament to how special our culture is.

Case study

People-people banking in action

Always putting our customers first

Great service and going the extra mile for our customers has always been at the heart of everything we do, right from the day we opened the doors of our first store in 2010.

Since then we've grown our network to 76 stores, with every one of them delivering relationship-based banking to the local community from early until late, 362 days per year, supported by our digital and phone channels.

It's a big source of pride for my colleagues and I – and particularly those that interact with our customers directly – that our in-store service for personal customers has been independently rated number one ten times in a row in the CMA customer survey.

Our commitment to our community banking model remains as strong as ever, and is a key differentiator for our customers and communities.

Tamsin Byrne
Director Distribution Delivery

Chief Executive Officer's statement Continued

Case study
People-people banking in action

Supporting vulnerable customers

From the pandemic to the soaring cost of living, the past few years have brought tough challenges for all our customers, but the impact has been particularly felt by those who are potentially vulnerable because of personal circumstances relating to their health, financial capability or life events.

I coordinate strategy and action across the Bank to ensure that we identify potentially vulnerable customers, understand their specific needs, and provide appropriate support and care across all our channels and touch points.

This has included ensuring access to cash during COVID-19 lockdowns, introducing accessibility services for hearing and speech impaired customers and training our colleagues on financial abuse. Our people-people banking ethos puts our customers and communities at the heart of everything we do.

Lucy Birch
Lead Vulnerable Customer Development Manager

I'm delighted to say that we promoted more than 600 colleagues in 2022 across all teams and levels, including the Executive Committee (ExCo). In response to the rising cost of living pressures, in the second half of the year we delivered a 2.75% salary increase to colleagues. This was made up of passing on to colleagues our saving as an employer from the Government's 1.25% National Insurance reduction and contributing a further 1.5% ourselves. This was on top of the average 5% salary increase delivered at the start of the year – meaning that 98% of colleagues have received on average a 7.75% salary increase during 2022. We decided to take this approach, as opposed to a one-off payment, to provide lasting support to help our colleagues with cost of living challenges.

We remain customer-focused

As a people-people relationship-based bank, creating FANS has always been and always will be our motivation for delivering superb customer service, and our commitment to delighting our customers is reflected in our recurring position on top of the high street customer service rankings. In 2022, initiatives such as local marketing around our stores and improved digital communications helped deliver strong growth in our personal and business accounts. In addition, our hands-on support for communities is unwavering, from our financial literacy programme, Money Zone, which we have expanded to include young adult care leavers, to our colleagues directly volunteering to help local causes.

We've drawn a line under the Bank's legacy issues

2022 has also seen us substantially close out the Bank's main legacy issues. This included the conclusion of the OFAC investigation into sanctions breaches, with no financial penalty.

Following the finalisation of the PRA's regulatory reporting investigation at the end of 2021, the FCA concluded its RWA investigation in December 2022. The outcome was within the range of outcomes we expected and we can now put this legacy issue firmly behind us, having greatly improved our reporting processes and controls.

Navigating through the economic cycle

2022 was a year of political turbulence and economic challenges which we expect to continue into 2023, with the economy slowing and inflation remaining elevated.

We now have engines to generate risk-adjusted returns through the economic cycle. Our lending continues to be conservative and our approach to provisioning for loan performance stands us in good stead to navigate economic fluctuations.

We will continue to manage our capital position carefully. We know our model can deliver more growth, but we are constrained by our capital and MREL requirements.

We will look to optimise our capital stack

Capital is a core focus for us, as while we meet all of our minimum requirements, we continue to operate within our capital buffers.

Our return to sustainable capital generation, and therefore our path to exiting capital buffers, will consist of our return to profitability combined with a continued focus on balance sheet optimisation, including actively managing lending. Alongside this we are progressing our application to adopt an Internal Ratings Based (IRB) approach to calculating credit risk with the regulator. We will also seek to access the capital markets to raise additional regulatory debt, as and when conditions allow.

Evolving our strategic priorities

As we come to the end of our transformation journey and are positioned for profitable growth, now is the time to increase focus on our strategic priorities so we can deliver on the things that are important for our stakeholders.

In achieving this, our headline priorities will remain unchanged during this transitional year. Our focus will, however, shift from fixing the problems of the past to leveraging the strengths of our business model for future growth.

Chief Executive Officer's statement Continued

While 2023 is going to be a transitional year, the following few years will see us place a renewed focus on growth, ensuring this is done in both a responsible and sustainable way. We will continue to operate above our minimum requirements although will remain within our capital buffers in the short term. If our capital constraints were to ease we know that we could grow more quickly and generate greater shareholder returns.

Momentum towards meeting our goals

We have built strong momentum over the last three years by successfully implementing our transformation plan: driving higher revenue, keeping costs firmly under control and optimising our balance sheet, while maintaining our service standards, protecting our culture and supporting communities. Maintaining this disciplined approach for future years instils confidence that our goals of achieving sustainable profitability and realising our ambition to be the number one community bank is within our sights.

Daniel Frumkin
Chief Executive Officer
15 March 2023

Our strategic priorities for 2023

2019-2022 Transformation strategy

Revenue
Meeting more customer needs and development of new capabilities.

Balance sheet optimisation
Enhanced focus on risk-adjusted returns and growing tangible book value.

Cost
Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint.

Infrastructure
Investment in integrated channels and core infrastructure.

Communication
Improve our approach to engagement.

2023+ Transition to growth strategy

Revenue
Create FANS to deliver strong income growth.

Balance sheet optimisation
Continued focus on risk-adjusted returns.

Cost
Target low marginal costs to support profitable growth and reinvestment.

Infrastructure
Protect value through safe, scalable infrastructure.

Communication
Engage colleagues, communities and other stakeholders to push forward our story.

Read more about our strategic priorities on page 19

Strategic progress

Our transformation strategy has helped us create a strong platform for growth.

1. Costs
2. Revenue
3. Infrastructure
4. Balance sheet optimisation
5. Internal and external communications

2020

FEBRUARY

Daniel Frumkin appointed as CEO

Launched our strategic priorities with a clear plan to return the Bank to sustainable profitability built around a community banking model.

JULY (4)

Granted first loans under the government-backed lending schemes introduced following the COVID-19 pandemic allowing us to support our customers while being a capital efficient form of lending.

SEPTEMBER (2) (4)

Acquisition of RateSetter, providing us with the digital capability to deliver unsecured lending at scale.

DECEMBER (1) (4)

Sale of £3.1 billion mortgage portfolio to NatWest freeing up capital to redeploy into lending with better risk-adjusted returns.

Decision to exit our offices at Old Bailey and move to permanent hybrid-working.

2021

APRIL (1) (4)

Acquisition of RateSetter back book, utilising some of the capital freed up by the mortgage sale and allowing closure of legacy peer-to-peer business.

JUNE (1)

Rationalisation of call centre sites, including opening of AMAZE Direct contact centre in Bristol.

JUNE (5)

Launched first SME focused brand and marketing campaign – demonstrating our commitment to empowering the UK's SMEs and demonstrating our business banking offering.

DECEMBER

Settlement with PRA in respect of their investigation into regulatory reporting.

Agreement of net zero target by 2030.

2022

FEBRUARY (1) (3)

Announced closure of three stores.

Opening of latest store in Leicester.

NOVEMBER (2) (4)

Launch of motor finance product under the RateSetter brand, broadening our consumer lending capabilities.

DECEMBER

Settlement with FCA in respect of their investigation.

Completion of transformation plan

Business model

As set out in our purpose and strategy framework on pages 3 to 5 we are delivering on our ambition to be the number one community bank through our business model.

is underpinned by...

Environmental and social priorities
We ensure that our business model and approach is focused on the areas that matter most to our stakeholders.

Read more on pages 28 to 53

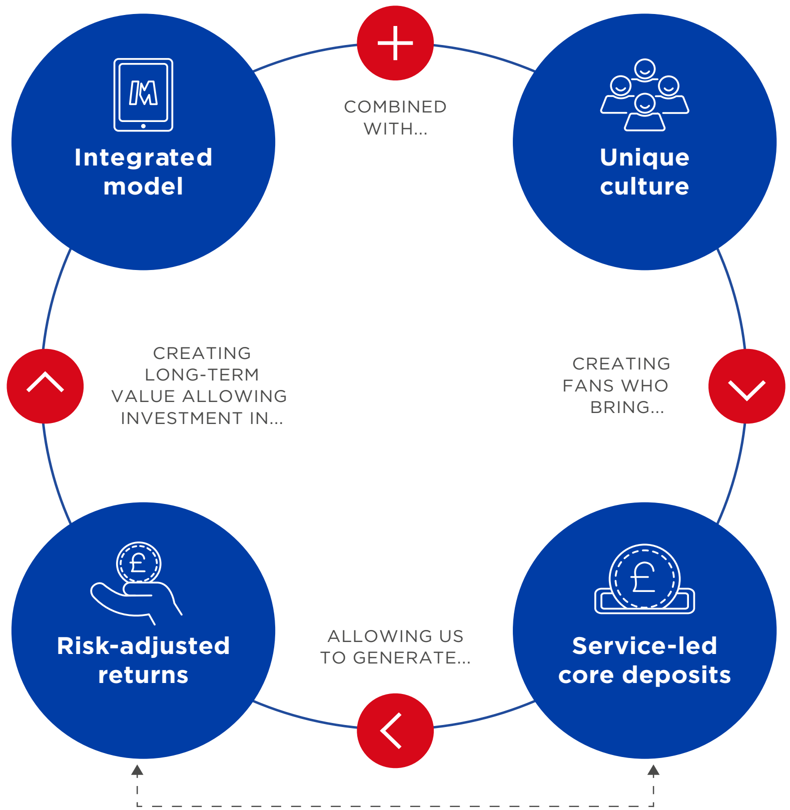
Risk management
We continue to focus on enhancing our control environment and risk capabilities, ensuring we balance the risks that need to be taken to deliver our strategy against ensuring this is done in a managed and appropriate manner.

Read more on pages 54 to 97

Governance
We are continually improving our approach to governance. Ensuring we maintain a robust governance framework is important in allowing all stakeholders to have confidence that we are making decisions in the right way.

Read more on pages 98 to 169

Our model



How we make money
We make money through the difference we charge on the loans we issue and the deposits we take, less our operating costs and changes in ECL.

Read more on pages 22 to 27

delivers value for...

over **2.7m** customer accounts

over **4,000** colleagues

our retail and institutional **investors**

our regulators, including the **FCA and PRA**

over **600** suppliers

the **76** communities we serve

Read more on pages 108 to 114

Business model Continued

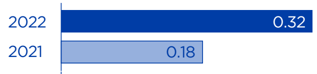
	Progress in 2022	Operating environment	Priorities	Risks	KPIs
Integrated model **Our integrated model aims to combine delivery through physical and digital channels.**	During the year we opened our latest store in Leicester and have been encouraged by its performance. Overall we have seen footfall recover to pre-pandemic levels, although with variability between markets. Alongside our stores we continued to invest in our digital channels, launching new digital products in the year, including our digital business overdrafts. These investments saw us continue to grow. During 2022 we processed 106 million payments, equating to 1% of all domestic UK payments.	**Competition** The UK banking market continues to be very competitive with high levels of innovation. To remain competitive we need to continue to invest in all of our channels to ensure they meet our customer needs. **Consumer behaviour** Customers are continuing to place a strong reliance on in-person service, although the move to digital continues. **Focus on sustainability** We continue to see strong pressure from all of our key stakeholders to ensure all of our operations are sustainable.	The idea that bank branches have no value in the modern world is highly exaggerated and there continues to be immense value in a targeted and modern physical offering. We continue to remain committed to stores and are working on site identification and planning for new stores in the North of England; targeting key markets with a strong SME presence. Although we see value in stores, there is a clear growth in digital adoption and we will continue to build our digital proposition, giving customers the choice of how they bank with us, rather than forcing them through a single channel.	Our principal risks in respect of delivering our integrated model are: • Conduct risk. • Operational risk. • Strategic risk. We continue to enhance our processes and systems to both minimise the risk of operational issues. Alongside this we remain focused on our strategy and ensuring this is effectively delivered to meet the expectations of our stakeholders.	**Number of accounts** (m) 2022 2.7 2021 2.5 **Customer satisfaction** New to bank 2022 85 2021 90 Existing 2022 33 2021 42
Unique culture **Our colleagues deliver superior service and are at the heart of our people-people banking approach.**	We continued to focus on sustaining our unique culture. In 2022 we were thrilled to be voted in the top 10 of the UK's Most Loved Workplaces as well as being named a top 10 inclusive company at the British LGBT Awards. During the year we supported colleagues with the cost of living through via a 2.75% salary increase to over 90% of colleagues in the second half the year, in addition to an average salary increase of 5%. We remain focused on retaining and attracting talent and our continued adoption of flexible working has allowed us to attract colleagues from all over the UK.	**Competition** A contraction of the UK workforce post COVID-19 combined with historic low levels of unemployment are continuing to keep the market for talent highly competitive. **Economic and political outlook** The high inflationary environment is continuing to put pressure on wages. This is putting additional cost pressure on firms of all sizes in order to be able to help colleagues and retain talent.	We remain focused on maintaining and enhancing our unique culture and creating a vibrant environment where colleagues enjoy working and we can attract the best talent. Central to this is building a diverse and inclusive workforce where colleagues can be themselves. Alongside this we continue to invest in training and, where possible, encourage promotion from within. We continue to explore opportunities to deploy increased automation to help free up colleague time and allow them to focus on what they do best – creating FANS.	Our principal risks in respect of delivering our unique culture are: • Conduct risk. • Legal risk. • Operational risk. • Strategic risk. We focus on delivering simple and easy to understand products and a foster a culture that ensures we put our customers first; minimising the risk of unfair customer outcomes and delivers our purpose of creating FANS.	**Colleague engagement** (%) 2022 75 2021 69 **Senior leadership diversity** BAME 2022 19 2021 20 Female 2022 41 2021 43

Read more about our operating environment on pages 8 to 9

Read more about risk on pages 54 to 97

Read more about KPIs on pages 20 to 21

Business model Continued

	Progress in 2022	Operating environment	Priorities	Risks	KPIs
Service-led core deposits **We seek to attract core deposits through our service-led community banking model with specific emphasis on our core retail and SME franchise.**	2022 saw us maintain our service-led core deposit base in a rising rate environment. This was driven by our continued growth of personal and business current accounts openings of 188,000 and 42,000 respectively. We continue to deepen our relationships with customers notably in the commercial space, which has aided greater deposit and fee growth. During 2022 we attracted over 700 commercial switchers, which will help generate over £4 million of additional income each year.	**Competition** As interest rates have risen competition for deposits has increased, both from challenger banks and larger incumbents. Alongside this newer digital-only Fintechs continue to grow. **Regulatory environment** The regulatory environment continues to work towards ensuring the fair treatment of customers with a particular focus on vulnerable customer and Consumer Duty. This trend is seeing deposit-taking institutions, like ourselves, implement an increasing amount of regulatory requirements.	The strength of our approach is our ability to attract a stable core deposit base and our focus will be on maintaining this as rates continue to rise. Central to this will be a continued focus on personal and business current accounts, which as well as providing low-cost funding offer fee-earning opportunities. To aid this growth we will continue to focus on attracting switchers especially in the commercial space. These customers typically have large stable deposits and are particularly underserved in the wider market, allowing us to clearly differentiate our offering from our competitors.	Our principal risks in respect of delivering service-led core deposits are: • Conduct risk. • Liquidity and funding risk. • Market risk. • Financial crime risk. • Regulatory risk. • Legal risk. We continue to actively manage our balance sheet to ensure we retain high levels of liquidity and appropriately hedge our interest rate risk. Alongside this we continue to enhance our controls and review our products to both protect our customers and ensure we are delivering fair outcomes.	**Cost of deposits** (%) 
Risk-adjusted returns **We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.**	Our lending during the year benefited from the rising rate environment combined with the rebalancing of our portfolio over the transformation period. During the year we launched new lending products, including a motor finance product under the RateSetter brand and a digital business overdraft. Our core lending remains centred around mortgages and consumer. 2022 saw us receive £4 billion in mortgage applications, with £2.2 billion completed, alongside £1.0 billion of unsecured lending.	**Competition** Competition in the lending space remains strong notably in the mortgage space from larger competitors as well as specialist lenders in other key segments. **Capital and funding regime** The UK's rigorous capital regime continues to see large financial firms, including ourselves, dependent on capital markets to support regulatory requirements. **Economic and political outlook** The economic outlook remains uncertain with the UK forecast to enter recession in 2023. This will continue to put pressure on household and business finances, likely increasing default levels.	Our current capital levels constrain our ability to grow lending balances significantly in the near term and as such our focus will be on efficiently redeploying older legacy balances when they roll-off. Over the past three years we have built a strong lending platform particularly in respect of unsecured lending which we will continue to leverage in the coming years. Alongside this we will explore opportunities to launch new products which provide strong returns on regulatory capital.	Our principal risks in respect of delivering risk-adjusted returns are: • Conduct risk. • Credit risk. • Market risk. • Financial crime. • Regulatory risk. • Model risk. • Capital risk. We take a prudent approach to lending to minimise the risk of losses. We continue to review and update our credit models to support this.	**Cost of risk** (%)  **Loan-to-deposit ratio** (%)  **Total capital plus MREL ratio** (%) 

Read more about our operating environment on pages 8 to 9

Read more about risk on pages 54 to 97

Read more about KPIs on pages 20 to 21

Store strategy

Our network of stores places us at the heart of the communities we serve.

We continue to firmly believe that stores have a vital part to play in modern day banking. While it is clear that the role of bank branches are evolving they remain an important delivery channel and continued to be valued by customers.

We operate our store estate in large population centres and they consist a mix of main city centre and out of town locations with parking. This, combined with our longer and more convenient opening hours, mean our stores are accessible to, and provide coverage for, large geographic areas. In the medium-term we will look to expand into key cities including Exeter, Norwich and Nottingham.

Over the next three years our focus will be the delivery of 11 new stores in the North of England, delivering on our commitments under the Capability and Innovation Fund (C&I) grant. This will see us reach new communities including Hull, Leeds, Newcastle, Teesside and York.

Priorities for our store programme
Our priorities for our store expansion will centre around:

- Less expensive, more sustainable builds.
- Long leases with multiple and frequent breaks – providing security of occupation whilst retaining flexibility.
- Freehold ownership where available and providing there is a strong commercial rationale.
- Continuing to review and refresh the estate as any responsible retailer would do.
- Building a greater mix of high street and out of town locations, adapting to consumer trends.

76 Stores

as at 31 December 2022

We are committed to opening at least another 11 in the North of England by the end of 2025.

Strategic priorities

We have refreshed our strategic priorities for the next stage of our journey, shifting our focus from fixing the problems of the past to leveraging our strengths as a platform for growth.

2019-2022 Transformation priorities	Progress over transformation period
Revenue **Meeting more customer needs and development of new capabilities**	• Growth of core higher-yielding residential mortgages and unsecured lending. • Disciplined deposit pricing. • Growth of fee earning products.
Balance sheet optimisation **Enhanced focus on risk-adjusted returns and growing tangible book value**	• Sale of £3.1 billion mortgage portfolio. • Purchase of RateSetter. • Investment in IRB. • Delivery of over £1.8 billion of government-backed lending schemes.
Costs **Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint**	• Freehold purchases of nine leasehold stores taking these to 38% of our estate. • Move to remote working allowing reduction in Central London office space. • Resolving of expensive legacy issues. • Transformation of procurement processes. • Rationalisation of call centre sites.
Infrastructure **Investment in integrated channels and core infrastructure**	• Reduced capital spend on new stores to allow for investment in back office infrastructure. • Delivery of key regulatory initiatives including PSD2 and high cost of credit. • Implementation of regulatory reporting system. • Enhanced control environment across the Bank. • Increased use of artificial intelligence and automation.
Communications **Improve our approach to engagement**	• Transformed approach to colleague communication. • Delivery of first mainstream brand campaign focused on SMEs. • Regular meetings with all key stakeholders. • Refresh of KPIs and approach to executive remuneration to be clearer and transparent. • Introduction of 2030 net zero target. • Clear focus on community bank credentials post-pandemic, including Money Zone.

2023 Transition to growth priorities	Focus for 2023
Revenue **Create FANS to deliver strong franchise growth**	• Maintain service delivery. • Expansion on higher-yielding product range including growth of motor finance. • Grow personal and business current accounts. • Enhance fee earning opportunities.
Balance sheet optimisation **Continued focus on risk-adjusted returns**	• Disciplined approach to maximising risk-adjusted returns on regulatory capital to aid return to steady capital generation. • Continue to review portfolio mix to reflect changing macro-context. • Fill key gaps in proposition (e.g. ISA switching). • Ambition to achieve IRB accreditation.
Costs **Target low marginal costs to support profitable growth and reinvestment**	• Maintain cost discipline. • Leverage economies of scale in relation to savings, mortgage and unsecured platforms as we continue to grow. • Greater use of artificial intelligence and automation to reduce costs.
Infrastructure **Protect value through safe, scaleable infrastructure**	• Start work on expansion of store network in the North of England. • Continued investment in key areas including regulatory compliance and financial crime. • Embedding of Agile approach to change projects which we adopted in 2022. • Delivery of holding company.
Communications **Engage colleagues, communities and other stakeholders to push forward our story**	• Continue to invest in our training and development programmes, including apprenticeships. • Support customers who may be experiencing financial difficulty as the economy weakens. • Drive towards 2030 net zero target. • Expansion of Money Zone, our financial education programme. • Continued focus on our communities through Days to AMAZE, fundraising and supporting local businesses.

Key performance indicators

Our KPIs are the metrics we monitor to check we are on track with the delivery of our strategy as well as assess how our business model is performing.

Link to business model

Components of our business model

Our business model is set out on page 15. Further details of each component of our business model can be found on pages 16 to 17, including how our KPIs link to measure our performance for each of these components.

Output of our business model

The output of our business model is to generate long-term value and create tangible book growth, measured through:

- Total shareholder return.
- Return on tangible equity.

Link to remuneration approach

Our approach to remuneration for management is based on a simple and clear scorecard. The scorecard measures are aligned to the four components of our business model to ensure management are focused on these. In addition to this we provide an LTIP which is linked to our scorecard outcomes of long-term value generation and tangible book growth.

Key

S Scorecard measure

L LTIP measure

A Alternative performance measure

KPI performance during 2022

The majority of our financial metrics during the year showed improvement in line with our overall 2022 performance. An exception to this was cost of risk which increased from 0.18% to 0.32% reflecting both the economic outlook and our increased unsecured lending. Equally our CET1 continued to decline largely as a result of the losses incurred in the year. As we return to profitability and rebalance lending growth we envisage this stabilising.

While we continued to grow our customer accounts we had a decrease in customer satisfaction. During 2023 we will focus on reversing this trend given its importance in attracting and retaining customers.

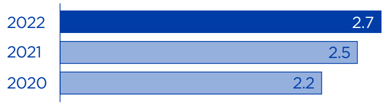
Our colleague engagement score reached a record high in 2022, up six points on 2021. Our diversity metrics remained broadly flat year-on-year. D&I remains important part of our culture and during the year we launched our new D&I strategy.

Alternative performance measures

Where a financial KPI is an alternative performance measure a reconciliation to the nearest statutory measure can be found on pages 241 to 245.

Non-financial

Customer accounts (m)



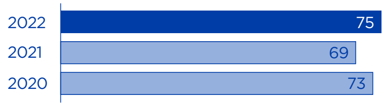
How we define it

Number of active customer accounts.

Why it is important

Growing our customer accounts is key to our franchise and validates that our approach is working and that our proposition resonates with customers.

Colleague engagement



How we define it

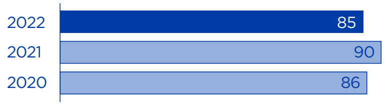
The result is taken from our annual Voice of the Colleague survey.

Why it is important

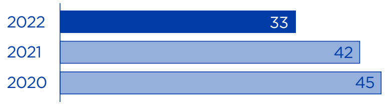
Attracting and retaining talent is vital to delivering superior service and preserving our culture and therefore we want to ensure colleagues enjoy working for us.

Customer satisfaction (%)

New account openings



Continuing relationships



How we define it

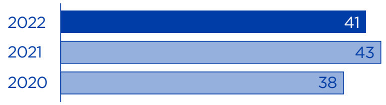
Net promoter score for new account openings and continuing customer relationships.

Why it is important

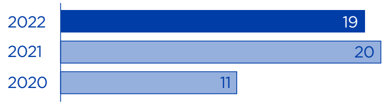
Our purpose is to create FANS and as such ensuring strong ongoing levels of customer satisfaction is important in measuring this.

Senior leadership diversity (%)

Female



Black, Asian and minority ethnic (BAME)



How we define it

Proportion of female/BAME colleagues amongst our senior leadership team (ExCo and their direct reports).

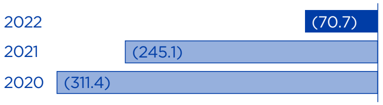
Why it is important

Ensuring diversity amongst our senior management ensures we are representative of the communities we serve and our colleagues as a whole. This means we are more likely to make decisions that are beneficial to all our stakeholders and help us deliver on our strategy.

Key performance indicators Continued

Financial

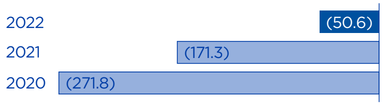
Statutory loss before tax (£m)



How we define it
Our earnings before tax as defined by International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

Why it is important
Achieving sustainable profitability is the key financial measure to demonstrate we are creating long-term value.

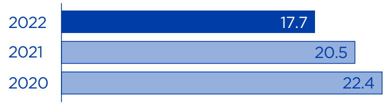
Underlying loss before tax (£m)



How we define it
Our statutory earnings adjusted for certain items that distort year-on-year comparisons.

Why it is important
It provides further understanding of the underlying trends in the business.

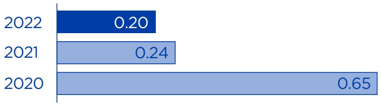
Total capital plus MREL ratio (%)



How we define it
Our total capital plus MREL expressed as a percentage of RWAs.

Why it is important
While we measure capital at multiple levels our biggest current constraints are at our total capital plus MREL level, where we continue to operate within our capital buffers.

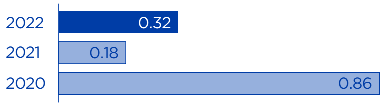
Cost of deposits (%)



How we define it
Interest expense on customer deposits divided by the average deposits from customers for the year.

Why it is important
Our ability to attract service-led core deposits is a component of our business model with cost of deposits being a key determinant in measuring this.

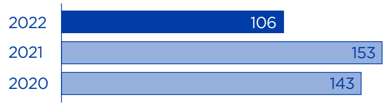
Cost of risk (%)



How we define it
ECL expense divided by average gross loans for the year.

Why it is important
We seek to minimise our cost of risk, balanced with the interest received, to ensure we are optimising our lending.

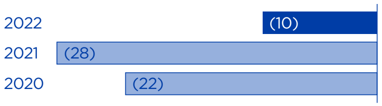
Statutory cost:income ratio (%)



How we define it
Total costs (excluding ECL expense) expressed as proportion of total income.

Why it is important
Achieving tangible book growth involves achieving profitability and therefore creating positive operating jaws is vital. Statutory cost:income ratio is a useful metric in measuring this.

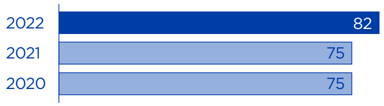
Return on tangible equity (%)



How we define it
Earnings for the year divided by average tangible shareholders' equity (total equity less intangible assets).

Why it is important
This is the strategic output of our business model and how we judge success.

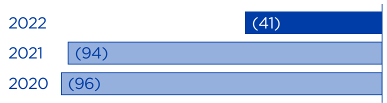
Loan-to-deposit ratio (%)



How we define it
Net loans and advances to customers expressed as a percentage of total deposits.

Why it is important
As we seek to be a deposit funded bank, ensuring we maintain an appropriate loan-to-deposit ratio is a key measure in managing this.

Total shareholder return (%)



How we define it
Total capital gains and dividends returned to investors over a three-year rolling period.

Why it is important
We want to ensure shareholders are rewarded for their continued investment in us.

Finance review

"Our performance in 2022 has improved significantly from the continued execution of our strategy in a changeable external environment

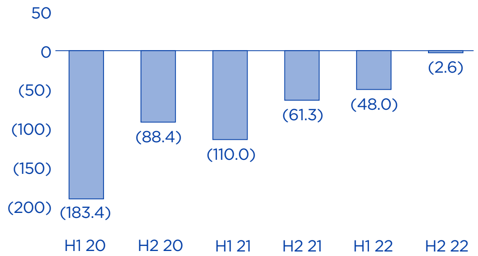
James Hopkinson
Chief Financial Officer

Summary of the year

2022 was a significant year for Metro Bank with continued momentum in financial performance, marked by a return to underlying profitability in the final quarter of the year, and the continued execution of our ambition to be the number one community bank. We now have a clear opportunity to deliver for our customers, colleagues and shareholders and build sustainable profitability in 2023 and beyond.

Underlying loss before tax for the year reduced to £50.6 million down from £171.3 million in 2021 as a result of strong income growth combined with continued tight cost discipline. On a statutory basis losses before tax reduced to £70.7 million (2021: £245.1 million) as we continued to put legacy issues, and their associated remediation costs, behind us.

Underlying loss before tax (£m)



The economic backdrop remains uncertain and during the year we recognised an ECL expense of £39.9 million (2021: £22.4 million). We continue to take a prudent approach to origination and our ECL reflect the quality of our lending.

Alongside this we remain deposit funded with a loan-to-deposit ratio as at 31 December 2022 of 82% (31 December 2021: 75%) and retain a strong liquidity position.

While we continue to operate in capital buffers we have remained above regulatory minima throughout 2022. We have taken active measures to protect our capital ratios by constraining asset origination to around replacement levels. This, combined with a return to profitability has seen our capital ratios start to stabilise in the fourth quarter. At 31 December 2022 our CET1, Tier 1 and total capital plus MREL ratios were 10.3%, 10.3% and 17.7% respectively (31 December 2021: 12.6%, 12.6% and 20.5%).

Statutory and underlying results
Financial information in this report is prepared on a statutory (taken from our financial statements on pages 181 to 234) and underlying basis (which we use to assess performance on a management basis). Further details on how we calculate underlying performance, as well as our other alternative performance measures can be found on pages 241 to 245.

Finance review Continued

Income statement

	2022 £m	2021 £m	Change %
Underlying net interest income	404.2	295.7	37%
Underlying non-net interest income	117.9	102.2	15%
Total underlying income	522.1	397.9	31%
Underlying operating expenses	(532.8)	(546.8)	(3%)
ECL expense	(39.9)	(22.4)	78%
Underlying loss before tax	(50.6)	(171.3)	(70%)
Non-underlying items	(20.1)	(73.8)	(73%)
Statutory loss before tax	(70.7)	(245.1)	(71%)

Income

Underlying net interest income rose by 37% to £404.2 million (2021: £295.7 million), driven by an increase in net interest margin which rose 52 basis points (bps) to 1.92% (2021: 1.40%). This was a result of active management of the deposit base to maintain our low cost of deposits, continued balance sheet management including growing our mortgage and consumer finance books together with the benefits of the higher Bank of England base rates.

During the year our current account balances increased 8% or £570 million while we continued the managed reduction in higher rate fixed-term accounts. The result of these actions saw our cost of deposits remain significantly below base rate at 0.20% (2021: 0.24%). Our business model is service-led and is supported by a compelling store proposition and this has resulted in a cost of deposits significantly below the majority of sector peers.

Non-interest income

Non-interest income growth has reflected the normalisation of volumes following 2021 COVID-19 related restrictions. Underlying non-interest income increased to £117.9 million (2021: £102.2 million), driven largely by continued fee growth, in part by higher customer transaction fees. This included a 23% increase in income from customer foreign currency transactions which rose to £34.1 million from £27.7 million in 2021.

Service charges and other fee income also increased, rising to £30.9 million from £25.5 million in 2021, as we continued to grow our customer base and service their financial needs. This is particularly the case for SMEs, where we believe our service approach fills a need which is largely underserved by the wider market.

Safe deposit boxes income increased to £16.5 million (2021: £15.1 million), with new net box openings in existing stores offsetting the loss from the net stores reduction. Visits to safe deposit boxes are now above pre-pandemic levels.

Operating expenses

	2022	2021
Underlying cost:income ratio	102%	137%
Statutory cost:income ratio	106%	153%

Despite the rising inflation environment through the year, underlying operating expenses fell by 3% year-on-year to £532.8 million (2021: £546.8 million). This reduction in costs, combined with rising income, saw our underlying cost:income ratio improve from 137% in 2021 to 102% in 2022.

People costs remain the largest component of our cost base and during the year these fell by 1% to £236.6 million (2021: £239.0 million). This is despite an average 5% salary rise given to colleagues in March followed by a further cost of living increase for all but our most senior colleagues in December. In addition to this our active management of our underlying non-people related expenses has resulted in a 4% year-on-year reduction from £307.8 million to £296.2 million in these costs.

Inflation is still being felt across the UK. Despite achieving lower costs in 2022 than 2021, we expect the broad inflationary pressures in the economy will likely mean our costs will increase in 2023 across colleague and supplier costs.

Depreciation and amortisation charges fell during in the year, reducing from £80.2 million to £77.0 million as the pace of our investment slowed from the peak spending set out as part of our transformation plan.

Non-underlying items

	2022 £m	2021 £m	Change %
Impairment and write-off of property, plant, equipment and intangible assets	(9.7)	(24.9)	(61%)
Remediation costs	(5.3)	(45.9)	(88%)
Transformation costs	(3.3)	(8.9)	(63%)
Business acquisition and integration costs	–	(2.4)	n/a
Mortgage portfolio sale	–	8.3	n/a
Holding company insertion costs	(1.8)	–	n/a
Non-underlying items	(20.1)	(73.8)	(73%)

Non-underlying costs continued to fall as we closed out legacy issues and also delivered functionality prioritised under our transformation plan. This normalisation in non-underlying costs aided in total statutory operating expense falling from £641.2 million in 2021 to £554.3 million in 2022.

In 2022 we saw the conclusion of the OFAC investigation into sanctions breaches, with no financial penalty. In December, we also settled with the FCA in respect of the 2019 RWA matters for £10 million, within the range outlined last year and drawing this matter to a close. We had recognised a provision of £5 million in respect of this matter during 2021, with the remainder recognised within remediation costs during the year.

Finance review Continued

We have started to prepare for the implementation of our holding company which we are required to have in place by June 2023. The related costs are being treated as non-underlying due to their one-off nature. This was the only new non-underlying item during 2022.

Expected credit loss expense

31 December 2022	ECL Allowance £m	Coverage ratio %	NPL ratio %
Retail mortgages	20	0.26%	1.45%
Consumer lending	75	5.07%	3.38%
Commercial	92	2.21%	4.59%
Total lending	187	1.41%	2.65%
31 December 2021			
Retail mortgages	19	0.28%	1.70%
Consumer lending	42	4.72%	2.36%
Commercial	108	2.23%	6.75%
Total lending	169	1.36%	3.71%

Our ECL expense increased 78% during 2022 to £39.9 million (2021: £22.4 million). This reflects both the uncertain economic outlook and high inflationary environment that has emerged during the year, as well as increased consumer lending within our asset mix.

The majority of the ECL charge was due to a £33 million increase in consumer impairments. The consumer coverage ratio ended the year at 5.07% (31 December 2021: 4.72%) in line with our expectations as these balances start to mature.

As we potentially enter a more challenging phase of the credit cycle, we continue to monitor our portfolio for early signs of deterioration and where necessary take proactive action to both support our customers and ensure losses are minimised.

We continue to see very few early signs of deterioration in our lending book with non-performing loans (NPLs) representing 2.65% of gross lending (31 December 2021: 3.71%), reflecting the resilient nature of our balance sheet. Our mortgage portfolio is well collateralised with average debt-to-value (DTV) of 56% (31 December 2021: 55%) and our consumer portfolio is geared towards prime customers with an average borrower income for RateSetter loans in 2022 of £48,000.

Our new origination quality has remained strong and mortgage applicant quality, as measured through credit scorecards, has remained stable over the course of 2022. The proportion of new business with a loan-to-value (LTV) over 80% has reduced from 41% in 2021 to 18% in 2022. In the RateSetter loan portfolio the proportion of higher rated credit scoring applicants has increased during the year as has the average income of customers for new loans. This prudent lending approach should mean that these customers are less exposed to inflationary risks as the cost of living increases.

The impact of high inflation, exacerbated by the Russian invasion of Ukraine has led to deterioration in the economic outlook during the year. Within the retail mortgage portfolio, this deterioration and the increase in balances has contributed to a £1 million increase in impairments held. Despite the increases in provisions, the portfolio is well placed to provide resilience in the face of the economic outlook.

In the commercial portfolio we are actively rolling off older balances, in particular in the commercial real estate portfolio where balances fell to £681 million as at 31 December 2022 from £837 million in 2021. Across the commercial book our average DTV is 55% (31 December 2021: 57%) and we maintain appropriate coverage ratios. The reduction in commercial ECL allowance from £108 million as at 31 December 2021 to £92 million as at year-end reflects the continued repayment of balances combined with the write-off of a number of individually assessed impairments on larger loans.

We continue to evolve our ECL models and where necessary apply expert judgements in the form of PMOs and PMAs to captured emerging factors not captured by the models. In the unsecured space this is aided by the 12 years of credit data that came with the acquisition of RateSetter. This has seen the proportion of our expected credit losses made up of PMOs and PMAs fall to 16% of as at 31 December 2022 down from 26% as at 31 December 2021.

Balance sheet

Lending

	31 December 2022 £m	31 December 2021 £m	Change %
Retail mortgages	7,649	6,723	14%
Consumer lending	1,480	890	66%
Commercial	4,160	4,846	(14%)
Gross lending	13,289	12,459	7%
ECL allowance	(187)	(169)	11%
Net lending	13,102	12,290	7%

Net lending increased by 7% year-on-year ending the year at £13,102 million (31 December 2021: £12,290 million) with retail mortgages continuing to form the majority of lending at 58% of the portfolio (31 December 2021: 54%). During the year we received over £4 billion in mortgage applications, up 182% on 2021. We completed over £2.1 billion of mortgage lending (up 178% year-on-year), making us a top 20 mortgage lender.

Our retail mortgage portfolio continues to be primarily focused on owner occupied loans. These make up 72% of balances as at 31 December 2022 (31 December 2021: 75%) with the remainder consisting of retail buy-to-lets.

Finance review Continued

As at 31 December 2022 10% of our retail mortgages were variable rate (31 December 2021: 13%) with the remainder having an weighted average life of 2.45 years before they reprice (31 December 2021: 1.95 years).

We have continued to build our consumer lending proposition so that, as at 31 December 2022, consumer lending formed 11% of gross lending, up from 7% as at 31 December 2021. As well as providing greater risk-adjusted returns than some of our historic lending, our unsecured personal loans have relatively short lives, allowing us to replace this lending more regularly as interest rates rise.

Commercial balances fell 14% to £4,160 million (31 December 2021: £4,846 million) reflecting active portfolio management combined with the roll-off of COVID-19 related government-backed lending balances. As at 31 December 2022 government-backed lending made up 37% of our commercial term lending portfolio (31 December 2021: 38%), the majority consisting of amounts lent under the Bounce Back Loan Scheme (BBLS). During the year we claimed back £349 million (2021: n/a) in respect of defaulted BBLS loans. We continue to maximise recoveries on these loans to minimise taxpayer losses, and we received a green audit from the British Business Bank during the year for our collections and recovery activity.

Investment securities

In 2022 we took the opportunity presented by rising gilt yields to redeploy surplus cash balances into capital-efficient treasury assets.

As a result of this combined with our lending growth and the active reduction of high-cost fixed deposits, cash and balances at the Bank of England fell from £3,568 million at the end of 2021 to £1,956 million as at 31 December 2022, with investment securities rising to £5,914 million (31 December 2021: £5,574 million).

Interest income earned on investment securities during the year rose from £23.2 million to £67.6 million.

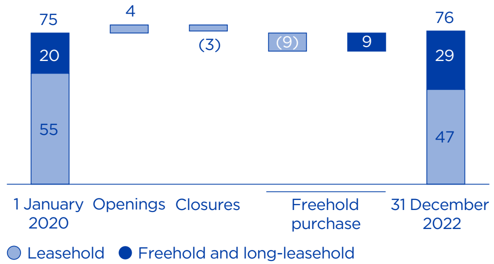
Our investment securities remain high-quality with 68% having a AAA credit rating (31 December 2021: 73%). The remaining investment securities are all AA- or higher, the majority of which consists of UK gilts.

Other assets

Intangible assets reduced 11% as the pace of investment slowed, in line with our transformation plan.

Property, plant and equipment balances continued to fall as we retained our pause on future store growth. This led to depreciation charges for the year offsetting the small level of additions in respect of the Leicester store which opened at the start of 2022 and the purchase of two freeholds during the year. Over the course of our transformation plan we have added 10 freehold and long-lease stores, with these now making up 38% of our store estate; providing us with greater flexibility over these sites and reducing our long-term liabilities.

Store ownership over transformation plan



Deposits

	31 December 2022 £m	31 December 2021 £m	Change %
Retail customer (excluding retail partnerships)	5,797	6,713	(14%)
Retail partnership	1,949	1,814	7%
Commercial customers (excluding SMEs)	3,188	3,157	1%
SMEs	5,080	4,764	7%
Total customer deposits	16,014	16,448	(3%)
Of which:			
Demand: current accounts	7,888	7,318	8%
Demand: savings accounts	7,501	7,684	(2%)
Fixed term: savings accounts	625	1,446	(57%)

Deposit balances fell 3% year-on-year to £16,014 million (31 December 2021: £16,448 million) as we continued to allow fixed rate balances to roll-off while continuing to acquire more business and personal current accounts during the year.

As at 31 December 2022 current accounts made up 49% of deposits (31 December 2021: 44%). This aided in our cost of deposits falling from 0.24% to 0.20%. The base rates rises during the year have seen our interest expense on savings accounts increase, albeit at a lower rate than the base rate increases, reflecting the quality of our deposits and the value of our model.

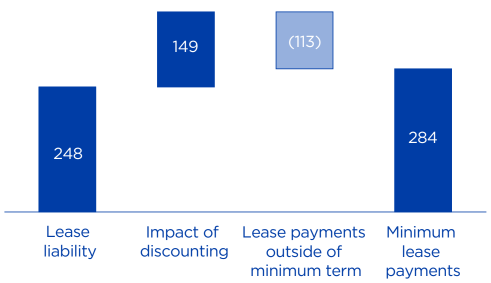
Finance review Continued

Wholesale funding and liquidity
We remain largely deposit funded with a loan-to-deposit ratio as at 31 December 2022 of 82% (31 December 2021: 75%).

Alongside our deposit base we continue to utilise wholesale funding in the form of the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). The cost of this funding is linked directly to the base rate and therefore has risen from £4.0 million in 2021 to £55.5 million in 2022. Despite this increase, it remains an additional stable cost of funding and is accretive to net interest income. Our TFSME drawdowns will start to mature in 2024 and continue through until 2027.

Lease liabilities

Reconciliation from lease liabilities to minimum lease payments (£'m)



	Minimum lease payments as at 31 December 2022 £m
Within one year	24
One to five years	88
Five to 10 years	92
Over 10 years	80

Lease liabilities fell by 8% during the year to £248 million as at 31 December 2022 (31 December 2021: £269 million) reflecting the continued pay down of our leases, combined with the freehold purchases in the year as well as the surrendering of the lease on one of the sites we closed.

Our leases have an average remaining minimum term of 11 years, with the majority of our minimum lease payments falling within the next 10 years, meaning as our estate matures our lease liabilities will continue to decrease.

Taxation

We recognised a statutory tax charge of £2.0 million (2021: charge of £3.1 million). The small tax charge results primarily from current year losses for which no deferred tax asset is being recognised as well as statutory loss being adjusted for non-deductible expenses.

We have a total of £859 million of brought forward tax losses on which we are not recognising a deferred tax asset of £215 million. We expect to re-recognise these assets on the balance sheet in the coming years as we establish a track record of sustainable profitability. The fact we are not currently recognising these tax losses does not limit our ability to utilise them and there is no time limit beyond which they expire.

In 2022 we made a total tax contribution of £143.7 million (2021: £152.5 million) made up of £76.0 million (2021: £91.6 million) taxes we paid and a further £67.7 million (2021: £60.9 million) of taxes we collected. Further details can be found on page 41.

Liquidity

Our liquidity position continues to be strong and we continue to hold large amounts of high-quality liquid assets which totalled £4,976 million as at 31 December 2022 (31 December 2021: £6,754 million).

We ended the year with a liquidity coverage ratio of 213% (31 December 2021: 281%) and a net stable funding ratio of 134% (31 December 2021: n/a), both significantly ahead of requirements.

Capital

Overview

We ended the year with CET1, Tier 1 and total capital plus MREL ratios of 10.3%, 10.3% and 17.7% respectively (31 December 2021: 12.6%, 12.6% and 20.5%).

	2022 £m	2021 £m	Change %
CET1 capital	819	936	(13%)
RWAs	7,990	7,454	7%
CET1 ratio	10.3%	12.6%	(230bps)
Total regulatory capital ratio	13.4%	15.9%	(250bps)
Total regulatory capital plus MREL ratio	17.7%	20.5%	(280bps)
UK regulatory leverage ratio	4.2%	5.2%	(100bps)

We continue to operate in capital buffers although we remained above regulatory minima throughout 2022 and our return to profitability combined with constraining lending growth should see us return to steady capital generation.

We remain engaged with the PRA in respect of our capital position as well as in relation to our IRB application, starting with our residential mortgage portfolio, which we continue to progress.

Capital requirements

	Minimum requirement including buffers[1] 31 December 2022
CET1	8.3%
Tier 1	9.9%
Total Capital plus MREL	20.5%

1. Excluding any confidential buffer, where applicable.

Our capital requirement reduced during the year following the decision in June by the PRA to reduce our Pillar 2A capital requirement from 1.11% to 0.50% and the Bank of England agreeing that our binding MREL requirement applicable from 27 June 2022 would be equal to the lower of:

- 18% of RWAs.
- Two times the sum of our Pillar 1 and Pillar 2A.

In December the PRA confirmed a further reduction to our Pillar 2A capital requirement from 0.50% to 0.36% effective from 1 January 2023, meaning that our MREL requirement (excluding buffers) reduced further to 16.7%.

Finance review Continued

Capital movements

	Total regulatory capital + MREL ratio
1 January 2022	20.5%
Lending volume & mix	(1.5%)
Software add-back reversal	(0.8%)
Profit & loss account ex-ECL	(0.4%)
Profit & loss account ECL	(0.5%)
Intangibles and other	0.4%
31 December 2022	17.7%

On 1 January 2022 software assets reverted to being fully deducted from capital, reducing our CET1 and MREL ratios by 0.8% and 0.7% respectively.

At the same time the original IFRS 9 'Financial Instruments' transitional relief was reduced from 50% to 25% along with the COVID-19 transitional relief which moved from 100% to 75%, reducing CET1 and MREL by 0.3%. A further 25% reduction in the transitional reliefs occurred on 1 January 2023, leading a further reduction in our CET1 and MREL ratios of 0.4% and 0.3% respectively.

RWAs ended the period at £7,990 million up 7% from £7,454 million at 31 December 2021, reflecting our lending growth and change in asset mix during the year.

Holding company

We are working to implement our holding company (Metro Bank Holdings PLC) as part of our end-state MREL requirements. This will be in place by June 2023.

Upon implementation of the holding company the Bank of England's Resolution Directorate has agreed to provide a temporary, time-limited, adjustment for our Tier 2 Notes. This will see them continue to contribute to our MREL requirements up until 26 June 2025, although they will continue to be held by Metro Bank PLC.

Our Tier 2 Notes have a one-time call date in June 2023 and, given the adjustment we do not expect to exercise the call provision, unless it would be economically rational to do so. By not calling these notes their Tier 2 eligibility amortises at a rate of 20% per year.

In line with its conditions of issue, our existing MREL Notes will 'flip up' to Metro Bank Holdings PLC and be 'back-to-backed' by internal MREL issued down to Metro Bank PLC, which will remain our main operating company.

Other than owning Metro Bank PLC, being the new listed entity and holding our external capital, Metro Bank Holdings PLC will undertake limited activities.

Looking ahead

2022 has been a year of clear progress as our turnaround plan completed. I am delighted to have joined the Metro Bank team as we build on the hard work of the past three years.

From my first few months in the role I can see clearly that the Metro Bank model works. Our customer service focused model is ideally suited to a normalised rate environment, and with the acquisition of RateSetter we now have the asset flexibility to generate yield if interest rates fall again.

As we focus on our next set of strategic priorities our attention will be serving the needs of our customers, while continuing to optimise our balance sheet to both build and maximise our return on regulatory capital, and maintain our prudent approach to liquidity management.

Alongside this will be a renewed emphasis on achieving responsible and sustainable profitable growth through building front-book yields, carefully controlling deposit pricing and adopting a disciplined approach to managing the inflationary pressures in our cost base.

Although we will continue to operate within our capital buffers in the short-term, our return to profitability and our disciplined approach to asset origination will see us protect our capital ratios and position us for future growth, both of which will be important factors in allowing us to ultimately restore our capital levels back above buffers.

Aiding our delivery of this will be our continued investments in infrastructure. This includes preparing for the proposed enhancements to internal control requirements under the revised UK Corporate Governance Code which will see us continue to invest in our controls both within finance and across the Bank, building on the work that has already been undertaken over the past few years.

We remain cautious in our outlook, given the political and economic uncertainty, however, we believe the Bank is in a good place to be able to respond to any further headwinds in the form of market volatility or economic downturn.

James Hopkinson
Chief Financial Officer
15 March 2023

Environmental, social and governance review

Our ambition to be the number one community bank goes hand in hand with acting sustainably and responsibly towards our customers, our communities, our colleagues and our environment.

We were founded to be a different kind of bank – a bank with the community at its heart, built around colleagues delivering fantastic customer service.

As we have grown, we have incorporated environmental, social and governance (ESG) priorities into our business to ensure we continue to build it in the right way. In doing this, we are committed to being open and transparent about what we are doing and why.

This approach has seen us become known as a bank that embraces diversity and champions inclusivity; a bank that values sustainability and acts responsibly towards the environment; a bank that makes a positive difference through the local colleagues we employ, the local businesses we work with and the local causes we support. A bank that simply aims to do the right thing by our stakeholders.

Non-financial information

This statement is prepared in compliance with sections 414CA and 414CB of the Companies Act 2006 and explains where you can find further information about how we do the right thing in relation to our customers, communities, colleagues and the environment. A description of our business model and strategy, as well as the non-financial KPIs relevant to our business can be found on pages 15 to 21.

Reporting requirement	Where to find further information for an understanding of our business and our impacts, including outcomes of our activities	Relevant policies and standards that govern our approach (please see policy list on pages 30 to 31 for a description of each policy)
Environmental matters	Page 42 – Our planet. Page 43 – Task Force on Climate-related Financial Disclosures.	• Climate pledges. • Supplier management. • Business and commercial lending.
Colleagues	Page 35 – Our colleagues. Page 37 – Gender pay gap. Page 115 –Letter from the Designated Non-Executive Director for Colleague Engagement. Page 148 – Annual report on remuneration.	• Diversity and inclusion. • Recruitment and selection. • Health and safety. • Whistleblowing. • Conflicts of interest.
Social matters	Page 32 – Our FANS and communities. Page 39 – Data privacy and security. Page 41 – Governance and reliance. Page 42 – Our planet.	• Climate pledges. • Supplier management. • Business and commercial lending. • Vulnerable customers. • Data protection. • Anti-tax evasion. • Anti-money laundering/counter terrorist financing. • Business continuity. • Complaints.
Human rights	Page 40 – Our suppliers.	• Modern slavery. • Outsourcing. • Diversity and inclusion.
Anti-bribery and corruption	Page 41 – Governance and reliance. Page 97 – Financial crime risk.	• Anti-bribery and corruption.

Environmental, social and governance review
Continued

Our environmental, social and governance priorities

The Board and ExCo have oversight of our strategy and priorities. They are supported by a new internal ESG structure which became operational in 2022, including an ExCo-level ESG Steering Committee which coordinates all our ESG activities.

In Q1 2022 we completed a review of our approach towards current and emerging ESG issues. To obtain deeper understanding of our external and internal stakeholders' views regarding the importance of ESG issues we undertook a materiality assessment, which was carried out using the Global Reporting Initiative approach.

Extensive research identified a longlist of ESG issues, which was consolidated to a shortlist of 19 issues that we believe are most important to our stakeholders. We asked stakeholders to rank the 19 issues, and we mapped the results against six overarching priority themes.

The diagram on the right of this page shows the outcome of the stakeholder ranking exercise, with the shortlisted issues mapped against the six priority themes.

We continued to take account of the results of the materiality assessment in our considerations of ESG issues throughout 2022. Each of the six priority themes is discussed in detail in the pages that follow.

Our FANS and communities

Turning customers and the communities we serve into FANS is central to everything we do.

Topics identified via materiality assessment:

- Customer service and experience – creating FANS.
- Financial inclusion, literacy and education.
- Supporting vulnerable customers.
- Community engagement, investment and fundraising.

Read more on pages 32 to 34

Our colleagues

We are committed to an AMAZEING colleague experience, based on an inclusive culture.

Topics identified via materiality assessment:

- Colleague attraction training and development.
- Colleague engagement, health, safety and wellbeing.
- Diversity, equality and inclusion.

Read more on pages 35 to 38

Data privacy and security

We continue to assess evolve and mature our data privacy and cyber security capabilities.

Topics identified via materiality assessment:

- Data privacy and cyber security.
- Financial crime and fraud.

Read more on page 39

Our suppliers

We work with suppliers who uphold our values and actively assess and monitor the controls they put in place.

Topics identified via materiality assessment:

- Supply chain engagement and responsible procurement.
- Human rights and modern slavery.
- Anti-bribery and corruption.

Read more on page 40

Governance and resilience

Good governance, compliance and risk management practices make sure we remain a sustainable, strong and resilient business.

Topics identified via materiality assessment:

- Good governance practices.
- Ethics and compliance.
- Risk management and business resilience.

Read more on page 41

Our planet

We are taking the actions required to make positive changes and reduce our impact on the environment.

Topics identified via materiality assessment:

- Climate change.
- Operational environmental efficiency.
- Responsible investment and stewardship.
- Sustainable product innovation.

Read more on page 42

Environmental, social and governance review
Continued

1. Our FANS and communities
2. Our colleagues
3. Data privacy and security
4. Our suppliers
5. Governance and resilience
6. Our planet

Policy list

Policy	Description	ESG priorities
Vulnerable customer	The policy sets out our approach to identifying and interacting with vulnerable customers to ensure we deliver fair customer outcomes.	1 2
Lending and arrears management policies (including retail, business & commercial lending)	These policies set our approach to making lending decisions in a structured, consistent and fair way that is compliant with all relevant regulatory requirements. They define the way we safeguard both our FANS and the Bank in pursuit of our goals and how we support our customers during periods of financial difficulty.	1
Anti-money laundering/ Counter terrorist financing	The policy sets out the systems and controls to identify, assess, monitor and manage financial crime risks and the procedures in place to assess their effectiveness.	1 2 5
Diversity and inclusion	The policy means that we treat our colleagues fairly. It sets out our commitment to having a diverse workforce which reflects our customer base and to employment policies which follow best practice, based on equal opportunities for all colleagues.	1 2
Recruitment and selection	The policy relates to all recruitment-related activities and is relevant for all colleagues and any third-party recruitment partners. The policy outlines responsibilities for hiring aligned to our Company objectives/ethos and in accordance with the relevant legislation and regulation.	2
Health and safety	The policy protects our customers and colleagues. It recognises our statutory duties and responsibilities under the relevant Health and Safety and Welfare legislation.	1 2
Physical security	The policy protects our customers and colleagues. It defines the measures to protect Metro Bank premises security threats and to ensure the personal safety and security of all customers, colleagues and visitors.	1 2
Whistleblowing	The policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting the Bank.	2 5
Anti-bribery and corruption	The policy outlines our approach to managing the risk of bribery and corruption and to ensure we conduct business in an honest and ethical way, with a zero-tolerance approach to bribery and corruption.	2 5
Conflicts of interest	The policy provides consistent practical guidance to all relevant parties in relation to the identification, recording and maintenance of actual and perceived conflicts of interest.	2 5
Anti-tax evasion	The policy sets out our zero-tolerance approach to tax evasion.	1 5
Business continuity	The policy makes sure we are able to continue delivering services to our customers at acceptable levels if something unexpected were to happen. It addresses impacts to the continuity of critical business activities in the case of man-made disasters, natural disasters or other material events.	1 2 3 4 5

Environmental, social and governance review
Continued

Policy	Description	ESG priorities
Data governance	The policy sets out our objectives and expectations in managing data and data governance practices. It makes sure that data is managed, governed, accessed, protected, utilised and disclosed appropriately. It also focuses on the quality of key data elements and their ongoing maintenance.	1 2 3 5
Data protection	The policy is in place to ensure that the Bank is complying with its data protection obligations and has the adequate level of data protection as prescribed by the General Data Protection Regulation.	1 2 3 5
Supplier management	The policy ensures that when we rely on an external supplier for key processes and activities, we take the reasonable steps to identify, monitor and mitigate the external supplier risks.	1 4 5 6
Modern slavery	The policy describes our approach towards preventing slavery, servitude, forced and compulsory labour and human trafficking in any of our operations or at any of our suppliers and, through them, our supply chains.	1 5
Records management	The policy sets out Metro Bank's objectives and expectations for managing records responsibly and efficiently from creation to disposal, complying with legal and regulatory obligations.	1 2 3 5
Complaints	The policy sets the way in which customer complaints are handled promptly and effectively, with a focus on fair outcomes for our customers and meeting our regulatory obligations when things go wrong.	1 2
Information security	The policy sets objectives, expectations, roles and responsibilities and requirements for protecting Metro Bank and customer information.	3 5
Conflicts of interest	The policy looks to provide consistent and practical guidance in relation to the identification of actual and perceived conflicts of interest to limit the Banks' exposure to: regulatory action, loss of revenue, damage to reputation, poor customer outcomes and/or legal action against the Bank.	2 4 5
Sanctions	The policy sets the requirements and approach to managing financial sanctions risks in compliance with applicable sanctions regimes including the prevention, detection and investigation of potential sanctions evasion.	1 5
Fraud	The policy sets a consistent approach to the deterrence, detection and prevention of internal and external fraud.	1 2 5
Product governance	The policy sets requirements to ensure products and services are developed to address customer needs, have a defined target market, are designed to deliver good customer outcomes and are understood by customers.	1 5

Environmental, social and governance review
Continued

Our FANS and communities

Service quality
Turning customers and the communities we serve into FANS has always been at the heart of everything we do. Since our launch in 2010, we have been unwavering in our commitment to great customer service, as demonstrated repeatedly in the CMA's Service Quality Surveys where, for the tenth time running, we're ranked number one high street bank for overall service quality for personal current accounts – plus we are the highest rated high street bank for our personal and business service in stores and business service centres.

Our FANS help shape our products and services
We channel feedback from our Voice of the Customer surveys back into our product and service development processes, ensuring we meet customer needs. New features we launched in 2022 included information on credit scores and ways customers can improve their score, digital customer self-service (for example, to change a registered email address or activate a new bank card), and extra support when logging into online banking.

Grand Opening of our store in Leicester
In February 2022 we opened our newest store in the centre of Leicester, delivering our renowned Metro Bank service, from early until late, seven days per week to people and businesses across the local community.

The store's Grand Opening was a Metro Bank-style two-day celebration with local residents and businesses that featured a performance by a local Dhol drummer group, face painting for children and free hot drinks for the local community.

The ribbon was cut by the Lord Mayor of Leicester and Metro Bank super FAN Oliver Benghiat, who set himself a challenge to visit every Metro Bank store by his 13th birthday.

We are proud to have been awarded Bank Mortgage Provider of the Year at the MoneyAge Mortgage Awards; Business Leader Intermediary Lender at The British Mortgage Awards; and the 'Treating Customers Fairly' Champion award for our RateSetter team at the British Bank Awards, voted by customers.

Making every wrong right
An essential part of delivering AMAZEING service is doing our best to make every wrong right and resolving complaints quickly. Our latest customer complaints data is published on our website at: metrobankonline.co.uk/help-and-support/forms/give-us-feedback/complaints-data.

Cost of living
To help our customers navigate cost of living pressures, we launched a new online hub that centralises information about the support we offer, provides money tips from an independent personal finance journalist, and signposts a number of specialist organisations that can help.

Environmental, social and governance review
Continued

Our colleagues, customers and communities raised more than £194,000 for good causes in 2022

Vulnerable customers
The cost of living crisis is particularly challenging for vulnerable customers. To ensure we are able to provide the right support we have delivered training to all colleagues and across our frontline teams, including specific training on financial abuse and on the non-financial impacts that loan arrears have on customers. In addition, we are proactively contacting customers who may need extra support or are at risk of falling into arrears. Our specialist team helping customers experiencing financial difficulty can tailor support to their individual circumstances.

In 2022 we enhanced our understanding of vulnerable customers' needs in order to identify where further improvements to our product and service provisions can be made. We created a new website hub for customers who require extra support, offering guidance on issues such as third party account access, avoiding scams and financial abuse, and how to access specialist money support. We also delivered enhancements to make it easier for customers to bank with us including Relay UK – a free, easy to use service to help hearing and speech impaired people communicate over the phone.

Ukrainian refugees
We supported the Government's Homes for Ukraine and Ukraine Family schemes by amending our account opening procedures for Ukrainian refugees entering the UK under the schemes. In addition, we ensured that our mortgage customers are able to accommodate Ukrainian families in their homes, should they choose to do so.

Volunteering
Colleagues dedicated more than 4,000 hours of their time to volunteer in support of local good causes in 2022. This is an increase of 60% compared to 2021, during which our volunteering activity was impacted by COVID-19 restrictions.

Fundraising
In 2022 our colleagues, customers and local communities raised the fantastic total of £194,000 for local, national and international good causes through sponsorship, activities and events, and via the Magic Money Machines in our stores.

Money Zone: helping children improve their financial literacy
Money Zone is a programme of free financial education lessons we offer to school children and young adult care leavers, both virtually and via our stores.

The programme for school children links to the Government's curriculum guidelines for Key Stages 2 and 3 and comprises four sessions: budgeting, saving, banking plus a visit to the local Metro Bank store. The in-store session gives children a behind-the-scenes look at the bank, including the vault, plus the opportunity to try out our Magic Money Machines which automatically count and deposit loose coins.

Environmental, social and governance review
Continued

Case study
People-people banking in action

Helping small businesses manage their cash flow

It's widely recognised that small businesses are the backbone of the UK's economy and they are also an essential part of the fabric of our local communities. As a community bank, Metro Bank is known for our relationship-based approach to business banking.

The development in 2022 of our market-leading Enhanced Business Overdraft is truly a game-changer for businesses – it's an innovative facility available to all our business customers that provides a handy cushion to help manage cash flow.

We have combined the best features of technology with our relationship-based approach to offer an in-app or in-store application process that only takes a few minutes, with instant eligibility checking and funds up to £60,000 available the same day.

Laura Shields
Local Business Manager

Financial education

Since our launch we have always championed financial literacy for kids. Specially trained colleagues in all our stores deliver our free financial education programme, Money Zone, to local schools and children's clubs. In 2022 we began work to extend the Money Zone programme beyond schools, in response to the wider needs in our communities. Our ambition is for further expansion in 2023, assisting young adults in sixth forms and colleges.

This year we also became a signatory to the National Literacy Trust's Vision for Literacy Business Pledge, which aims to improve literacy and boost social mobility. Several of our store teams are helping raise literacy levels in their local communities.

Care leavers

As a supporter of the Care Leaver Covenant, to assist care leavers live independently we have made changes to our account opening and recruitment processes. In the autumn, we also re-designed, piloted and rolled out our virtual Money Zone programme to young adult care leavers.

Armed forces

We are committed to the Armed Forces Covenant and we achieved the Gold Award in July 2021. In 2022 we hired four ex-services colleagues and held numerous webinars over the year supporting service leavers.

Our focus remains integrating within the armed forces community and central to this is delivering our Money Zone programme in military schools and engaging with armed forces bases through our 'Bank at Work' initiative that brings banking directly into workplaces to boost accessibility.

Backing female-led businesses

As a founding signatory to the Investing in Women Code, and recognising that as a community bank we can be a catalyst for unlocking the economic potential of female entrepreneurs, in 2022 we hosted networking events for more than 350 female business leaders across nine of our stores. We plan to build on this in 2023. We are also using the digital display screens in all our stores to highlight our support for female entrepreneurs.

Supporting local businesses

In March 2022 we launched our enhanced business overdraft to help our business customers with their short-term cash flow and working capital needs. Accessed in-store, via phone or on our App, delivering a market-leading customer experience and taking only ten minutes to apply for an overdraft of up to £60,000, we have been bowled over by its popularity.

Our relationship-based approach to business banking sets us apart from other banks and reflects our community banking ethos. Every one of our stores has one or more Local Business Manager(s) whose role is specifically to provide support, guidance and deliver exceptional service to businesses in the local community.

Alongside this we host regular in-store business events. These help local businesses build their own community networks and aid in the development of the local economy.

Helping local business communities succeed and grow

In September 2022, our Birmingham store hosted an event for local manufacturers in partnership with an independent professional business advice firm, the University of Birmingham's AMTECCA programme and Made Smarter.

The event was aimed at small and medium-sized manufacturers in the Greater Birmingham area that are seeking to grow. Information was provided on a range of topics including better banking, taxation, plus the latest technology and grants available for manufacturers.

The store also hosts the bi-weekly Birmingham Central Breakfast Networking Group, where local business professionals meet to connect, build relationships and help one another grow their businesses.

Environmental, social and governance review
Continued

Our colleagues

Award winning people-people
Colleague engagement and wellbeing are at the heart of our culture. We want every colleague to be a fan of Metro Bank, so that they enthusiastically make FANS of our customers. We were delighted to be named in Newsweek's top ten Most Loved Workplaces UK 2022 and to achieve our best ever engagement results in our annual Voice of the Colleague survey.

Recognition and celebration
We relaunched our colleague recognition approach and saw a 110% increase in colleagues thanking each other and celebrating amazing work. 2022 also saw the return of our fabulous AMAZE Awards, which recognised particularly outstanding work across categories including community champion, one team (for collaborative working), hidden hero, colleague inclusion network and AMAZEING leader.

Health and wellbeing
Colleague wellbeing remains a key priority. Colleagues have access to a wide range of tools to support wellbeing including our Employee Assistance Programme, Mental Health First Aiders, support through our health partner Vitality and the Bank Workers Charity. Colleagues inspire each other with articles and blogs, which are shared on a weekly basis. This is in addition to training and awareness sessions and online support materials. We also offer flexible working options, including our recently introduced four-day and weekend only shifts in our stores.

Leaders in diversity and inclusion
We are proud that our workforce reflects the communities we operate in. We want every colleague to feel that they belong, are included and valued. Our commitment to being a leader in D&I helps us to bring out the best in our colleagues, attract new talent, thrive as a business and ultimately create more FANS. It's the reason we were named as a top ten inclusive company at the British LGBT Awards 2022, nominated for Company of the Year at the European Diversity Awards and a finalist at the British Recruitment Awards.

D&I has always been an important part of our AMAZEING culture and we have worked hard to elevate our position as an employer of choice.

Our 2022 AMAZE Awards celebrated everything that is AMAZEING about our colleagues and recognised outstanding service delivered to our customers and communities.

2022 was a milestone year with the launch of our new D&I strategy. This built on the strong foundations we had already established and set ambitions to boost our culture and positively differentiate our colleague experience. These ambitions form the three pillars of our strategy:

- Connection and community.
- Equity for all.
- Inclusive culture.

"We were delighted to be named in the top ten Most Loved Workplaces UK

Environmental, social and governance review
Continued

Connection and community
As a community bank, we believe it is essential that our team represents the diverse communities we serve. This year 65% of our apprentices come from the most deprived communities in England.

We offer all colleagues a paid 'Day to AMAZE', to spend time volunteering in their local community or working with charities. The number of colleagues taking up this opportunity increased by 75% in 2022 with the number of hours of volunteering increasing as already mentioned.

Our Money Zone financial education programme is also an important element of our connection with local communities as described above.

Growing capability and careers
We want colleagues to feel that their career is as important to us as it is to them. Our Voice of the Colleague survey scores show that we're well on the way to achieving that. We saw an eight point increase in perception around ability to learn and grow and this has trended upwards over the past three years.

During 2022, we hired and trained more than 1,500 colleagues due in part to an increase in internal promotions and new roles. We also won Best Onboarding Activity at the British Recruitment Awards for the work that we did in partnership with our contact centres.

Working closely with subject matter experts from across the business, we've created more than 150 new learning items, ranging across topics such as risk, leadership and culture, plus a two-week Agile-working festival attended by 800 colleagues.

Our technical training was further strengthened by a partnership with Go1, an external learning provider, and we are piloting this additional offer to further develop technical capability within risk, consumer finance, IT and people teams.

Internal mobility and apprentices
We promoted over 600 colleagues during the year. This included three promotions to ExCo. 18% of promotions were moves from customer facing areas into to corporate functions and 42% were colleagues of Black, Asian or minority ethnicity. Colleagues tell us they feel that regardless of background, everyone has an equal opportunity to succeed.

Our Voice of the Colleague survey score for this has increased to eight points above the global benchmark.

Our internal talent programmes have developed 34 colleagues for promotion to Local Directors and Business Managers.

We run a Level 2 and 3 Financial Services Customer Advisor Apprenticeship Programme to support people starting a career in banking and have 41 colleagues across the two programmes. We are proud that in 2022 our apprenticeship programme achieved an overall effectiveness rating of good from Ofsted.

We offer all our customer-facing colleagues the opportunity to gain a Chartered Banker Institute professional qualification.

We promoted over 600 colleagues during the year

Case study
People-people banking in action

A simply FANtastic place to work
I'm so proud to work for a company with such a strong, positive and inclusive culture where everyone feels valued, where colleagues, customers and community are at the heart of everything we do.

We're thrilled to be ranked 7th in the Newsweek list of the UK's top 100 Most Loved Workplaces®. Metro Bank is the only UK high street bank to feature in the top 100. The fact that the ranking is based on colleague feedback, with more than 1.4 million people surveyed, makes it all the more meaningful.

As Newsweek themselves said, "Talk about valuing your employees. Metro Bank filled 40 per cent of all vacancies with internal candidates. The company also offers opportunities for personal development: The 'Days to Amaze' programme encourages employees to contribute to their greater community".

Swati Modha
Head of People Partners

Environmental, social and governance review
Continued

Within our corporate functions, 43 colleagues started new apprenticeships, these now include professional qualifications in HR, Finance, Marketing and Facilities. Ten of these colleagues are completing accountancy or taxation qualifications through Level 7 Professional apprenticeships.

Our Masters-level apprenticeship for senior banking professionals, run in partnership with Cranfield School of Management, saw 12 colleagues graduate with an MSc in Retail and Digital Banking in 2022 and a further 14 colleagues started this programme in October 2022.

Voice of the Colleague

It's our third annual survey using a new robust approach to measuring colleague engagement, and our strongest results yet.

- Our overall measure of engagement, "How happy are you working at Metro Bank?", saw a six point improvement and meets the global benchmark.
- Every question scored either better or the same as the 2021 results, and 95% of scores exceeded external benchmarks.
- Colleagues would also recommend Metro Bank as a great place to work, and this was one of our strongest scores.

Developing leaders

Our Voice of the Colleague engagement survey results show confidence in our senior leadership population, with a six-point increase year on year. Colleagues also tell us that they feel cared for (increased by five points) and have regular conversions about their performance (current score of 81, and one of our top five questions).

In 2022 we defined a clear set of leadership behaviours, aligned with our cultural values, that bring to life what leadership means at every level of the organisation.

Nearly 80 colleagues graduated from our Learning to Lead programme in 2022 and we also launched a speaker series for senior leaders to provide an external perspective, as well as build greater connection within our hybrid working environment.

Rewards, benefits and supporting cost of living

Our simple reward principles support colleagues to fulfil their potential and provide the best service to our customers, rewarding the right behaviours and outcomes, focusing on long term growth and discouraging unnecessary risk-taking.

During the year we enhanced our benefits offering, including giving our colleagues access to retail discounts. The Board also approved a one-off pay increase for all but our most senior colleagues in the light of the cost-of-living challenges. Further details on our approach to remuneration can be found in the Annual report on remuneration on pages 148 to 165.

Gender pay gap

We are pleased to be making good progress in reducing our gender pay gap, on both a mean and median basis. Our gender pay gap is due to a lower proportion of women in senior positions which causes lower average levels of pay compared to the male population.

This is common within financial services organisations, however, we are addressing this through our D&I strategy to increase diversity in senior leadership roles which, in turn, should help reduce our gender pay gap. That said, our median gender pay gap of 12.2% compares with a national average gender pay gap of 14.9% across all industries, calculated by the Office for National Statistics in October 2022.

Gender pay gap
As at April 2022

12.2%
Median pay gap

20.1%
Mean pay gap

Read more
on our gender pay at metrobankonline.co.uk

Equity for all

We have empowered diverse talent progression and ensure that access to learning and development is open to all colleagues. Launching our Opportunities Programme to junior and middle management colleagues has supported equity at all levels. The pilot helped 47% of colleagues on the programme achieve a role move or promotion in the first year and nine out of ten participants would recommend the programme to others. We plan to build on this success in the coming year.

In partnership with our colleague inclusion networks we continue to raise awareness of D&I in career progression. We regularly run events for all colleagues which in 2022 covered topics including 'Combatting Self Disqualification', 'The 'Inspired' Middle', 'Allyship' and 'Stress and Burnout'.

We have also committed to standards that raise the bar, including the Women in Finance Charter, Gold Award in the Armed Forces Covenant, the Parents Promise Charter, the Fertility Workplace Pledge and Neurodiversity in Business Charter.

> **65% of our apprentices come from the most deprived communities in England**

Environmental, social and governance review
Continued

Inclusive culture

Inclusivity is embedded throughout our culture, leadership, training and our colleague induction process. We encourage colleagues and our ExCo to keep up the conversation by sharing their own D&I 'moments' with each other. The result is that our Voice of the Colleague survey recorded a five point improvement in how inclusive our leaders are.

A key feature of our inclusive culture are our five colleague networks, which support us in embedding our strategy.

Our Women on Work network raises awareness and discusses topics relevant to colleagues who identify as women and their allies. A key highlight for 2022 was a session for International Women's Day on 'Creating a workplace free from bias, stereotypes and discrimination' which attracted more than 150 colleagues, and explored how micro-aggressions can prevent women's career progression and retention.

Our Mbrace network encourages everyone to bring their cultural and ethnic differences to work with pride. Our biggest challenge is to reach and educate colleagues: while they cannot walk in another person's shoes, they can instead seek to learn and appreciate other perspectives.

Our annual Black History Month event offered such an opportunity: a truly inspirational evening giving colleagues from all backgrounds pause for thought, showcasing a powerful range of black voices using poetry, speech and song to tell their stories.

During Mental Health Awareness Week in May 2022, our network for physical and mental wellbeing, Mbody, brought mental health issues to life by sharing inspiring personal stories and experiences through blogs and vlogs from colleagues, including a series of ExCo fireside chats. Mbody raised awareness of International Day of Persons with Disabilities in December, promoting equity for people with visible and non-visible disabilities, and hosted colleague podcasts, blogs and a lunch and learn session on the topic of neurodiversity.

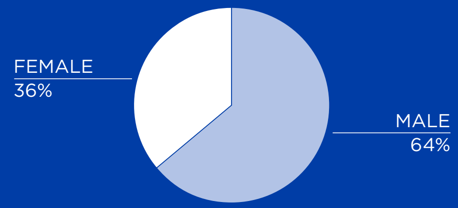
Our Mpride colleague network is focused on inclusion and equality for LGBTQ+ colleagues and customers. The work this network does is a key part of why we were recognised as a Top Ten Inclusive Employer at the 2022 British LGBT Awards.

The network has raised awareness for all aspects of the LGBTQ+ community, publicly celebrating key days both externally and with internal training, including trans day of visibility; lesbian day of visibility; pan visibility day; non-binary day; and bisexual day of visibility, to name just a few!

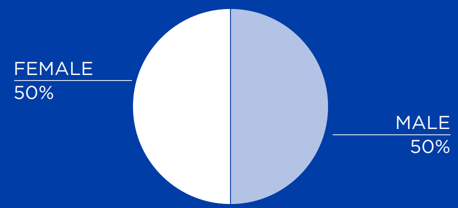
Mparents rebranded in May 2022 with a new, inclusive name – Mfamily – and new purpose to reflect its mission to support working parents and carers. Mfamily has hosted specialist events for parents struggling with sleep, stepfamilies working through the challenges of blended family settings, keeping children safe online, and fertility. The network curated a variety of blogs for World Parents' Day, Father's Day, Breastfeeding and Baby Loss Awareness.

Gender diversity
As at 31 December 2022

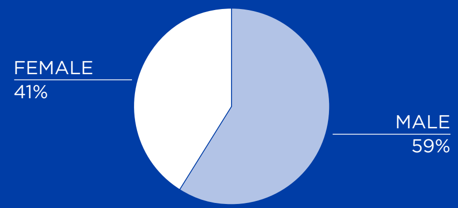
Board



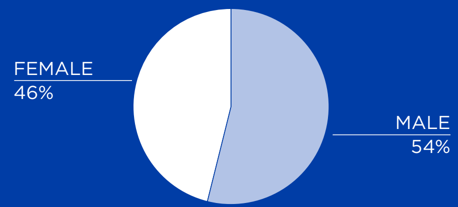
Executive Committee



Senior Leadership Team



All business



Environmental, social and governance review
Continued

Data privacy and security

Information and cyber security

Recognising the ever-evolving nature of cyber risk, we run a continuous improvement programme to ensure that our capability keeps pace. We regularly conduct simulation exercises and testing to fine tune our detection capability and response processes.

We constantly monitor for emerging threats and new attack methods using multiple intelligence feeds to update our tooling to block and detect attacks. Our rigorous and mature vulnerability management process measures our risk score and time to remediate and we consistently beat the benchmark for our sector in these areas. Our comprehensive policies and minimum standards align to ISO27001 best practice, and we benchmark ourselves against the National Institute of Standards and Technology framework.

We are active members of a number of industry forums, such as the Information Security Forum, Cyber Defence Alliance, plus UK Finance, and we provide regular briefings to colleagues in addition to annual mandatory cyber security training that all colleagues must pass.

Fraud and cyber-crime prevention

In recent years, the UK has experienced an increase in fraud and scams over the internet, email and mobile phones. Our dedicated fraud and cyber crime prevention teams work closely with the wider financial services and law enforcement community to track activity, identify new trends and techniques used by criminals and share intelligence. We act quickly to protect both our FANS and ourselves, and provide advice via our website and social media on how customers can protect themselves and reduce their risk of fraud.

We were one of the first banks to sign up to the authorised push payment voluntary code – giving customers significantly increased protections against authorised push payment scams – and we are always working to enhance our security, while ensuring that customers enjoy a convenient banking experience. We are active supporters of the Take Five fraud awareness campaign and in 2022 we joined Stop Scams UK's 159 service, which connects our FANS safely and securely to our contact centre if they receive a suspicious or fraudulent call about a financial matter.

Data privacy

Safe management of personal data is taken seriously and remains a priority for us. We have continued to strengthen our data privacy team, continuing our approach of maintaining a strong commitment to promote internal candidates but also recognising the need to bring in external experience where appropriate.

We have continued to make improvements to our data privacy impact assessment processes and our records management team has enhanced our internal data governance through the development of a dedicated Records Management Framework which will inform our direction with respect to management of records.

Our data protection operations team continues to respond quickly and efficiently to information rights requests and our data protection advisory team continues to provide timely and effective advice to the business with respect to the management of personal data within the organisation.

Case study
People-people banking in action

Protecting customers from fraud

Keeping our customers safe from fraudsters and scammers is naturally one of our highest priorities.

This is a dynamic and often fast-moving area – scammers never miss an opportunity to try to trick people. Whether that is pretending to be part of Government schemes to help people with energy bills, sending scam texts about parcel deliveries to try to obtain bank details, or even going door to door posing as tradesmen to rip off vulnerable people by charging over the odds.

With fraud and scams continuing to increase, we've kept our customers updated on the latest threats along with advice on how they can protect themselves. We have also joined the Stop Scams UK 159 hotline so it's easier and faster than ever for our customers to report fraudulent activity.

Sheherouz Fallil
Lead Fraud Strategy and Analytics Manager

Environmental, social and governance review
Continued

Our suppliers

It is important to us that we work with suppliers who uphold our values. We take this seriously – starting from when we select a supplier during our procurement processes, then throughout the entire life-cycle of our business relationships.

In 2022, we launched our first Supplier Code of Conduct (available on our website at: metrobankonline.co.uk/globalassets/documents/customer_documents/business-and-commercial/supplier-code-of-conduct-2022.pdf) setting out the expectations we have of our suppliers. We will refresh this annually.

We are gathering more and more information on our suppliers' approach to ESG and we are doing that proactively through our tendering and contracting activities as well as in quarterly business reviews with our most important suppliers.

We continually review the controls put in place by our suppliers to prevent and detect data security breaches, bribery, corruption, modern slavery, child trafficking, unfair wages, unacceptable working conditions and labour rights abuses.

We remain committed to using the Financial Services Supplier Qualification System (FSQS) for our suppliers to share information with us and we encourage all our suppliers to become members.

FSQS helps our suppliers by reducing duplication of effort in responding to buyer due diligence requests, and benefits us by sharing resources and best practice with other buyers.

In 2022, a new set of ESG questions was added to the standard set of FSQS questions and we continuously assess our suppliers' responses and use these in our conversations with them.

Our first Supplier Code of Conduct sets out the expectations we have of our suppliers

Modern slavery

Slavery, servitude, forced labour and human trafficking (modern slavery) is a crime and violation of fundamental human rights. We have zero tolerance of modern slavery and remain committed to conducting all our business professionally, fairly and with integrity across all our relationships, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

During 2022 we:

- Published our sixth Modern Slavery Statement, approved by the Board and signed by the CEO (available on our website at: metrobankonline.co.uk/about-us/modern-slavery/).
- Delivered the fifth report of the Modern Slavery Champion to the Board. The report included the annual review of our Modern Slavery Policy; an update on progress against the Modern Slavery Statement and Action Plan; and an update on our internal Modern Slavery Working Group, which was reconstituted in 2022 with our General Counsel as chair.
- As part of our Modern Slavery Policy we undertake increased due diligence in respect of our business and supply chains on a risk basis.

We continue to leverage the FSQS to support due diligence on suppliers before contracting and ongoing during the relationship, on a risk basis.

In 2022, we engaged 1,636 active third parties. 30 (1.83%) were either based in riskier countries (where the 2018 Measurement Action Freedom score, an independent assessment of government progress towards UN Sustainable Development Goal 8.7, is less than 50) or were more likely to be exposed to modern slavery risk due to the nature of the services.

In accordance with our Modern Slavery Policy further investigation was conducted, following which all 30 suppliers demonstrated adequate controls to mitigate modern slavery risk.

We continue to support our suppliers in relation to the risk of modern slavery, to clearly explain our approach to modern slavery and our expectations of our suppliers.

All colleagues were required to undertake modern slavery computer based training during 2022.

Prompt payment of suppliers

Strong relationships with suppliers support delivery of market-leading products and customer service, and part of this is paying suppliers promptly.

We have driven a material improvement in our supplier payment statistics, with the percentage of invoices paid within 30 days increasing from 74% in the second half of 2021 to 84% in the second half of 2022 and average time taken to pay falling to 21 days.

Environmental, social and governance review
Continued

Governance and resilience

ESG structure
In 2022, we implemented a new ESG management and governance structure overseen by an ExCo and Senior Leadership Team-level ESG Steering Committee. The Steering Committee has responsibility for ensuring our approach and activity is strategic and coordinated. The Steering Committee reports into the Board, which is responsible for setting our overall direction on ESG.

Remuneration approach
Executive Directors' variable reward outcomes are based on key financial, risk, customer and colleague objectives, balanced with personal behaviours and performance of the individual. This approach is consistent with the standards we apply to all colleagues.

Further details on our approach to remuneration can be found in the Annual report on remuneration on pages 148 to 165.

Product development
We are refreshing our product development process to ensure ESG considerations are appropriately and routinely documented.

Anti-bribery and corruption
We have a zero tolerance approach to bribery and corruption. To maintain the highest standards of integrity we deliver regular training for colleagues on our Anti-Bribery and Corruption Policy. All colleagues are encouraged to raise any concerns they may have about conduct of others or the way the business is run without fear of unfair treatment under our Whistleblowing Policy.

Financial crime
We comply with all applicable sanctions regimes and in response to the invasion of Ukraine by Russia we adjusted our risk appetite for activity connected to Russia.

We also comply with UK anti-money laundering and combating terrorist financing legislation and have a framework in place to support the implementation of these.

We do not give or receive improper financial or other benefits in our business operations, nor do we help facilitate tax evasion in any way.

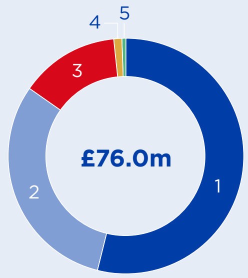
We will not tolerate any deliberate breach of financial crime laws and regulations that apply to our business and the transactions we undertake, and continue to invest in our processes and systems in respect of monitoring these.

Taxation
As a community bank, we recognise the benefits to society from our full participation in the tax system. As with everything we do, we are committed to acting with integrity and honesty in our tax strategy, policies and practices.

During 2022 our total tax contribution was £143.7 million, made up of £76.0 million taxes paid and £67.7 million of taxes we collected on behalf of the UK government. Taxes paid in the period were charged to our income statement or capitalised as part of an asset's cost. Taxes collected are generated by our business activity, including the taxes of employees and customers collected in the usual course of business and administered on behalf of the UK government.

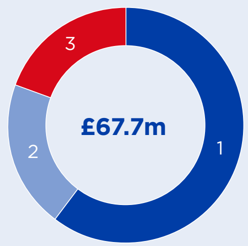
Further information can be found in our Tax Strategy document available on our website at: metrobankonline.co.uk/globalassets/documents/customer_documents/intermediaries/2022-tax-strategy.pdf.

Taxes paid (2022)



	£m	%
1. Irrecoverable VAT and customs duty	41.1	54.2
2. Employer NICs	23.4	30.7
3. Business rates	10.3	13.5
4. Land transaction tax	0.9	1.2
5. Other taxes	0.3	0.4

Taxes collected (2022)



	£m	%
1. PAYE	40.9	60.4
2. Employee NICs	13.8	20.4
3. Net VAT	13.0	19.2

Environmental, social and governance review
Continued

Our planet

Taking a responsible approach towards the environment goes hand in hand with our ambition to be the number one community bank.

Our commitment to reducing our carbon footprint – and supporting our colleagues, suppliers, customers and communities in doing so too – is demonstrated by our climate pledges:

- To make our operations net zero by 2030.
- To make our operations and value chain net zero by 2050.

We reaffirm our commitment to these pledges.

All electricity used across our stores and offices is from 100% renewable sources

The following table shows how we have delivered against the four additional climate pledges we made in 2021.

Pledge	Result
10% YOY reduction in Scope 1 and 2 emissions from 2021 to 2022.	Actual YOY reduction in Scope 1 and 2 emissions of 17% from 2021 to 2022, driven by transition to full REGO-backed electricity.
82% reduction in Scope 1 and 2 emissions by 2026 from 2019 baseline.	At the end of 2022 our reduction in Scope 1 and 2 emissions since 2019 stood at 93%, again driven by our transition to REGO-backed electricity.
25% reduction in paper use by 2026 from 2019 baseline.	At the end of 2022, emissions generated from paper use across our stores and offices has reduced by over 90%.
Maintain travel emissions below 70% of pre-COVID levels.	At the end of 2022 emissions generated from business travel were 78% lower than our baseline year of 2019.

To build on this progress and continue to reduce emissions, we will:

- Work on eliminating residual Scope 1 and 2 emissions in advance of our 2030 target.
- Transition our vehicles to electric ahead of 2030.

We are working to develop a roadmap towards realising our 2030 net-zero commitment.

Our Metro Bank pen

Our Metro Bank pen has been with us since day one, for customers to take and pass on to their family and friends. We have refreshed its magic by making the pen more sustainable.

Our new pen will be made from 87% recycled plastic, giving used plastic a new lease of life and taking it out of landfill (only the ink cartridge can't currently be recycled). Our pen caddy has also received a fresh new look using 100% recycled plastic and comes with a second use of life being repurposed as a plant pot or storage after use, and we are providing strawberry seed-sticks for planting in the base of the caddy or in local communities as symbol of Metro Bank helping communities bloom.

In addition, we are refreshing our Metro Bank-branded water bottles, with new bottles being made from prevented ocean plastic, which is recycled plastic collected from coastal areas at risk of ocean plastic pollution.

Energy use

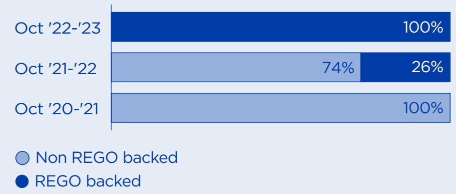
We are reviewing energy efficiency measures across all our sites, looking at all options and ideas regarding lighting, heating and cooling with the objective of delivering the best value for money.

We have also transitioned fully to only purchasing electricity generated from renewable sources.

Renewable electricity

The Renewable Energy Guarantee of Origin (REGO) scheme denotes energy that is generated from renewable sources. Since 2021 we have been progressing towards full REGO-backed electricity and since autumn 2022 all electricity used across our stores and offices is delivered from 100% renewable sources.

Electricity purchased (%)



Lending policy

In line with our community banking ethos and overall approach to ESG, our policy is not to extend lending directly to businesses that undertake:

- Metal ore mining, coal mining, peat extraction, oil and gas extraction.
- Fossil fuel power generation.
- Deforestation.
- Arms manufacture or military activities.

New stores and ESG

As we have grown, we've taken the opportunity to incorporate ESG priorities into our business. This continues to be our approach, and we are building ESG considerations into the planning process for our new stores.

Section 172 statement

Stakeholder engagement is essential to the execution of our purpose to be the number one community bank.

Our six key stakeholders:

Our FANS

Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values.

Our colleagues

As a growing business we need to attract new talent. We also want to ensure our colleagues are happy and engaged so that they provide excellent service to each and every customer.

Our communities

We are proud to be an integral part of the communities we serve.

Our investors

We engage openly and transparently with our investors who help us to grow.

Our regulators

Following our regulators' principles, rules and guidance helps us to put FANS at the heart of everything we do.

Our suppliers

We pride ourselves on doing the right thing, and maintaining the highest values in everything we do, and this extends to the suppliers we work with.

The Board must act in accordance with the duties set out in the Companies Act 2006 ('the Act'). Under section 172 of the Act, the Board has a duty to promote the success of the Company for the benefit of its members as a whole. When making decisions, the Board ensures that it acts in the way it considers, in good faith, would most likely promote our success for the benefit of our members, and in doing so have regard to matters set out in Section 172(1) of the Act.

The different needs of stakeholders are considered throughout the whole decision-making process. The Board at all times has regard to the impact of material decisions on the different stakeholder groups. However, it is not always feasible to provide pragmatic outcomes for all stakeholders and the Board at times has to make decisions based on the competing priorities of stakeholders and the needs of the Bank.

S.172 factor	Relevant disclosures	Pages
(a) the likely consequences of any decision in the long-term	• Our purpose and strategy framework. • Business model. • Strategic priorities. • Risk report.	3 to 5 15 to 17 19 54 to 97
(b) the interests of the Company's employees	• Non-financial information statement. • Our colleagues. • Board activity and stakeholder engagement. • Letter from the Designated Non-Executive Director for Colleague Engagement.	28 35 to 38 108 to 114 115 to 117
(c) the need to foster the Company's business relationships with suppliers, customers, and others	• Board activity and stakeholder engagement. • Environmental, social and governance review. • Our suppliers.	108 to 114 28 to 42 40
(d) the impact of the Company's operations on the community and the environment	• Board activity and stakeholder engagement. • Task Force on Climate-related Financial Disclosures. • Environmental, social and governance review.	108 to 114 44 to 53 28 to 42
(e) the desirability of the Company maintaining a reputation for high standards of business conduct	• Whistleblowing. • Anti-bribery and corruption. • Audit Committee report. • Modern slavery.	129 41 124 to 129 40
(f) the need to act fairly between members of the Company	• Board activity and stakeholder engagement. • 2023 Annual General Meeting. • Share capital.	108 to 114 249 209

Task Force on Climate-related Financial Disclosures

We are committed to reporting the impact of climate change on our business in a transparent manner, and taking responsibility for the actions required to make positive changes to reduce our impact on the environment.

This section of our annual report includes our climate-related financial disclosures, consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the requirements of PRA's Supervisory Statement 3/19, and provides an update on our current progress and areas of future focus.

We have made good progress during 2022 to update our governance and risk management framework to consider climate change, analysing climate risks and opportunities and developing our scenario analysis capability. We've been working hard to overcome some of the challenges, especially around data, tools and metrics. There remains work to do to assess the impact of climate-related risks and opportunities on our businesses, strategy, and financial planning, and to refine and enhance coverage and application of climate-related metrics as our tools and methodologies mature.

TCFD recommendation	Key achievements	Future developments
Strategy	• Conducting a materiality assessment to identify the our priority ESG issues. • Established climate scenario analysis to quantify physical and transition risk. • Introduced Supplier Code of Conduct and targeted ESG questionnaire. • Transitioned to 100% REGO-backed electricity across all operations.	• Continue to refresh our ESG strategy, with new aspirations, aligned to our overall strategy. • Develop scenario analysis capabilities to inform future strategy refreshes, evolving origination strategies and extending the range of product offerings. • Expand dialogue with customers on climate-related risks and opportunities.
Governance	• Established climate risk governance, including refreshed ToRs for Board and Executive-level committees. • Maintained responsibility for climate risk with the CRO under the Senior Managers Certification Regime.	• Refresh product development process to ensure climate considerations are appropriately and routinely documented.
Risk management	• Embedded climate change as a cause in our Enterprise Risk Management Framework. • Created internal modelling capabilities to track the exposure of our lending portfolios to climate risk, including initial flood risk and transition risk analysis. • Became signatories to the Partnership for Carbon Accounting Financials (PCAF) and assessed financed emissions from residential mortgages using PCAF methodology.	• Update credit risk policies and standards to reflect any changes to origination strategies. • Evolve scenario analysis tools in line with industry benchmarks and regulatory guidance. • Undertake climate scenario analysis to additional portfolios. • Assess financed emissions from in-scope portfolios via PCAF methodology.
Metrics and targets	• Eliminated all market-based Scope 2 emissions. • Set short-term targets for reductions in electricity, paper and water usage. • Submitted emissions-related data to Carbon Disclosure Project.	• Develop roadmap and interim milestones to move towards 2030 net-zero commitment. • Evolve climate risk appetite and metrics, with ongoing climate risk MI. • Participate in industry-led forums to advance our carbon accounting and the setting of science-based targets.

Task Force on Climate-related Financial Disclosures
Continued

Strategy

While the changes associated with the transition to a lower-carbon economy pose risks, they also present significant opportunities for organisations focused on climate change mitigation and adaptation solutions. In line with our ambition to be the number one community bank, we have an important role to play in facilitating the UK's transition to a low-carbon economy, leveraging the opportunities and managing the risks we are exposed to from climate change.

We are committed to supporting customers and businesses as they transition to a low-carbon economy, and to continuing to build our own resilience by identifying and managing the impact of climate change on the business, and reducing the impact that the business has on the environment.

We recognise that climate change presents both risks and opportunities to our business model and strategy over short, medium and long-term horizons:

- Short-term (0-1 years): The time horizon for annual financial planning.
- Medium-term (1-5 years): The time horizon for strategic and financial planning cycles.
- Long-term (>5 years): This timeframe is considered through the use of scenario analysis.

We see these emerging as follows:

1. Business opportunities arising as economies and customers transition to a low-carbon economy.
2. Transition risks arising from potential disruptions and shifts associated with the transition to a low-carbon economy.
3. Physical risks arising from the physical impacts of climate change which could disrupt the business, operations, or supply chains of the Bank and its customers.

Identifying and managing the impact of climate change on the business

The ability to identify, understand and manage risk is critical to our long-term strength and stability. Climate risk is no different in this regard, although it requires us to address risks that may be present over a much longer period of time than that covered by more traditional approaches to risk management. As set out above, we broadly categorise climate risks into two types: transition risk and physical risk. Within these broad categories we identify a number of factors arising from climate change which we monitor over the short, medium and long term.

Our initial focus has been to identify and quantify risks to the business. We have continued to progressively embed climate risk into our key risk processes throughout 2022. We continue to develop our own internal climate scenario analysis and stress testing capability in line with emerging industry methodologies.

We have used outputs from initial methodology developments to formulate an initial impact assessment to inform considerations in developing our strategic response.

Risks to us in the medium-term primarily result from transition risks, with physical risks representing a longer-term risk (primarily from our mortgage portfolio) and the most material risks expected to crystallise over the long term.

- Changes in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk. In addition, tightening minimum energy efficiency standards for domestic buildings may lead to transition risks which could impact the value of mortgaged properties or the ability of borrowers to service debt.
- Exposures to physical and transition risks may also arise through our commercial lending portfolio due to changes in policy, consumer preferences or technology. As a retail bank, we are not heavily exposed to certain carbon-intensive industries.
- Operational risk exposures arise from physical damage to key office locations and physical and transition risks via key suppliers, which could result in business disruption or increased costs.

Given our low exposure to carbon-intensive industries within our commercial lending portfolio, we start from a strong place. We have a robust credit decisioning process on carbon-related commercial lending. We recognise the significant challenge of improving the energy efficiency of the UK's housing stock, which will support the transition to net zero. Achieving net zero across the economy will require a combination of industry initiatives and cooperation, government policy and regulation, a change in consumer behaviour and the development of products and services from lenders.

In 2023, we will continue to review and assess the risks and opportunities that could have a material impact on the business and environment, and refine our approach to climate change scenario analysis, taking into account what we have learned in our initial development work. As these methodologies continue to develop, we will be progressively drawing on our scenario analysis to inform strategic planning; providing insight into/for our strategy, business model and financial plans. At present we do not believe climate risk to have a material impact on the Bank.

Task Force on Climate-related Financial Disclosures
Continued

Supporting our customers' transition to a low-carbon economy

We recognise the importance of climate change to our customers and are actively addressing the risks and exploring the opportunities with them in mind. We will continue to enhance and extend our support for customers as the UK makes the transition to a greener future, by launching new customer propositions that will support a more sustainable future and calculating preliminary estimates of our financed emissions. This work will support future planning and setting science-based targets to reduce these emissions over time.

As retail customers become more influenced by green issues, we expect there to be opportunities to explore the potential development of green retail propositions to help support customers in achieving reductions in their carbon footprint. In addition, we will continue to work with our commercial customers to help them understand what the transition means for them, and then help deliver the financing needed to achieve it.

The increasing public focus on climate-related issues may create reputational risks as we balance the speed of transition to a low-carbon economy against the costs of doing so. However, it also creates opportunities to enhance our reputation by demonstrating that we understand both the importance and urgency of climate change, and have a clear sense of our role in accelerating the transition to a low-carbon economy.

We will also adapt our strategy to respond to external developments, particularly those in governmental policy and their adoption. We are supportive of a cross-industry sector approach, underpinned by government strategy, guidance and assistance for customers to help them to improve the efficiency of their homes.

Reducing the impact that the business has on the environment

During 2022, we have continued to make significant progress in managing the environmental impact of our own operations and remain on target to deliver on our 2021 pledge to achieve net zero operational emissions by 2030. We have maintained a strong position in managing our emissions from colleague business travel and property, and we continued investing in energy efficiency measures, sending zero waste to landfill, supplying from renewable sources, and recycling wherever possible.

Operations

2022 saw us achieve the important milestone of our electricity being fully sourced from renewable sources, throughout the year, with full backing by Renewal Energy Guarantee of Origin (REGO) certificates. We have continued to reduce waste as far as possible and maximise recycling rates. We delivered zero waste to landfills, which we have achieved consistently since 2020. This has helped us to achieve a reduction of more than 90% across our market-based Scope 1 and 2 emissions from the 2019 baseline. We will continue to closely monitor the quality of REGO certificates backing our electricity consumption. We continue to review our residual Scope 1 and 2 emissions and develop strategies to further mitigate them and deliver on our 2030 pledge to achieve operational net zero.

Our post COVID-19 way of working has enabled us to design a future way of working that permanently reduces the need for people to travel into and between office locations. Our new model provides colleagues with the flexibility to design the way of working that suits them and their team best, enabling the majority of colleagues to work remotely. As this model has become more embedded across 2022, we have achieved a 77% reduction in business travel against our benchmark year of 2019.

Suppliers

We are focused on better understanding our indirect (Scope 3) emissions across all categories and – unlike banking industry peers – reported emissions across all 15 Scope 3 categories in 2021. We have done the same in this year's report.

We are working with those of our suppliers with the largest carbon footprint to understand and support their plans to embed sustainability into their organisations. To that end, we have taken steps to build climate change considerations into our procurement and supply chain management processes – both in the selection and ongoing management of suppliers. We continue to cooperate with c.50 other banks and financial institutions on ESG due diligence through the Financial Services Supplier Qualification System through which we are starting to collect detailed supplier level emissions data.

We introduced a Supplier Code of Conduct and shared it with our key suppliers. This document will be updated annually. The Code has a specific focus on environmental management requirements, including establishing operational practices that minimise the impacts on the environment, and deploying measures to prevent and reduce environmental harm. Through the Code of Conduct, we also expect suppliers to track performance and report environmental improvements, as well as setting environmental targets and commitments.

Task Force on Climate-related Financial Disclosures
Continued

We have also introduced a question set requesting specific information on ESG criteria such as emissions, which we will use in our supplier assessments and introduced related contract clauses which will be included in all new supply contracts.

Governance

Board oversight of climate-related risks and opportunities

The Board has ultimate accountability for all climate change risk-related matters. During 2022, the Board has been engaged in the development of our approach to ESG and has received updates on the execution of this strategy from members of ExCo and Senior Leadership Team. The Board will consider climate-related risks and opportunities as part of the annual strategic and financial planning process to ensure our approach to these matters evolves with emerging developments.

The Risk Oversight Committee (ROC) has oversight of the framework for managing and reporting the risks from climate change, as set out in the Enterprise Risk Management Framework. The Committee can escalate any climate-related risk matter to the Board.

The Audit Committee approved the approach to disclosures and the TCFD requirements, and reviews climate-related financial disclosures as part of its wider role in reviewing our Annual Report and Accounts.

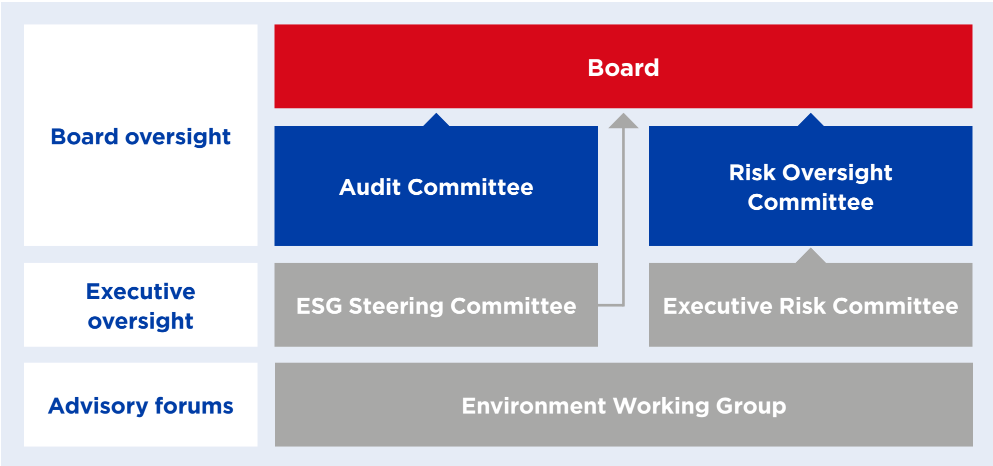
Management's role in assessing and managing climate-related risks and opportunities

Climate risk responsibilities extend across the organisation, based on a 'three lines of defence' approach, in line with the Enterprise Risk Management Framework. As climate risk impacts through existing risk channels, it requires integration across multiple risk frameworks. With coordination from second-line risk oversight, Risk owners are integrating climate into existing risk control frameworks, policies and strategies.

The accountability for our approach to ESG sits with the CEO and is devolved to relevant members of ExCo.

The Chief Risk Officer (CRO) has Senior Management Function responsibility under the Senior Managers and Certification Regime for our approach to managing financial risks from climate change, which includes:

- Embedding the consideration of financial risks from climate change into governance arrangements.
- Incorporating the financial risks from climate change into risk management practices.
- Using long-term scenario analysis to inform strategy setting, risk identification and assessment.
- Developing approaches to disclose the financial risks from climate change in line with the TCFD framework.



Task Force on Climate-related Financial Disclosures
Continued

The Enterprise Risk Management framework and Climate Change Credit Risk Standard also articulate clear roles and responsibilities for managing and monitoring climate change risk with a summary provided in the table.

Executive Risk Committee
The Executive Risk Committee (ERC) has delegated authority from ROC for overseeing our exposures and approach to managing the financial risks from climate change. During the year, the Committee received updates on the progress of the climate change risk management plan, including the outputs of the relevant stress tests and scenario analysis.

Credit Risk Oversight Committee
The Credit Risk Oversight Committee has specific responsibility for oversight of climate-related aspects of credit risk including recommending strategies to adjust the credit risk portfolio to react to change in the prevailing market or physical environmental conditions. During the year, the Committee received updates on the credit risk aspects of climate change, including climate risk specific analysis relating to lending portfolios.

Asset and Liability Committee
The Asset and Liability Committee (ALCO) focuses on our financial risks including capital, funding, liquidity and interest rate risk to ensure that the activity complies with regulatory and corporate governance requirements and also delivers our policy objectives. As appropriate, this includes the impact of climate change on aspects under its remit.

Environment Working Group
The Environment Working Group was established in 2022 as part of the Bank's new internal ESG structure, to bring together key stakeholders from across the first and second lines of defence to support work to help embed climate risk into the RMF and support our wider ESG goals and ambitions.

The Environment Working Group is accountable for delivering our net zero strategy and objectives across three strategic focus areas:

- Managing the impact of climate change on the business.
- Supporting our customers' transition to a low-carbon economy.
- Reducing the impact that the business has on the environment.

The Environment Working Group has focused on building out the foundations of a 5-year roadmap across core business areas and risk management disciplines. It will continue to update and engage with the Board, ESG Steering Committee and other committees as the ESG agenda, data capabilities and our analysis of financial risks and opportunities from climate change evolve. This will help to accelerate progress and prioritisation, particularly in relation to our climate change response.

Team	Roles and responsibilities
First-line	• Integration of climate considerations into product development process. • Engagement of customers on climate-related topics.
Treasury	• Ownership of the climate change risk stress testing scenarios.
Second-line oversight	• Ownership of climate-driven policy elements. • Development of climate change scenario analysis capabilities. • Ownership climate change risk governance and reporting. • Ownership of climate-related financial disclosures. • Identification, assessment and management of climate change risks. • Monitoring and reporting of climate change risk. • Enhancing decision-making to embed climate change.
Internal Audit	• Independent assurance of activity to embed climate risk management.

Risk management

Identification and assessment

We classify climate-related risks as either physical risks – those that arise from the physical effects associated with changes to the climate such as extreme weather events – or transition risks – those that may arise from the shift to a low-carbon economy.

We are exposed to physical and transition risks arising from climate change. Risks arising from climate change materialise through various channels:

1) through the financial services and support we provide to customers who may themselves be exposed to the risks of climate change.
2) the operation of our own infrastructure, business and premises which may be exposed to both transition and physical risk.
3) through a deteriorated perception of our brand if we do not adequately support a transition to a low carbon economy.

Task Force on Climate-related Financial Disclosures
Continued

To form a view on materiality, and to understand the broad financial impacts across different time horizons, the Enterprise Risk Management Framework was assessed through a climate change lens to identify how climate change could manifest in each of our principal risks. Due to the longer timeframes associated with climate impacts, a short, medium and long-term horizon is being applied to the consideration of impacts. This assessment has been included in the 2022 Internal Capital Adequacy Assessment Process (ICAAP) and identified our top three climate change risks as: credit, capital and operational. Credit risk is the most material climate change risk due to our mortgage portfolio exposures.

Credit risk

Physical risk examples	Transition risk examples	Time horizon
Repayment challenges from obligors due to reduced profitability or asset devaluation because of climatic shifts.	Failure to adapt to changes in policy, regulation, and technology resulting in negative impact to FANS.	Medium term to long term.

Mortgages
We have controls in place to mitigate against flood risk, subsidence, and landslip in our residential mortgage portfolio. Where it is identified that a property has previously been affected by flooding or is situated on a flood plain, new or increased lending is no longer provided where the risk could render a property uninsurable. Specific requirements are in place on lending to buy-to-let properties which have an Energy Performance Certificate (EPC) rating below E. In accordance with the Minimum Energy Efficiency Standards Regulations, all buy-to-let properties must have a minimum EPC rating of E.

All physical valuations must be completed by registered valuers to utilise their local knowledge and expertise, including the assessment of physical risks and climate-related information. The valuation methodology used in vulnerable areas, for example, properties in areas with a high potential for flood risk does use automated valuations but does not include digital valuations.

During 2021, we engaged a third-party provider and started to receive open-source property data for our mortgage portfolio to enhance our portfolio risk identification and monitoring processes. Our secured lending policies and standards will continue to evolve in response to the external environment, increasing regulation, investor and other stakeholder interest. Work is underway to plan how climate risks will be incorporated into credit decisioning in the future.

Commercial lending
Our approach to commercial lending and collateral management incorporates environmental risk considerations. We have additional credit risk assessment requirements for customers operating in carbon-intensive industries. Our Commercial Lending Policy also outlines the prohibited and restricted industries where we have either no or limited appetite to lend.

A large proportion of our business lending customers are privately owned and/or SMEs. Very few lending customers therefore report against voluntary disclosure initiatives such as Carbon Disclosure Project, Sustainability Accounting Standards Board or TCFD. Our focus will be on how we can support customers with adaptation and mitigation, and have started engaging in conversations with commercial customers with regard to ESG and sustainability. This is supported by third party reports, which signify the nature of and the extent to which ESG issues either provide an opportunity to enhance or hinder firms' business performance.

A top-down assessment of sectors (and sub-sectors) which may have a higher likelihood of being impacted by transition risks has been performed. It highlighted that our direct exposure to commercial lending segments with high emissions is relatively low. We continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change. The output will be used to inform the evolution of our credit policies and risk appetite measures to monitor the portfolio exposure to transition risk.

Task Force on Climate-related Financial Disclosures
Continued

Capital and liquidity risk

Risk examples	Time horizon
• The Bank's capital position is indirectly subject to climate risk through Bank-wide exposures across all risk types. • Longer-term climate change risks may adversely impact the Bank's future revenue through customer behaviour, balance sheet or strategy changes over the longer term in response to climate change risk factors. • Market dislocation could also impact the value or the ability to monetise liquidity buffers or incremental client deposits run-off resulting from transition risk drivers.	Medium term to long term.

Climate change risk has been considered as part of the 2022 ICAAP. This includes a qualitative assessment of the potential financial implications of climate-related risk. The ICAAP is a key planning process for the Bank and facilitates the Board and senior management in identifying, measuring and monitoring our risks and ensures that we hold adequate capital to support our risk profile. Based on our current assessment the capital requirement for physical risk would be immaterial. Consideration of climate risk will continue to be further embedded in key processes where investment decisions are made and the level of climate risk being taken is material. The output of the climate scenario analysis and stress test is used to inform the understanding of how capital management may be impacted.

Climate risk and broader ESG considerations are now reflected in the bank's Treasury portfolio investment strategy, with implications for securities that can be included in the Liquidity Pool. The 2022 Internal Liquidity Adequacy Assessment Process (ILAAP) outlined the potential funding and liquidity risks that may arise as a result of certain physical risks or transition risks.

The impacts of climate change will continue to be assessed within both the ICAAP and ILAAP.

Operational risk

Physical risk examples	Time horizon
Business interruptions due to extreme weather events and damage to facilities. Disruptions in supply chain.	Medium term.
Transition risk examples	
Increased operating costs for facilities and higher capital expenditures for resiliency and carbon reduction measures.	

Climate change is included as part of existing Risk Control Self-Assessment. All loss events are recorded in our incident management system, enabling the identification of climate-related risk events.

Scenario analysis is performed to assess the potential effects of climate-driven events including disruption to business services, damage to physical assets, and health and safety. Physical risk data has been obtained in relation to key data centres and office/store locations to support our assessment of future risk. The results of the scenario analysis are used to plan, prepare and respond to potential disruptions. There are also plans in place to help resume business operations as quickly as possible in the aftermath of an extreme climate event to minimise operational disruptions.

We continue to take steps to embed climate change considerations into procurement and supply chain management processes, including exploring different methods to collect environmental performance data from third parties. More broadly, the Operational Resilience programme outlines the requirements (including requirements of suppliers) to respond to business disruption.

We will continue to identify, manage and disclose material sustainability and climate-related risks and their impacts on us and our financial planning processes, in line with the TCFD framework.

Task Force on Climate-related Financial Disclosures
Continued

Our Risk Appetite Statement includes a qualitative statement in relation to climate risk. In support of this appetite, complementary quantitative key risk indicators are being developed, with a view to integrating into risk appetite, where appropriate. Metrics will be further enhanced as data and capability evolves and will leverage scenario analysis outputs.

Response

Climate change has been embedded as a cause into the Enterprise Risk Management Framework, together with the frameworks, policies and standards for these principal risks. For Credit risk, we have also integrated climate risk considerations into both the Business and Commercial Lending Policy and the Collateral Management Policy to aid the embedding, management and monitoring of climate change risk as a cause to our credit risks.

Scenario analysis

As the understanding and importance of climate risk progresses, climate scenario analysis is becoming an essential capability and risk management tool. Scenario analysis assists the identification, measurement and ongoing assessment of climate risks over the longer-term, and the potential threats to our strategic objectives. In 2021, we undertook climate scenario analysis for our retail mortgages and commercial real estate portfolios using scenarios published by the Bank of England as part of the 2021 Biennial Exploratory Scenario on the Financial Risks from Climate Change.

Throughout 2022, we have used the analysis from the Biennial Exploratory Scenario work, leveraging the results of that analysis in the corresponding period and used this to inform a PMO which is incorporated within our IFRS 9 ECL calculation. In addition, a Climate Risk scenario was formally assessed as part of the 2022 ICAAP, reviewing the potential impact of an extreme weather event causing prolonged physical damage to our stores and a breakdown in the transport infrastructure servicing the stores. Outcomes from these pieces of analysis have indicated the we are considered to have sufficient capital to withstand the losses associated with the climate scenarios that have been assessed. As this capability is established and further developed, the assessment will be run on an ongoing basis to inform scenario planning and monitoring of the portfolio composition to ensure no undue concentrations. The results of the scenario analysis will be used to support the evolution of origination strategies in line with our overarching strategic objectives and risk appetite to factor in climate change risks and opportunities. It will also inform product opportunity assessment and extending the range of product offerings to support customers' transition to improved energy efficiency or reduce exposure to physical risks.

Metrics and targets

Our climate change metrics are anchored to our ambitions to make our own operations net zero by 2030, and to drive material reductions in the climate impact of our financing activity and value chain by 2050. Recognising that there is more to do to fully understand the impact of climate change across our business, we are working on developing further metrics as our and the industry's understanding continues to mature. These metrics will aid discussions and inform strategic decisions made by management and the Board. The metrics will be shared in various committees, through the climate change governance model, to support committee responsibilities.

Operational emissions

Greenhouse gas (GHG) reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the UK's recently released Streamlined Energy and Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions.

We report GHG emissions in accordance with the operational control approach, to define our boundary of responsibility. The only material data limitation in the GHG emission data relate to employee commuting, where data for all individuals was not available; to account for this, average population values were used to perform the calculation.

We have seen a further reduction in Scope 1 and 2 emissions this year as detailed in the table below. As the decision to procure 100% renewable-backed electricity has now been fully embedded across our operations, the majority of our residual Scope 1 and 2 emissions are now derived from the use of our vehicle fleet, gas usage and refrigerant and coolant leaks (referred to as fugitive emissions). Our new working model has enabled the majority of our non-customer facing colleagues to work from home for a significant portion of their week. This has caused a significant reduction in energy consumption across our buildings and through reduced travel, resulting in lower carbon emissions.

We recognise that the climate impact of our operations goes beyond carbon emissions from fuel consumption and electricity and that we have a responsibility to understand and address emissions across our wider value chain.

Task Force on Climate-related Financial Disclosures
Continued

	2022	2021	2020	2019
Scope 1 emissions	179	336	67	319
Scope 2 emissions (location based)	2,855	3,327	3,799	4,247
Scope 2 emissions (market based)	–	1,194	729	3,256
Scope 3 emissions (core)[1]	1,397	n/a	n/a	n/a
Scope 3 emissions (enhanced)	129,363	155,182	190,333	248,979
Total GHG emissions (location based)	132,397	158,845	194,199	253,538
Total GHG emissions (market based)	129,542	156,712	n/a	n/a
Full-time equivalent colleagues (FTE)	4,040	4,184	3,850	3,555
Total emissions per FTE	32.8	38.0	50.4	71.3

1. This measure covers emissions arising from purchased paper (Cat. 1), Fuel and energy related activities (Cat.3), Waste Generated in Operations (Cat.5) and Business Travel (Cat. 6).

Therefore, we have measured our Scope 3 emissions from our own operations in 2022 which is also laid out in the table below. To enhance our reporting, we have specifically disclosed Scope 3 emissions arising from suite of “core” Scope 3 categories which are in line with those reported by peer institutions. Alongside this, we have maintained our disclosure across the full suite of Scope 3 categories to track our progress towards achieving our stated aim of being net zero across our full value chain by 2050.

In addition to tracking the emissions for buildings, water and waste consumption are measured across our sites. We continue to divert 100% of our waste from landfill. We have continued to see a reduction in emissions from these sources both year-on-year and from our baseline in 2019. We have also seen concurrent reductions in paper usage. These reductions can be reasonably attributed in part to our decision to transition to a hybrid working model.

We are fully committed to achieving our stated pledge of making our own operations net zero by 2030 and continue to make strong progress against this target. We have already met our 2026 target of 82% reductions in Scope 1 and 2 emissions from our 2019 baseline, as well exceeding our 2026 target of 25% reduction in paper use from the same baseline. Our ambition in 2023 is to set out a more detailed roadmap on how our 2030 target will be achieved. We will ensure that these targets comply with guidance from the Science-Based Targets Initiative (SBTi), although initially they will not have been officially reviewed by SBTi.

Financed emissions

We remain fully committed to our pledge to making our financing activity and value chain net zero by 2050 and to do what is necessary to achieve alignment with the 2015 Paris Agreement. Financing activity refers to the loans and investments on our balance sheet. We recognise that measuring financed emissions is fundamental to analyse scenarios, set targets, inform actions and disclose progress.

We will use financed emissions as a key metric to estimate the climate impact of our financing activity on the real economy. Financed emissions are absolute GHG emissions that we finance through its lending and investment activity.

We are still in the early stages of our journey and need to continue to develop the data and technology required to accurately assess and manage our carbon-related assets and exposures. Becoming a signatory to the PCAF has been a positive step in our development and helps to ensure that we evolve our calculation methodologies in line with market practices and will enable us to assess data quality challenges and recognise areas for improvement. Accounting for 49% of our customer lending as at December 2022, the residential mortgage portfolio has been identified as an area of material climate-related risk and opportunity for the Bank, and hence a priority for calculating emissions baselines and developing green propositions. While progress has been made, we will continue to develop climate-related data across the portfolios, to enable more in-depth analysis and reporting, which will support our efforts to achieve net zero by 2050 or sooner.

Task Force on Climate-related Financial Disclosures
Continued

	2022		2021	
	£m	% lending	£m	% lending
Energy – coal mining	–	–	–	–
Oil and gas	–	–	–	–
Utilities – electric and gas	–	–	–	–
Agriculture, forestry and fishing	–	–	9	0.4%
Construction	36	1.8%	67	2.7%
Transportation	29	1.5%	49	1.9%
Concrete, chemicals and metal manufacture	2	0.1%	1	0.02%
Commercial real estate	694	35.2%	912	36.1%

Physical risks
Physical climate risk data was matched for 95% of the properties in the portfolio, with the incremental impact of river, coastal and surface flooding assessed to 2050. The assessment shows that the flood risk of the properties in our residential mortgages portfolio is broadly in line with the national average. Our scenario analysis results suggest physical risks arising from climate change should have a low impact on our mortgage portfolio over the next 30 years.

Flood risk rating	% of properties
Negligible	94.3%
Low	3.2%
Medium	1.7%
High	0.6%

"We have never financed the extraction of fossil fuels nor their use for power generation and are committed to a policy of never doing so

Transition risks
The use of EPC data has been critical to our understanding of the impact of transition risk. EPC ratings of the mortgage portfolio are monitored to provide a view on the energy efficiency of our housing stock. The table below shows a summary of EPC ratings on the mortgage book. 75% of mortgaged properties were matched to an EPC rating. The most common EPC rating in our mortgage book is D, which is slightly lower than the UK average, with approximately 36% of the book currently rated EPC C or better on an interpolated basis.

EPC rating	% of properties
A	0%
B	10%
C	26%
D	42%
<E	22%

We may also be exposed to future transition risks through commercial lending portfolios. The table below summarises exposures to sectors identified as exposed to heightened climate-related risk impacts. In terms of portfolio mix, we have minimal direct exposure to fossil fuels in energy and extraction, and as a predominantly retail lending bank. This sees the key risk mitigation strategy relating to supporting our customers' transition to the green economy with sustainable financing to improve the energy efficiency of their properties and business operations, and adapting to climate change through, for example, flood protection measures at a property or community level.

Whilst we have not yet set science-based targets for Scope 1, 2 and 3 emissions, there are plans to explore this to enable the Bank to track our progress towards a carbon emissions target aligned to Net Zero. In line with the Science Based Targets Initiative, for key portfolios, respective targets and time horizons will be set and progress tracked and monitored against interim targets. These activities form the foundation of future risk analysis and target setting activities, leading to mitigating activities to help reduce risks to the Group in the future. All metrics and targets will be developed in line with the Science-Based Targets methodology to ensure consistency, accountability and achievability.

Risk report

Increased risk | No change | Reduced risk

Effective risk management is critical to realising our strategy. We have an established risk management framework to manage and mitigate the various risks that we face.

This risk report sets out our approach to how we manage and monitor risk, including a full analysis of the key risks we face (our 'principal risks'). As at 31 December 2022 our principal risks consisted of:

- Credit risk.
- Capital risk.
- Financial crime risk.
- Operational risk.
- Regulatory risk.
- Conduct risk.
- Strategic risk.
- Model risk.
- Liquidity and funding risk.
- Market risk.
- Legal risk.

Definitions of each of these risks can be found on pages 62 to 67.

Changes in principal risks and risk profile

On an ongoing basis, we assess the principal risks we face against our risk appetite, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. In assessing these risks we consider the potential impact and likelihood of internal and external risk events and circumstances, and the timescale over which they may occur.

An overview of our principal risks and how they have changed over the year is set out to the right and on page 55. Although the threat presented by COVID-19 has diminished over the year, macroeconomic and geopolitical headwinds have been driven by the war in the Ukraine, UK domestic factors and inflationary pressures. We have taken steps to respond to these changes via our governance structure and strong risk culture.

Credit risk

We continue to take a prudent approach to origination and our arrears profile and ECL reflect the quality of our lending. Arrears rates remain stable across both unsecured consumer lending and residential mortgages, which are both areas in which we have seen strong growth in 2022. Our new asset quality is strong with a lower LTV profile for mortgages than 2021. Our consumer portfolio is geared towards prime customers with strong borrower income.

Our focus on monitoring emerging trends includes the impacts of cost of living pressures on our customers, which have increased the level of credit risk across the industry and we have ensured that we have processes in place to support customers in financial difficulty.

We also lend to high-quality business customers via our stores and relationship management teams.

Capital risk

We continue to ensure that we have enough capital to meet the minimum regulatory requirements at all times, although continue to operate within our capital buffers.

We remain focused on returning to sustainable profitability, which combined with RWA optimisation will see us start to generate additional capital. Alongside this we are working to deliver our new holding company, which will allow any future debt issuances to be undertaken in line with regulatory expectations.

Financial crime risk

Overall, financial crime risk has remained elevated but stable during the year. Our inherent sanctions risk exposure increased following Russia's invasion of Ukraine and the subsequent sanctions which were imposed. However, ongoing enhancements made to our anti-money laundering and sanctions controls enable us to continue to improve our overall management of financial crime risk.

Operational risk

Operational risk has remained broadly consistent through 2022, although we continue to observe elevated risks in certain areas. These include cyber attacks and evolving modes of external fraud. During the year we focused on the technology and third party risks that could impact our operational resilience as well as people risk which has increased owing to higher attrition rates in roles across the banking industry.

Risk report Continued

Regulatory risk

Regulatory risk remains unchanged and continues to be a key area of focus as a result of the ongoing volume and complexity of regulatory change. We continue to place significant focus on overseeing and ensuring compliance with regulatory requirements and continue to have open and constructive dialogue with our regulators.

2022 has also seen us substantially close out our main legacy issues. In December 2022 the FCA concluded its investigation into announcements made in respect of RWA. The outcome was within the range of outcomes we expected and we can now put this legacy issue firmly behind us, having greatly improved our reporting processes and controls.

Conduct risk

Our culture is focused on supporting our customer. This sees us offer a relatively simple range of products, which are easy for customers to understand. Conduct risk increased in 2022 as customers became increasingly vulnerable to the challenges of the economic and social impacts of the external environment, driven by the macroeconomic headwinds.

The regulatory focus on the treatment of customers in the retail banking sector remains heightened, especially in relation to lending decisions, those at risk of financial difficulty and potential vulnerability. We are preparing to implement Consumer Duty requirements in 2023 in order to further strengthen our capabilities.

Strategic risk

Strategic risk remained unchanged in the year. We have considered the uncertainties and potential challenges to our strategic risk in 2022 and beyond as part of the annual strategic and financial planning process. This took into account all of the factors set out in the 'operating environment' on pages 8 to 9.

We have also continued our work to understand how to define, monitor, manage and report the impact of climate change on our strategy, business and sustainability aspirations.

We consider our strategic risks on an ongoing basis via our risk governance structure, including a second line review of the risks related to our annual Long Term Plan.

Model risk

We use models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring, and mitigating risk, valuing exposures (including the calculation of impairment), conducting stress testing, and measuring capital adequacy. Model risk remained stable during the year as we continued to enhance our model governance and oversight to mitigate against the risk from model changes, including those arising from the impacts and uncertainties related to the cost of living crisis.

Liquidity and funding risk

Liquidity and funding risk remained stable throughout 2022, with liquidity levels in excess of the regulatory minimum. We ended the year with our liquidity coverage ratio at 213% (31 December 2021: 281%) which was higher in 2021 due to the proceeds the mortgage sale to NatWest, which have been invested into loans and advances throughout 2022. Our funding base continues to be underpinned by retail and SME deposits.

Market risk

Market risk remained stable throughout the year. In 2022 we continued to manage mismatches between our fixed rate assets and liabilities effectively, benefitting from natural offsetting between certain assets and liabilities, which may be based on both the contractual and behavioural characteristics with this risk remaining low.

Legal risk

Legal risk remained stable throughout 2022. We remain exposed to a range of legal risks in relation to our normal business activities. We minimise legal risk via a range of mitigants, including the use of in house and external legal expertise, appropriate policy documentation and training related to specific legal requirements and monthly reporting of metrics to measure compliance with our Legal Risk Appetite.

Risk report Continued

Emerging risks

Emerging risks are continually assessed and reviewed via our risk governance structure, which includes both 'top down' and 'bottom up' approaches. These are regularly reviewed at our ERC and ROC.

We consider emerging risks to be evolving threats which cannot yet be fully quantified, with the potential to significantly impact our strategy, financial performance, operational resilience or reputation or result in intolerable harm to our customers.

Rapidly changing macroeconomic and geopolitical environment

2022 has been a year of political and economic turbulence and this is forecast to continue into 2023 with the Bank of England the UK will enter a recession during 2023. Alongside this, unemployment is forecast to rise, albeit from an historic low level, and house prices are predicated to fall back.

While it is anticipated that inflation will fall, levels are still likely to be high compared to recent history, adding to pressure on household finances. The political and central bank response to these issues continues to evolve and the continued inflationary environment will likely see base rates rise through the first half of 2023. As the country enters a period of recession we anticipate further volatility within financial markets, particularly in respect of yields and asset pricing.

Mitigating actions
We continue to monitor economic and political developments in light of the ongoing uncertainty, considering potential consequences for our customers, products and operating model. We actively monitor our credit portfolios and undertake internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK. We continue to focus on affordability and cost of living assumptions for new lending, on back book monitoring, as well as focus on potential impacts on our customers. The latter includes pro-active engagement with vulnerable customers and those that are considered most at risk of payment difficulties prior to the emergence of arrears.

Cyber risk

Cyber attacks continue to grow in intensity and complexity, meaning that continuing to evolve our ability and methodologies used to safeguard the confidentiality, integrity and availability and our customers' information and services remains crucial.

Mitigating actions
We continue to invest in our cyber security and resilience capabilities in response to these rapidly evolving threats. Key areas of focus relate to access controls, network security, disruptive technology and the denial of service capability. We actively participate in the sharing of threat information with other organisations, helping to ensure the continued availability of our exceptional service offering while also making banking safer for all.

Technological change

Changes in the use of technology by our customers, along with rapid changes to technology provided by third parties, requires us to continually assess the need to upgrade our technology estate. This in turn drives increasing demands on our people and our ability to remain operationally resilient, in order to avoid causing harm to our customers.

Mitigating actions
We continue to review our use of technology to prioritise enhancements where required. We follow an Agile change methodology and remain focused on building out a strong digital offering.

Risk report Continued

Regulatory change

The regulatory landscape continues to evolve with the requirement to respond to both prudential and conduct driven initiatives requiring ongoing prioritisation and implementation. Regulatory business plans and supervisory priorities are regularly assessed to identify emerging themes and ensure our control framework remains appropriate.

Mitigating actions
We continue to monitor the regulatory landscape for emerging regulatory initiatives and to identify potential impacts on our business model and ensure we are well placed to respond effectively to regulatory change. Regular monthly reporting on material regulatory change programmes ensures appropriate visibility and escalation where required.

Fraud risk

We are faced with an increasing volume and complexity of scams perpetrated on our customers by threat actors who continue to develop more sophisticated tactics to commit fraud. The uncertain economic environment may also result in increased fraud as companies and individuals struggle. This has resulted in increased regulatory expectations across the financial services industry.

Mitigating actions
We continue to enhance our approach to identifying and preventing potential fraud and are proactive in educating our customers and colleagues in fraud prevention measures, alerting them to changes in the threat landscape as they occur.

ESG risk

There remain significant uncertainties around the time horizon over which climate risks will materialise, as well as the exact nature and impact of climate change on our strategy, performance and operating model. There are also risks associated with changing societal and political requirements from a wide range of stakeholders to which our risk and governance frameworks must evolve responses.

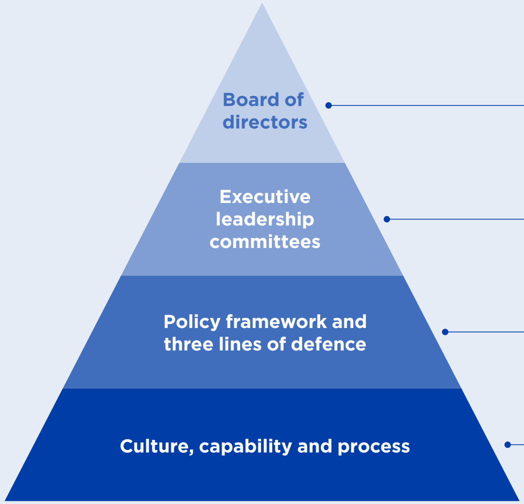
Mitigating actions
Our ESG working groups and steering committee meet regularly to ensure our responses to emerging ESG risks are continually enhanced. We continue to focus on sustainability in all forms and take an ethical approach to doing business, remaining committed to the communities we serve.

Risk report Continued

Risk management framework

Approach to risk management

Effective risk management is critical to realising our strategic priorities and underpins day-to-day operational activities and strategic change initiatives. We have an established Enterprise Risk Management Framework to manage and report the various risks that we face over the course of our daily business.



The Board sets the risk appetite, approves the risk management framework policies and maintains an appropriate control environment.

The Executive leadership committees over see the risk management framework and policies, and the Bank's strategy for addressing critical risks.

The Bank operates a 'three lines of defence' model for risk management. Policies are aligned with the Bank's principal risks and risk appetite.

The Bank uses procedures, standards and training to develop a robust and effective control environment – one where all colleagues understand their obligations and that we all collectively own the risks the Bank faces.

Risk appetite, policies and procedures
We define risk appetite as the aggregate level and types of risk that we are willing to accept in our pursuit of our stated business objectives. Qualitative statements are in place which articulate our risk appetite to stakeholders and provide a view on the risk-taking activities with which the Board is comfortable, guiding decision-makers in their strategic and business decisions.

The risk appetite statements detail the risk parameters within which we operate, promoting good customer outcomes and protecting us from excessive risk exposures. The statements include quantitative metrics which inform strategies, targets, policies, procedures and other controls that collectively ensure we remain within the Board's approved risk appetite. Information on performance against risk appetite, as well as any breaches and significant trends are reported to ERC, ROC and Board regularly.

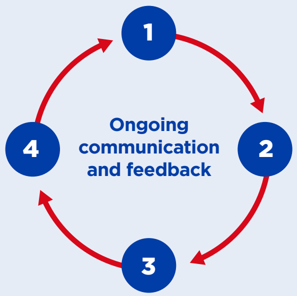
Alongside our risk appetite statements, a Policy Governance Framework is in place to provide structure and governance for the consistent and effective management of the policies we develop in order to manage risk within our risk appetite. These policies define the minimum control requirements that we must be observed across to manage material sources of risk and we actively monitor compliance with them.

Risk management process
Our risk management process comprises the following key stages:

- Identification of the risks we are exposed to at various levels.
- Assessment or measurement of the identified risks using suitable risk management tools.
- Response to the risk exposure, including risk mitigation strategies (controls) where appropriate.
- Monitoring and reporting of these risks to ensure that they remain within risk appetite.

Risk management process and governance overview

The following diagrams provide an overview of the risk management process and activities undertaken within our business that allow the Board to fulfil its obligations under the Corporate Governance Code 2018.



1. Risk identification
2. Risk assessment
3. Risk response
4. Risk monitoring and reporting

Risk report Continued

Risk governance and oversight

We operate a 'Three Lines of Defence' risk model based on the overriding principle that risk capability must be embedded within the first line of defence (Business) teams to be most effective. Responsibility for risk management resides at all levels within the Bank and is supported by Board and Executive-level committees. The table sets out how responsibility for risk management is allocated and how that responsibility is discharged.

Risk management framework

	First line	Second line	Third line
Lines of defence	• Own and manage the risks we face and agree, establish, embed and comply with appropriate frameworks, policies and standards (key executives). • Design, implement and maintain effective controls. • Align strategy with, and monitor exposure against, risk appetite. • Ensure adequate resources, tools and training are in place. • Promote and maintain an appropriate risk culture.	• Establish and communicate the framework, governance structure and underlying policies and standards. • Provide oversight, review and challenge the first line via review, enquiry and discussion. • Report/escalate to executive management and the Board. • Facilitate the development of risk appetite, tools and training.	• Independently verify that the framework is operating effectively. • Validate the first and second line approach to risk management. • Assess against regulatory developments and leading practices.
Risk governance committees	• Executive Committee. • Business risk committees.	• Risk Oversight Committee. • Executive Risk Committee. • Other executive level risk committees.	• Audit Committee.

Risk report Continued

Board

Sets risk appetite and strategy

• Sets our strategy, corporate objectives, risk appetite.	• Ensures an adequate framework is in place for reporting and managing risk.	• Maintains an appropriate control environment to manage risk effectively.	• Ensures capital, liquidity and other resources are adequate to achieve our objectives within risk appetite.

Risk Oversight Committee

Oversees risk governance and management

• Recommends risk appetite statement measures to the Board.	• Reviews risk exposures in relation to the risk appetite.	• Reviews risk frameworks and policies, and approves or recommends to the Board for approval.	• Monitors the effectiveness of risk management processes and procedures put in place by management.

Audit Committee

Oversees financial reporting

• Reviews our annual and half-year financial statements and accounting policies.	• Reviews the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place.	• Advises on the appointment of external auditors.	• Reviews internal and external audits and controls, monitors the scope of the annual audit and the extent of the non-audit work undertaken by external auditors.

Executive-level committees

Oversee the risk management framework

Executive Risk Committee
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk frameworks for approval by the Board or ROC.
- Oversees the quality and composition of the credit risk portfolio, and recommends strategies to adjust the portfolio.
- Oversees and advises on financial and non-financial risk matters, including those escalated from oversight committees.

Asset and Liability Committee
- Monitors performance against the Board capital/funding plans.
- Ensures that we meet internal liquidity and capital targets.
- Agrees pricing decisions to ensure visibility of capital and liquidity impacts.
- Monitors interest rate risk.

Credit Approval Committee
- Approves higher value lending requests.

Impairment Committee
- Reviews and approves monthly portfolio level impairment results.

Risk report Continued

Risk culture

Everything we do starts with our culture, which supports risk awareness by encouraging every colleague to think about the relationship between their role and our purpose of creating FANS and growing safely and sustainably. Our risk culture aligns our people, processes, and systems to the way we manage the risks inherent in our business activities.

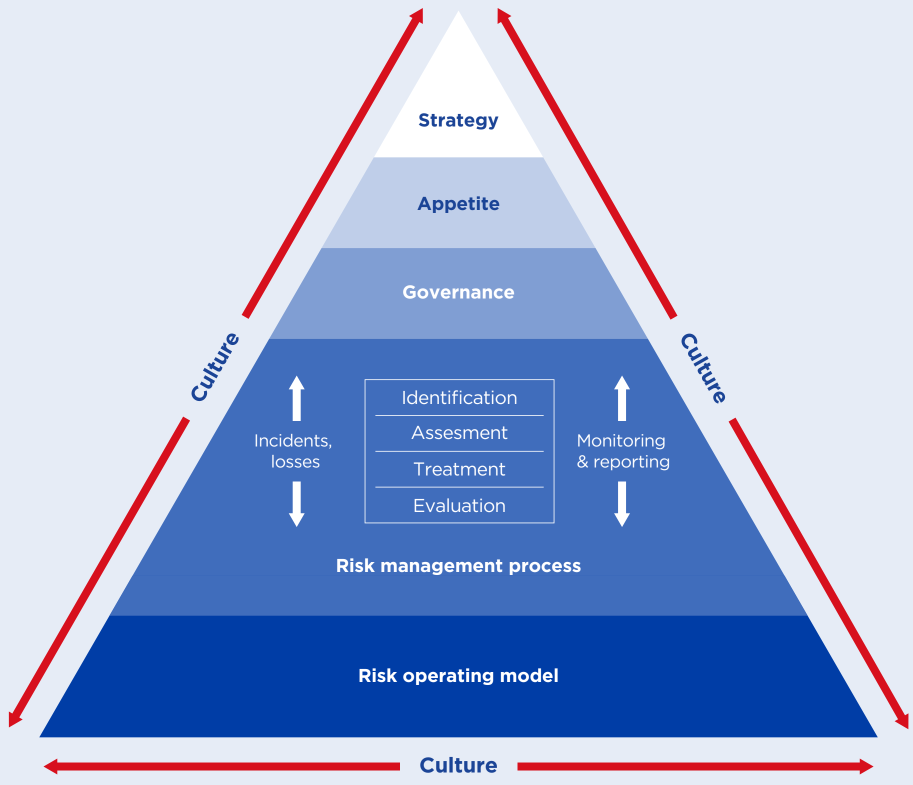
This culture begins with our executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation. Enabled through operation of the Senior Managers and Certification Regime, personal accountability is at the heart of our risk culture.

Risk management is a key aspect of every colleague's objectives, and is embedded within our scorecard, against which performance is measured. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they develop and maintain the required levels of competence. This supports colleagues in making decisions and judgements with risk in mind.

We know that a culture that truly focuses on creating FANS by exceeding customers' expectations will reduce the risk of customer harm and deliver consistently good outcomes. Managing risk is a key part of our AMAZEING values which are at the heart of everything we do. We continually seek to enhance and embed our risk management framework to ensure effective risk ownership and management within risk appetite, supporting appropriate customer outcomes, and the delivery of our strategic plan. We promote an environment of effective challenge in which decision-making processes stimulate a range of views.

This year, we have continued to embed the principles, tools and techniques of the Enterprise Risk Management Framework. In addition to structured training, we have designed and delivered learning campaigns for all colleagues on the importance of managing risk, our collective responsibility and the ways in which it benefits our customers and ourselves. We held a series of Bank-wide events in October to promote awareness of risk, including internal and external live events, webinars, videos and focused training.

Risk culture



Risk report Continued

Risk management overview

Principal risks

These are the risks in our Risk Taxonomy for which both qualitative and quantitative measures are set at Board level and reported throughout our risk governance structure as set out in its Enterprise Risk Management Framework.

Increased risk | No change | Reduced risk

	Exposures	Mitigation	Future focus
Credit risk The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time. Change from 2021 Increased	Our primary source of credit risk is through the loans, limits and advances we make available to our customers. We have exposures across three key areas, retail mortgages, consumer lending, and commercial. We continue to take a prudent approach to origination and our arrears profile and our ECLs reflect the high-quality of our lending. We have continued to rebalance our lending mix in line with our strategy, with strong growth in both unsecured consumer lending and residential mortgages in 2022. Our new asset quality in these growth portfolios is strong with a lower new LTV profile for mortgages than 2021, and a consumer portfolio geared towards prime customers with strong average borrower income. This strength is reflected in the overall portfolio, with the mortgage portfolio well collateralised with average DTV of 56% (31 December 2021: 55%). In the commercial portfolio we have been actively reducing some areas of lending, particularly professional buy-to-let and commercial real estate. Across the commercial loan book our average DTV is 55% (31 December 2021: 57%).	We have a strong credit risk framework in place that manages lending within risk appetite limits, provides a comprehensive set of policies and lending standards, and sets out a clear set of procedures for managing our portfolios and customers in financial difficulty. Individual credit decisions are controlled through both quantitative models and underwriter review depending on the product, materiality, and complexity of the exposure. These assessments take into account the potential for future stress in customer's financial positions. All commercial exposures are approved by an independent commercial underwriting team. We mitigate credit risk through holding collateral against our retail mortgage and commercial term loan portfolios. Credit risk is overseen by the CRO (supported by the Chief Credit Officer), Credit Risk Oversight Committee, ERC and ROC. The credit risk function monitors the risk profile using a broad range of risk metrics, reporting against risk appetite limits and regular portfolio reviews. This includes oversight of credit risk performance indicators such as arrears levels, modelled risk measures, such as probability of default (PD) and loss given default (LGD), and measures of concentration risk. Stress testing is conducted to assess the impact on ECL and RWAs. This robust framework continues to support underlying portfolio resilience as cost of living and interest rate pressures have emerged.	Our overall approach to credit risk management, level of provisions and portfolio shape has put us in a strong position to remain resilient throughout 2023. We remain focused on monitoring emerging trends and the impact of high inflation and interest rate pressures on our customers. We have taken a number of steps to further enhance our support for customers that may be facing into financial difficulty through this period, and will continue to work with our customers to support them where needed. As we develop our future product offering, we will continue to update our credit risk policies and processes to ensure that these remain appropriate for the developing balance sheet. We are also focusing on ensuring that we have the models and broader capabilities in place to support our journey toward IRB status. Read more on our approach to this risk on pages 68 to 83

Risk report Continued

	Exposures	Mitigation	Future focus
Capital risk The risk that we fail to meet minimum regulatory capital (and MREL) requirements. Change from 2021 Stable	Capital risk exposures arises from the depletion of our capital resources which result from: • Increases in our RWAs. • Continued losses. • Unfavourable changes to regulatory minima or other regulatory rule changes. Our capital risk management approach is therefore centred around ensuring we can maintain appropriate levels of capital to both meet regulatory minima and support our objectives, both under normal and stress conditions.	Our capital risk mitigation is focused on three key components: • A return to sustainable profitability that will allow us to generate organic capital growth. • The continued optimisation of our balance sheet to both ensure we are maximising our return on regulatory capital and prudently manage our RWA growth. This includes the continued advancement of our IRB application. • Raising external regulatory debt capital, as and when market conditions allow.	As at 31 December 2022 we are operating within our capital buffers, although remain above regulatory minima. We will continue to ensure that we have enough capital to meet the minimum regulatory requirements at all times. Our return to profitability and disciplined approach to asset origination will see us protect our capital ratios. We are continuing to progress our IRB application with the regulator. We will also seek to access the capital markets to raise additional regulatory debt, as and when conditions allow. A combination of these factors will allow us to return to sustainable capital generation, and therefore our path to exiting our capital buffers. Read more on our approach to this risk on pages 84 to 86
Financial crime risk The risk of financial loss or reputational damage due to regulatory fines, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime. Change from 2021 Stable	The nature of our business model as a UK retail bank inherently exposes us to financial crime risk. Our inherent sanctions risk exposure also increased following Russia's invasion of Ukraine and the subsequent sanctions which were imposed. Ongoing enhancements made to our anti-money laundering and sanctions controls enable us to continue to improve our overall management of financial crime risk.	Our Financial Crime Improvement Programme, which was mobilised in 2019, has and continues to deliver enhancements to our financial crime systems and controls to ensure that they remain fit for purpose as well as delivering the our Financial Crime Strategy. Relationships with customers where it is felt that the financial crime risks are too great to manage effectively will be ended and continual investment will be made in our expertise, partnerships and systems to improve our management of risk in this area.	We continue to enhance our financial crime controls to ensure that they are appropriate to manage the risk posed by our customers and transactions and are aligned to our legal and regulatory requirements. Resourcing continues to be a significant focus with investment into the first and second lines of defence. Read more on our approach to this risk on page 87

Risk report Continued

	Exposures	Mitigation	Future focus
Operational risk The risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our FANS. Change from 2021 Stable	We are exposed to a broad range of operational risks across a number of distribution channels, businesses and functions. Our operational risks include: • Information security and cyber – The risk that the confidentiality, integrity or availability of the data we hold and/or systems we operate is compromised. • Fraud – The risk of direct or indirect loss to both ourselves and our customers as a result of criminal activity. • Technology (including Third Parties) – The risk that performance of IT infrastructure (including that supported by third-parties) impairs our performance and operational resilience. • People – The risk that we fail to have the right colleagues, in the right place, at the right time with the right skillset to create FANS.	Business Risk Committees manage operational risks at business and support area level, supported by a number of forums and working groups. These escalate to the Non-Financial Risk Oversight Committee which further escalates to ERC and ROC where appropriate. We aim to minimise incidents and losses arising from operational risk events by maintaining a resilient infrastructure, including robust systems and employing and training the right colleagues. We consider and prepare for a range of potential disruption events and when they do occur, we respond effectively and ensure that operational risk events and losses are recorded, assessed and corrective steps taken to avoid recurrence. In accordance with regulatory requirements, we hold capital appropriate to potential severe yet plausible operational risk exposures, informed by assessment of a range of operational risk scenarios.	Programmes of work to further enhance our management of operational risk will continue in 2023. Recent investments in our risk management technology will generate enhanced risk insights and further strengthen our governance and reporting. Particular focus will remain on operational resilience. The management of risks associated with our Important Business Services and our risk to third party suppliers are key priorities, as is management of attrition risks related to our colleagues. Read more on our approach to this risk on page 88
Regulatory risk The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements. Change from 2021 Stable	We remain exposed to regulatory risk as a result of our normal day to day business activities, as well as significant ongoing and new regulatory change.	We manage regulatory risk through a combination of clearly defined risk frameworks covering our principal risks, a comprehensive set of risk appetite measures and limits together with appropriate compliance policies and standards. We undertake a range of mitigating actions to manage regulatory risk, including a risk-based assurance programme designed to assess areas of the control framework underpinning regulatory compliance, oversight of key regulatory developments and proactive and coordinated engagement with our key regulators. Our risk oversight committees monitor and assess compliance with our regulatory requirements.	We continue to place significant focus on overseeing and ensuring compliance with regulatory requirements. We undertake regular reviews of our risk frameworks, appetite limits and monitoring processes in order to ensure these remain up to date and reflect current regulatory priorities. During 2023, we will focus on key developments such as Basel 3.1, enhancements to internal control requirements under the revised UK Corporate Governance Code and Consumer Duty. Read more on our approach to this risk on page 89

Risk report Continued

	Exposures	Mitigation	Future focus
Conduct risk The risk that our behaviours or actions result in unfair outcomes or detriment to customers and/or undermines market integrity. Change from 2021 Increased	We are built on a people-focused culture of supporting our customers, offering them a range of relatively simple retail products. We remain exposed to conduct risk as a result of our normal day to day business activities and the provision of services and products to customers. Our key focus remains on those customers with additional support needs who may be increasingly vulnerable as a result of specific life events, financial difficulties due to the cost of living pressures or who may be the victim of fraudulent activity.	We have enhanced our conduct risk management framework to improve oversight of the conduct agenda and have implemented programmes to address the key drivers of potential customer harm to further support the delivery of good customer outcomes.	We will continue to ensure our products and services meet customer expectations and can deliver good outcomes, enabling customers to pursue their financial objectives. We will continually assess our internal processes in-line with regulatory changes, ensuring we meet our regulatory requirements and can reasonably prevent customer harm. We will continue to work with the FCA on the customer agenda and will implement the changes resulting from the FCA's new Consumer Duty requirements. Read more on our approach to this risk on page 90
Strategic risk The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders. Change from 2021 Stable	Strategic risk arises if we design or implement an inappropriate strategic plan, design an appropriate plan but fail to implement it as intended, and/or fail to take account of a change in external circumstances. The current macroeconomic challenges in the UK continue to create an uncertain outlook. In addition, we operate in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives. Although there remain existing and emerging macroeconomic and geopolitical uncertainties, our strategy remains essentially unchanged, focusing on our ambition to be the number one community bank attracting core deposits through a service-driven offering to retail and SME customers.	Strategic risk is addressed through the Board-approved strategy and long-term financial plan. We consider strategic risk as part of ongoing risk reporting and an annual review of our strategy and Long Term Plan.	We will continue to oversee execution of our strategy through risk, business performance and change governance mechanisms in order to ensure that the key risks are understood and proactive management action is taken if required. This will consider both the impact of external macroeconomic and competitive factors as well as effectiveness of internal delivery. We will continue to develop and embed our sustainability agenda in managing environmental, climate, social and governance-related risks. Read more on our approach to this risk on page 91

Risk report Continued

	Exposures	Mitigation	Future focus
Model risk The risk of potential loss and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the development, implementation, or use of such models. Change from 2021 Stable	We use models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring, and mitigating risk, valuing exposures (including the calculation of impairment), conducting stress testing, and assessing capital adequacy. Model risk remains stable, while closely managed with ongoing enhancements to risk governance, risk appetite metrics and scope having been implemented. This has in turn helped to mitigate potential increased risk from the impacts and uncertainties arising from macroeconomic challenges.	The main mitigant to model risk is the robust governance process that is followed, including two dedicated model committees, the Model Oversight Committee, and the Model Governance Committee. There is also an expert panel to opine on contentious issues. The committees evaluate the appropriateness of the Model Risk Management Framework and monitor progress on the implementation of an enhanced modelling infrastructure. This includes a review of findings in relation to specific modelling processes, escalating to ERC and ROC as appropriate. We have in place a well-qualified independent model validation function that performs model validations prior to model implementation, when a model is changed and on a periodic basis.	We continue to develop our IRB models as we progress with our application for the use of internal models for our capital adequacy calculation and reporting. We continue to enhance and evolve governance of model risk, including reviewing the requirements of the Bank of England's consultation paper CP6/22 "model risk management principles for banks", we plan to implement any principles within the required timeline. Read more on our approach to this risk on page 91
Liquidity and funding risk Liquidity risk is the risk that we fail to meet our obligations as they fall due. Funding Risk is the risk that we cannot fund assets that are difficult to monetise at short notice (i.e. illiquid assets) with funding that is behaviourally or contractually long-term (i.e. stable funding). Change from 2021 Stable	Liquidity risk concerns our ability to meet short term obligations as they fall due. This requires liquidity management to maintain investor and market confidence in both business-as-usual and stressed environments. Funding risk concerns any mismatch between asset liquidity and how the assets are funded. The primary aim is to ensure assets that are slow to monetise are supported by funding which is behaviourally or contractually stable. Both liquidity and funding risk are the subject of prudential regulation and we must meet our liquidity coverage ratio and net stable funding ratio to a satisfactory standard.	Our liquidity and funding risk mitigation is focused on three key components: • We retain a deposit-funded approach, with a broad customer deposit base covering both retail and commercial customers. This means we are not reliant on wholesale funding, although we continue to utilise the Bank of England's TFSME as an additional stable cost of funding, which is also accretive to net interest income. • We continue to maintain prudent liquidity levels through the holding of high-quality liquid assets in the form of investment securities with strong credit ratings as well as cash balances held at the Bank of England. • We monitor and manage the behavioural maturity of our assets and liabilities on an ongoing basis to ensure we are not taking undue risk.	We will continue to assess both the underlying liquidity risks and the potential management actions on an ongoing basis, as part of the ILAAP. This includes, amongst other things, consideration of idiosyncratic and market wide stress scenarios and whether our funding and liquidity positions remain well calibrated. Read more on our approach to this risk on pages 92 to 93

Risk report Continued

	Exposures	Mitigation	Future focus
Market risk The risk of loss arising from movements in market prices. Market risk is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates. Change from 2021 Stable	We do not have a trading book and we do not actively seek to create value through taking interest rate positions. While we support our customers to make payments or hold accounts in foreign currency, we actively avoid exposing our own balance sheet to foreign exchange risk. The primary source of our market risk exposure arises from structural interest rate risk in the banking book mismatch between the fixed rate assets and liabilities and any differences in bases. Interest rate risk in the banking book crystallises in, and is measured through, the sensitivity of our current and future net interest income and our economic value to movements in market interest rates.	We have a low appetite for those market risks which we do take, with clear limits set for net interest income and economic value. These limits are sufficient to allow proper management of operational and financial hedging, but low enough to prevent active use of open positions. We benefit from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives (derivatives are used only for hedging purposes and not as part of customer transactions or for speculative purposes). We have very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies we operate in and the Board has set a strict limit, with exposure not to exceed 2% of capital resources. We do not have any operations outside the UK.	We will manage our market risk in line with policy, while mitigating interest rate risk in the banking book which remains our main source of market risk. We re-evaluate our market risk appetite, exposure and control on an ongoing basis, which includes a process (Market Risk Assessment Process), analogous to the regulatory requirements for an ICAAP or ILAAP. Read more on our approach to this risk on pages 94 to 95
Legal risk The risk of loss, including to reputation that can result from lack of awareness or misunderstanding of, ambiguity in or reckless indifference to, the way law applies to the Directors, the business, its relationships, processes, products and services. Change from 2021 Stable	We remain exposed to a range of legal risks in relation to our normal business activities. These risks may arise from: • Defective contracts. • Claims and litigation against us. • Failure or inability to take appropriate measures to protect Intellectual Property. • Failure to comply with specific legislation (e.g. Market Abuse).	We minimise legal risk via a range of mitigants, including: • In house legal expertise, maintained via appropriate training and development and specialist recruitment. • Selective use of expert external legal advice via an approved panel of lawyers. • Appropriate policy documentation and training related to specific legal requirements. • Monthly reporting of metrics to measure compliance with our legal risk appetite. In 2022, we successfully enhanced our approach further by updating our Enterprise Risk Management Framework to clarify the role of the legal function in helping the business manage and mitigate legal risk.	We will continue to ensure that we work within legal parameters for all aspects of our activities and measure compliance with risk appetite. Further to the enhancements made to the Enterprise Risk Management Framework in respect of legal risk, a refreshed risk appetite statement and suite of risk appetite metrics will be established in 2023. Read more on our approach to this risk on page 96

Risk report Continued

Credit risk

Risk appetite (audited)

We control credit risk through a set of quantitative limits that measure the aggregate level and type of credit risk that we are willing to accept in order to support our business objectives. These limits, which are set at total portfolio and product level, are supported by a suite of product-level policies and lending criteria which define the parameters within which individual exposures can be approved and which manage new lending within the risk appetite. Credit risk is further controlled through the use of automated decision tools within our retail business, and underwriter approval and monitoring of individual transactions. Independent oversight is provided by the credit risk function and includes independent underwriting of commercial lending, monitoring of performance against limits, ongoing portfolio monitoring and regular portfolio reviews.

The 2022 credit risk appetite limits were set with reference to the appetite for credit impairments as well as analysis of past performance, peer comparisons and qualitative approaches using expert judgement. These limits reflect our strategy as well as the macroeconomic outlook.

We continue to develop and enhance our climate change risk management capabilities. We have developed a model to estimate the impact on credit losses over a forecast horizon out to 2080. The requirements for this model were developed in line with guidance issued by the Bank of England as part of its Climate Biennial Exploratory Scenario Exercise, with results being based on three climate scenarios: early policy action, late policy action, and no additional policy action. Our policies outline prohibited commercial sectors which are of particular concern for climate change. In addition our policies provide for enhanced borrower assessment where borrowers operate in other carbon intensive industries. In retail mortgages, there are policies in place to mitigate property risk, including the risks that could result from climate change. These include requirements concerning the durability of the property for the lifetime of the loan, the requirement that properties must be insurable, and limits for lending on certain products where the property has received a low EPC rating.

Assessment and monitoring (audited)

We manage credit risk throughout the lending activity lifecycle and within clear risk appetite limits via a comprehensive set of policies and lending criteria. Individual credit decisions are controlled through both quantitative models and underwriter review depending on the product, materiality, and complexity of the exposure.

Prior to approval of a new or amended credit facility, the risk of the customer and transaction must be assessed and approved through an automated decision engine or though delegated lending authority using procedures in compliance with the relevant lending policy. Retail lending decisions are made in the first instance through an automated process. This includes a quantitative credit scorecard to assess likelihood of arrears, an affordability model to assess capacity to pay and assign a credit limit, and a set of rules that set credit criteria and automate credit policy. This assessment is further subject to verification of information such as financials, and valuation of collateral. In some circumstances, a manual underwriter review is also performed as part of the credit approval process. Commercial exposures are individually assessed under delegated lending authority.

Credit risk appetite metrics are measured and reported regularly to oversight committees to ensure we remain within risk appetite and continue to support our strategic objectives. These metrics focus on particular segments of the portfolio which may be susceptible to or indicative of increased levels of risk, and which are crucial to our strategy. These include modelled risk parameters and performance metrics such as PD and LGD, as well as concentration metrics such as sector or geographical concentration. More granular performance metrics are also tracked to assess the likelihood of potential breaches and their drivers. The limit framework includes early warning thresholds which identify where action may need to be taken to avoid a breach of appetite limits. If necessary, a plan is presented to bring the measurements back to approved levels.

A monthly portfolio insight report is presented to ERC and ROC to provide oversight of key indicators and performance trends. This is supplemented by a detailed suite of portfolio-level reports which are reviewed by Credit Risk Oversight Committee. In addition, we perform regular portfolio asset quality reviews as well as monitoring and reporting on our credit decisioning. We have developed statistical models that utilise both internal and external data for the purposes of estimating ECL under IFRS 9, as well as IRB models as part of our journey to seek permission to use the IRB approach to calculate RWA exposure amounts for credit risk.

Risk report Continued

Commercial customers are also monitored through our Closer Monitoring and Early Warning List. The objective is to identify the potential risks at an individual level before they materialise and mature. Customers are categorised into one of four categories. The first is "closer monitoring", followed by early watch list categories one to three. Closer Monitoring and Early Warning List categories support IFRS 9 stage classification.

We monitor the effectiveness of our policies and management framework through the various credit risk committees outlined. These committees provide oversight of portfolio quality and help inform on where changes to our strategy or policies are required in response to ongoing developments in the external environment. In addition, we assess and estimate the risks associated with climate change through developed models and we continue to develop our quantitative capabilities to further support our longer-term objectives and increased focus in this area.

Governance

Credit risk is managed within our Enterprise Risk Management Framework, as part of our overarching three lines of defence model. Management of credit risk is split primarily into first and second lines of defence. The first and second lines are operationally independent and have separate reporting lines. The first line management of credit risk is shared across our lending functions that design, distribute, approve and service credit facilities. These are the functions under the management of the Managing Director Consumer Finance, the Managing Director Banking Products and Digital, Managing Director Distribution, and the Chief Operating Officer. The first line lending functions are responsible for proposing and implementing lending propositions and are responsible for conducting lending activity in accordance with credit risk appetite and credit policies and standards.

The second line credit risk function reports to the Chief Credit Officer who, in turn, reports to the CRO.

The Chief Credit Officer, supported by the credit risk team, is responsible for:

- Recommending and overseeing credit risk appetite limits.
- Developing and overseeing credit risk policies and standards.
- Overseeing credit risk strategies in accordance with policies and risk appetite.
- Developing and monitoring credit risk models.
- Providing an independent review and approval of individual commercial credit proposals and renewals of loan facilities.
- Developing and overseeing retail arrears management strategies.
- Managing commercial and business support strategy and activities.
- Ensuring appropriate IFRS 9 credit provisions are held.
- Monitoring and reporting credit risk performance.

Mitigation

We mitigate risk through regular monitoring and analysis of our customers and their ability to maintain contractual obligations, as well as the external factors that can impact customer credit risk. We have established credit risk policies and lending criteria, and assess customer affordability under different scenarios where appropriate. We employ specialist expert underwriters in our assessments of our commercial customers, and categorise customer risk as part of our Closer Monitoring and Early Warning List as described above. This allows for the early identification of customers who may be experiencing financial difficulties, which have not yet fully materialised. Monthly analysis and reporting provide insight into portfolio credit performance and highlight where deterioration is taking place or is likely to occur.

In addition to active management and monitoring of our portfolios and customer affordability, we mitigate credit risk through holding collateral against our retail mortgage and commercial term loan portfolios. Collateral is usually held in the form of real estate, guarantees, debentures and other liens that we can call upon in the event of the borrower defaulting. The management of this is governed by our collateral management policy. At 31 December 2022, 79% (31 December 2021: 79%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average DTV of 56% (31 December 2021: 55%) and 55% (31 December 2021: 57%) respectively.

Our exposure to retail mortgages of greater than 100% DTV remains low at less than 1% of lending (31 December 2021: less than 1%). These loans have principally been part of portfolios we have acquired. For commercial term loans, 21% of our lending has either a DTV of greater than 100% or does not have any real estate collateral (31 December 2021: 19%). For these loans additional forms of collateral (such as debentures or unsupported guarantees giving recourse to our customers) are usually present, however are excluded when calculating the DTV figures. In addition, Government guarantees are also excluded from these DTV figures, so the true credit risk exposure on these loans is lower. Commercial lending is underwritten on the strength of all types of collateral. For our retail mortgage portfolio, our policy is to accept standard applications with an LTV of up to 95%. In addition, further limits covering both LTV and value are in place and are specific to product type and loan amount.

Subject matter experts further mitigate the risk of credit losses through regular review and assessment of cases at an individual level. Specialist teams provide customers with support where financial difficulties are identified, and the use of automated and manual credit assessments help to ensure good customer outcomes and to maximise the likelihood that customers maintain the ability to meet their contractual obligations.

Risk report Continued

Supporting our customers

We work with our customers who are in arrears, have payment shortfalls or are in financial difficulties to obtain the most appropriate outcome for both ourselves and the customer. The primary objectives of our policy are to ensure that appropriate mechanisms and tools are in place to support customers during periods of financial difficulty, and to minimise the duration of the difficulty and the consequence, costs and other impacts arising.

We will always seek to understand the customer's individual circumstances and ensure a considered, measured, and consistent approach is taken which is, to the best of our knowledge, appropriate for their individual circumstances. Where a customer's financial difficulty is due to them being impacted by a vulnerable situation, we will seek to provide tailored and flexible solutions and services appropriate to the circumstances of the vulnerability. As part of this process, we have a range of treatments that may be considered to support the customer through the period of financial difficulty, alongside working with them to understand and agree how to return their account to good standing where possible. This includes the forbearance options outlined below.

Commercial customers who are showing signs of potential financial difficulty are supported through our relationship teams, and where appropriate, our business and credit support team. Each situation is individually assessed, and our preference is to provide flexibility where possible to help a customer avoid financial difficulty and to resume normal contractual obligations. Forbearance may be offered where this is sustainable and appropriate to the nature of the customer's financial distress.

Forbearance

When our customers show signs of financial difficulties, we may seek to continue our support through the provision of a concession such as a modification of the terms and conditions of the loan, or a total or partial refinancing of an existing loan. Concessions can often result in more favourable terms than those offered or available under normal circumstances. Such events are considered to be acts of forbearance and are dealt with and monitored in accordance with our forbearance policies and regulatory guidelines.

Government initiatives and temporary support measures to assist customers with the challenges posed by COVID-19 were not considered to be forbearance in line with regulatory guidelines.

Measurement

We use a wide range of measures to assess, control and monitor credit risk including a suite of reports covering performance against risk appetite limits and key credit risk metrics such as new business flow, portfolio quality, early warning indicators, arrears and recovery performance, sector and geographical concentration, and exceptions to lending policy. Reports are provided periodically to ERC, ROC and the Board. Where required, further insight on credit risk performance is obtained through portfolio reviews and deep dives on material portfolios and key credit risk themes.

In addition, we measure credit risk through the application of models that use internal and external data to calculate ECL. These calculations are based on the application of IFRS 9 models and staging to determine the relevant term of the calculation and incorporate assessments of the PD, LGD, and exposure at default (EAD). There are individual assessments of defaulted commercial exposures and where relevant management judgement via PMOs and PMAs. The impairment assessment for year-end 2022 has been undertaken in line with our Impairment Policy. Model changes have taken place as a result of Annual Model Review cycle and these have been implemented into production.

All models are subject to independent validation and are approved through Model Governance Committee and Model Oversight Committee. PMAs have also been reviewed and approved at Model Governance and Model Oversight Committees. The overall ECL position and methodology is reviewed and approved by the Impairment Committee which is a sub-committee of ERC. Individual impairments for defaulted commercial customers are approved by the Individual Impairment Committee, a sub-committee of the Impairment Committee.

In order to assess the reasonableness of the impairment calculations, these undergo rigorous internal challenge to ensure we are adequately provided for.

Risk report Continued

IFRS 9 staging and ECL recognition
IFRS 9 requires accounts to be allocated into one of three stages. Stage 3 reflects accounts in default. Stage 2 are the accounts which have shown a significant increase in credit risk since origination (SICR). All other lending falls into Stage 1. IFRS 9 requires a higher level of ECL to be recognised for underperforming loans. For loans in Stage 2 and Stage 3 a lifetime ECL is recognised compared to a 12-month ECL for performing loans (Stage 1).

Judgement is required to determine when SICR has occurred. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the PD over the remaining life of the financial instrument.

The assessment for a retail financial instrument explicitly or implicitly compares the PD occurring at the reporting date to that at initial recognition, considering reasonable and supportable information, including information about past events, current conditions, and future economic conditions. The assessment for a commercial financial instrument is based on quantitative and qualitative assessment, including current and forecast financial performance, future economic conditions and our internal credit risk rating grade.

IFRS 9 requires a higher level of ECL to be recognised for underperforming loans. This is considered based on a staging approach:

Stage	Description	ECL recognised
Stage 1	Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk (high-quality investment securities only) at the reporting date.	**12-month ECL** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment. For Commercial counterparties, Early Warning List is used to inform qualitative triggers for SICR. The IFRS 9 standard also provides a rebuttable presumption which states that financial instruments falling 30 days past due on contractually defined payments are to be considered as having deteriorated significantly since origination.	**Lifetime ECL** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is **credit impaired** when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due or where the borrower is considered unlikely to pay, this includes customers who are categorised as Early Warning List 3.	**Lifetime ECL** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired (POCI) assets	Financial assets that have been purchased and had **objective evidence of being non-performing or credit impaired** at the point of purchase.	**Lifetime ECL** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime ECL is incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime ECL is recognised as part of the ECL expense.

Risk report Continued

In light of the classifications set out on page 71, our stage allocation criteria must include:

- A relative measure of creditworthiness deterioration since origination.
- An absolute measure of creditworthiness deterioration since origination.

There are two main criteria driving the SICR assessment identified as follows:

- **Quantitative criteria** – where the numerically calculated PD on a retail financial instrument has increased significantly since initial recognition. This is determined when the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, different thresholds are used by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The assessment for a commercial financial instrument uses the internal credit risk rating grade. The commercial approach recognises that historic credit rating grades are not available.
- **Qualitative criteria** – Early Warning List is used to inform allocation to Stage 2, regardless of the results of the quantitative analysis.
- **Backstop criteria** – instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative and qualitative analysis.

There are additional SICR rules utilised across portfolios. These rules, as well as more granular detail of both quantitative and qualitative criteria, are captured within the IFRS 9 model methodology and are approved as part of the annual model review process at Model Governance and Model Oversight Committees.

Non-performing loans

A loan will be considered to be non-performing or credit impaired when it meets our definition of default. A loan will be classed as in default when the loan is greater than 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including evidence of financial distress leading to forbearance. the customer having been declared bankrupt, or the loan being in repossession. This definition of default is aligned with internal credit risk management, accounting, and regulatory definitions.

A loan is also considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to either:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with.
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

In some cases it may not be possible to identify a single discrete event which defines an asset as non-performing or credit impaired. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Where an asset which has been classified as Stage 3 is showing improving trends and is no longer considered non-performing or credit impaired, a probation period of 12 months is implemented before transferring a financial instrument from Stage 3 to Stage 2, with a backstop to ensure that the instrument should meet the Stage 2 criteria for twelve consecutive months.

Credit exposure summary

Our primary source of credit risk is through the loans, limits and advances we make available to our customers. To ensure effective management and monitoring, our loans and exposures are categorised in to three portfolios based upon shared risk characteristics: retail mortgages, consumer lending, and commercial.

The following provides an overview of the performance of these portfolios during 2022.

Table 1: Total expected credit losses by portfolio (audited)

	31 December 2022			31 December 2021		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Consumer lending	1,480	(75)	1,405	890	(42)	848
Retail mortgages	7,649	(20)	7,629	6,723	(19)	6,704
Commercial lending	4,160	(92)	4,068	4,846	(108)	4,738
Total loans and advances to customers	13,289	(187)	13,102	12,459	(169)	12,290

Risk report Continued

Table 2: Total portfolio credit performance

	31 December 2022	31 December 2021
Coverage ratio	1.41%	1.36%
% loans in Stage 2	16%	15%
% loans in Stage 3	3%	4%
90+ days past due	1%	2%

Our retail mortgages and consumer lending portfolios grew significantly in 2022. The consumer lending growth followed the successful roll out of consumer lending using the RateSetter loans platform and purchase of the RateSetter portfolio. Our commercial balances have decreased from £4.8 billion to £4.2 billion in 2022 reflecting the continued reduction in our professional buy-to-let and commercial real estate lending portfolio, in line with our business strategy.

New business risk profile
Changes made to retail mortgage credit policy and criteria implemented in 2021 and 2022 have supported growth in the retail mortgage portfolio whilst managing our risk profile. During 2021 we expanded our retail mortgage lending policy to allow lending up to a LTV of 95% (previously maximum 90%) and we launched our near prime product that is subject to a maximum LTV of 80%. In December 2021 we expanded buy-to-let lending to 80% LTV, and in April 2022 we expanded our loan-to-income (LTI) thresholds to allow higher LTI ratios to customers with higher incomes. LTV thresholds have subsequently and temporarily been reduced to 75% for buy-to-let and 85% for owner occupied in order to manage lending volumes and build protection against economic risks.

Where credit policy and criteria have been expanded, additional controls have been implemented to support the changes and ensure the credit risk profile remains within appetite. Despite the expansion in maximum LTV allowed under policy, the proportion of new business with an LTV greater than 80% reduced in 2022 to 18%, from 41% in 2021, and the average LTV of originations is 69% (2021: 73%). Application credit scores remain in line with 2021 for both owner occupied and buy-to-let. Volumes of near prime lending remain low (£33 million total lending making up 0.43% of total portfolio).

The performance of the consumer portfolio has aligned with expectations, with new origination credit quality improving through 2022. The average net monthly income of customers increased by around 18% year on year supported by continual optimisation of our decisioning strategies. Improvements in credit score profile have additionally been observed.

Commercial balances have reduced over 2022, reflecting the continued reduction in professional buy-to-let and commercial real estate, in line with strategy, as well as the repayment of BBLS lending.

Non-performing loans
The below table provides information on NPLs by portfolio.

Table 3: Non-performing loans

	31 December 2022		31 December 2021	
Group	NPLs £'million	NPL ratio	NPLs £'million	NPL ratio
Retail mortgages	111	1.45%	114	1.70%
Consumer	50	3.38%	21	2.36%
Commercial	191	4.59%	327	6.75%
Total	352	2.65%	462	3.71%

NPLs reduced to £352 million (31 December 2021: £462 million). This decrease was primarily driven by successful BBLS claims and repayments as well as the write-off of a small number of large commercial single name exposures. NPLs for mortgages have also reduced due to accounts repaying or curing out of NPL. The NPL ratio for consumer customers has increased to 3.38% (31 December 2021: 2.36%) driven by the maturation of the current RateSetter portfolio together with the run off of the legacy portfolio.

Expected credit loss
ECL has increased during the year by £18 million (31 December 2022: £187 million, 31 December 2021: £169 million) predominately driven by new originations in the consumer lending portfolio and the deterioration in the macroeconomic outlook. The increase has been partly offset by three main drivers; the repayment and write-off of a small number of large commercial single name cases, portfolio reductions primarily driven by the run-off of the legacy consumer and commercial professional buy-to-let portfolios, and the reduction in management overlays.

A cautious level of overlays continues to be retained given the continued economic uncertainty, more details of which can be found on pages 217 to 218.

Risk report Continued

Credit risk exposure by internal PD rating

The below table summarises balances by PD bandings and IFRS 9 stage for the Group, excluding BBLS as these are 100% guaranteed by the Government. All PDs include forward looking information and are based on 12-month values for Stage 1 and Lifetime values for Stage 2 and 3.

Table 4: Credit risk exposure, by IFRS 9 12-month PD rating and stage allocation (audited)

	31 December 2022											
		Gross carrying amount £'million					Loss allowance £'million					
Group	PD range	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Coverage ratio
Band 1	0.00-2.99	8,042	549	–	–	8,591	32	5	–	–	37	0.43%
Band 2	3.00-16.99	2,209	1,313	–	–	3,522	33	29	–	–	62	1.76%
Band 3	17.00-99.99	598	226	–	–	824	1	17	–	–	18	2.18%
Band 4	100	–	–	352	–	352	–	–	70	–	70	19.89%
Total		10,849	2,088	352	–	13,289	66	51	70	–	187	1.41%

	31 December 2021											
		Gross carrying amount £'million					Loss allowance £'million					
Group	PD range	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Coverage ratio
Band 1	0.00-2.99	8,371	813	–	–	9,184	32	15	–	–	47	0.51%
Band 2	3.00-16.99	762	852	–	–	1,614	13	19	–	–	32	1.98%
Band 3	17.00-99.99	938	260	–	–	1,198	2	15	–	–	17	1.42%
Band 4	100	–	–	462	1	463	–	–	73	–	73	15.77%
Total		10,071	1,925	462	1	12,459	47	49	73	–	169	1.36%

There has been minimal deterioration in the overall risk profile of our customers. The migration observed across bandings, in particular Band 2, is primarily driven by the deterioration in macroeconomic scenarios feeding through the IFRS 9 models resulting in customers moving to higher PD bands.

Risk report Continued

Cost of risk

The below table provides information on the cost of risk. Cost of risk is the credit impairment charge expressed as a percentage of average gross lending.

Table 5: Cost of risk

Group	2022	2021
Retail mortgages	0.02%	(0.11%)
Consumer	2.26%	3.68%
Commercial	0.11%	0.16%
Average cost of risk	0.32%	0.18%

The higher cost of risk in 2022 compared to the prior year is as a result of the higher impairment charges required in response to the deterioration in the macroeconomic outlook. The decrease in consumer lending cost of risk to 2.26% (2021: 3.68%) is the result of new originations in consumer finance and the reduction in the legacy consumer portfolio. The decrease in cost of risk for commercial is due to the successful BBLS claims and repayments of a small number of large commercial single name cases over the period.

Stage 2 balances

Stage 2 balances are identified using quantitative and qualitative tests that determine the SICR criteria. In addition, customers that trigger the 30 days back stop classification are also reported in Stage 2, in line with IFRS 9 standards. 97% of Stage 2 is driven by a SICR threshold being triggered compared to 3% being in arrears for the total portfolio.

Table 6: Stage 2 balances

	31 December 2022 £'million		31 December 2021 £'million	
	Gross Carrying Amount	Loss Allowance	Gross Carrying Amount	Loss Allowance
Quantitative	1,845	38	1,473	32
Qualitative	189	7	366	11
30 days past due backstop	54	6	86	6
Total Stage 2	2,088	51	1,925	49

Where an account satisfies more than one of the stage 2 criteria above, the gross carrying amount and loss allowance has been assigned in the order presented. For example, an account that triggers both Quantitative and Qualitative SICR criteria will only be reported as Quantitative SICR.

Stage 2 balances have increased in 2022, with the quantitative SICR criteria continuing to be the primary driver due to deterioration in macroeconomic outlook resulting in more customers triggering SICR into Stage 2. This is offset by, marginal reductions in the qualitative and 30 days past due backstop criteria. As at year end 2022, 88% (31 December 2021: 77%) of Stage 2 balances triggered quantitative SICR criteria, 9% (31 December 2021: 19%) triggered qualitative SICR and the remaining 3% (31 December 2021: 4%) triggered the 30 days past due backstop criteria.

The reduction in qualitative SICR stage 2 balances in 2022 is driven by reductions in balances in our Early Warning List in commercial. Total lending in Early Warning categories has reduced over 2022 after the material increases driven by COVID-19.

Risk report Continued

Portfolio level analysis – Retail mortgages

Table 7 summarises key credit performance metrics for the retail mortgages portfolio.

Table 7: Retail mortgage credit performance

Group	31 December 2022 £'million	31 December 2021 £'million
Loans and advances	7,649	6,723
Loss allowance	20	19
Coverage ratio	0.26%	0.28%
% loans in Stage 2	18%	16%
% loans in Stage 3	1%	2%
90+ days past due	1%	1%

Portfolio and credit risk profile

Total retail mortgage balances increased in 2022 to £7,649 million (2021: £6,723 million) with the associated impairment charge increasing by £1 million to £20 million in the year to 31 December 2022. This increase was driven by deterioration in the macroeconomic outlook feeding into the IFRS 9 models as well as new business volumes. The total coverage ratio for mortgages is 0.26% (31 December 2021: 0.28%). This reduction reflects the volume of new lending which has increased Stage 1 assets, and the lower LTV of this new lending compared to 2021.

Arrears remained low and stable with little deterioration seen across the year. The repossessions moratorium, whilst now ceased, has meant that we still see a small number of cases demonstrating arrears for longer than they would under normal circumstances. Early indicators of portfolio performance, such as behavioural scores, also show stable trends with no current sign of emerging risk.

Impairment

There has been an increase in coverage ratio for Stage 1 (Stage 1: 0.04% in 2021 to 0.10% in 2022) driven by new business lending and deterioration in macroeconomic scenarios. There has been a decrease in coverage ratio in Stage 2 (1.13% in 2021 to 0.82% in 2022) driven by a deterioration in macroeconomic outlook resulting in a higher proportion of better quality customers triggering SICR into Stage 2 and improvements made in the measurement of SICR in the IFRS 9 lifetime PD model, introduced as an overlay in 2022, resulting in an overall reduction in modelled ECL. There has been a decrease in Stage 3 coverage ratio (Stage 3: 4.39% in 2021 to 2.70% in 2022) due to customers repaying and curing out of NPL.

Payment performance

Despite the challenging economic environment, arrears have remained low and stable. We have observed little deterioration in arrears measures across the year, including early arrears or within our more vulnerable segments. The proportion of the portfolio demonstrating arrears has decreased from 1.95% to 1.74% of the total retail mortgage portfolio, and the proportion of the portfolio with three or more missed payments has decreased from 0.76% to 0.73%. Forbearance levels also remain low and stable with 0.02% of our non-arrears portfolio subject to forbearance measures, there has been no increase in forbearance during the year.

Interest-only lending

We have exposure to interest only lending. Customers who are subject to a bullet or balloon payment at contractual maturity may find themselves unable to refinance or otherwise make this payment. At 31 December 2022, this risk arises principally in the mortgage book where the exposure to interest-only loans stands at £4.1 billion (31 December 2021: £3.7 billion).

All borrowers of interest-only lending are assessed as being able to refinance the lending at the end of the term or have an appropriate repayment plan in place. These loans are also appropriately collateralised, ensuring we have a first charge in the event of default by the borrower.

The table below shows the amounts of the retail mortgage that are subject to either interest only, or capital and interest payments.

Table 8: Retail mortgage lending by repayment type (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Interest only	2,005	2,047	4,052	2,113	1,620	3,733
Capital and repayment	3,502	95	3,597	2,909	81	2,990
Total retail mortgage lending	5,507	2,142	7,649	5,022	1,701	6,723

Risk report Continued

Geographic exposure

The geographic balance distributions of our retail mortgages customers is set out below. All of our loan exposures which are secured on property are secured on UK-based assets. Our current retail mortgages portfolio is concentrated within London and the South East, which is representative of our customer base and store footprint. We are expanding our footprint over time which reduces geographical concentration of lending.

The below table reflects the geographic distribution of the retail mortgages portfolio.

Table 9: Retail mortgage lending by geographic exposure (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Greater London	1,937	1,201	3,138	2,130	1,048	3,178
South east	1,435	408	1,843	1,157	283	1,440
South west	476	99	575	434	82	516
East of England	531	163	694	309	69	378
North west	263	68	331	264	62	326
West Midlands	226	76	302	190	61	251
Yorkshire and the Humber	184	34	218	139	34	173
East Midlands	168	54	222	140	25	165
Wales	109	18	127	110	20	130
North east	63	10	73	62	10	72
Scotland	115	11	126	87	7	94
Total retail mortgage lending	5,507	2,142	7,649	5,022	1,701	6,723

Collateral

Table 10 shows the distribution of the retail mortgage portfolio by DTV.

Table 10: Retail mortgage lending by DTV (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Retail owner occupied	Retail buy-to-let	Total retail mortgages	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Less than 50%	2,007	568	2,575	1,907	524	2,431
51–60%	961	463	1,424	767	415	1,182
61–70%	1,088	660	1,748	1,092	564	1,656
71–80%	990	434	1,424	805	188	993
81–90%	374	13	387	400	3	403
91–100%	87	–	87	51	3	54
More than 100%	–	4	4	–	4	4
Total retail mortgage lending	5,507	2,142	7,649	5,022	1,701	6,723

High volumes of new lending alongside increasing house prices during the first half of the year, has meant that the overall DTV of our portfolio has remained similar to that at 31 December 2021 (31 December 2022: 56%, 31 December 2021: 55%) with 94% of our portfolio having a DTV of 80% or less.

Portfolio growth and credit quality

Portfolio growth in 2022 has been achieved though high-quality lending. Mortgage applicant quality as measured through credit scorecards has improved over the course of 2022, and the proportion of new business with an LTV over 80% has reduced from 41% in 2021 to 18% in 2022. Buy-to-let lending has increased to support growth. The buy-to-let portfolio consists of simple retail loans on prime residential housing stock, there is no cross-collateralisation and there are no houses in multiple occupation. Landlord portfolios are a small proportion of lending.

We expect that our owner-occupied customers have a degree of protection against increasing interest rates; all of our organically originated owner-occupied portfolio (93% of portfolio) was underwritten at a stressed interest rate allowing for at least a 2% increase, and in the majority of cases (86%) customers did not borrow the maximum lending amount that was available creating an additional buffer against interest rate and inflationary rises. Rental coverage for buy-to-let lending is strong, providing capacity to absorb increases in mortgage payment. All organic buy-to-let mortgages have been underwritten at a 140% rental cover and a stressed interest rate.

Risk report Continued

Portfolio level analysis – Consumer

Table 11 summarises key credit performance metrics for the consumer lending portfolio.

Table 11: Consumer credit performance

Group	31 December 2022 £'million	31 December 2021 £'million
Loans and advances	1,480	890
Loss allowance	75	42
Coverage ratio	5.07%	4.72%
% loans in Stage 2	17%	9%
% loans in Stage 3	3%	2%
90+ days past due	3%	2%

Portfolio and credit risk profile

Consumer lending balances have increased to £1.5 billion in 2022 (2021: £890 million) due to the growth in lending through the RateSetter personal loans platform. RateSetter loans account for 94% of total consumer lending balances at December 2022. The performance of this portfolio has aligned with expectations with credit quality improving through 2022. New business average net monthly income has increased by around 18% year on year as a result of continual optimisation of our decisioning. Additionally, improvements have been observed in our credit risk score profile. We anticipate balances in consumer lending through 2023 to reach a steady state with new lending supported by the new Secured Motor lending product. Additionally, through 2022 we have seen increased demand for revolving products generated through customer conversations in store.

To ensure we continue to lend responsibly in light of the macroeconomic environment we have reviewed and enhanced our affordability assessment at the acquisition stage throughout 2022 and boosted our reporting capabilities. As a result, we have observed no signs of stress in the portfolio in light of the economic environment as we continue to monitor arrears balances closely. The increases seen in Stage 2 balances are primarily being driven as a result of maturation of the unsecured loans portfolio.

Impairment

ECL allowance has increased to £75 million in the year to 31 December 2022 (31 December 2021: £42 million) primarily driven by portfolio growth and maturation. The majority of this increase relates to the new originations through RateSetter, offset by release due to the legacy portfolio reducing.

Portfolio level analysis – Commercial

Table 12 summarises key credit performance metrics for the commercial portfolio.

Table 12: Commercial credit performance

	31 December 2022 £'million	31 December 2021 £'million
Loans and advances	4,160	4,846
Loss allowance	92	108
Coverage ratio	2.21%	2.23%
% loans in Stage 2	12%	16%
% loans in Stage 3	5%	7%
90+ days past due	2%	4%

Portfolio and credit risk profile

Our commercial lending remains largely comprised of term loans secured against property and Government supported lending. In addition, commercial lending includes facilities secured by other forms of collateral (such as debentures and guarantees), and asset finance and invoice finance. Our commercial balances have decreased from £4.8 billion to £4.2 billion in 2022 reflecting the continued reduction in our professional buy-to-let and commercial real estate lending in line with business strategy, alongside the repayment of BBLS lending. The professional buy-to-let product is no longer available and balances are expected to continue to reduce over 2023. Real estate lending in commercial remains a core part of our business, albeit our business strategy is currently to reduce total lending in this sector as we manage sector concentration. This concentration has reduced in 2022. Lending under the Government's Recovery Loan Scheme (RLS) has increased to £385 million at 31 December 2022 (31 December 2021: £157 million).

Asset quality has improved with 84% of total commercial lending in Stage 1 (2021: 77%). We continue to see low levels of 90+ days past due, and defaults remain limited with 5% in Stage 3 (31 December 2021: 7%).

Commercial customers are managed through an early warning categorisation where there are early signs of financial difficulty, thereby allowing timely engagement and appropriate corrective action to be taken. Total lending in Early Warning categories has reduced over 2022 after the material increases driven by COVID-19. Although we continue to see reducing balances in our Early Warning categories, there is a risk of increasing financial difficulty, arrears and default as a consequence of the current challenging economic environment. An impairment overlay is held to cover this risk.

Risk report Continued

Impairment

The ECL allowance has reduced to £92 million in 2022 (31 December 2021: £108 million) with coverage remaining stable at 2.21% (31 December 2021: 2.23%). The proportion of commercial lending in Stage 2 has reduced from 16% in 2021 to 12% in 2022 as a percentage of total balances. This reflects repayment and reduction of cases with higher coverage, including conclusion of some larger single name cases offset by forecast deterioration in macroeconomic outlook.

Our commercial book consists predominately of SME lending which is reflected in the coverage. Commercial customers may be impacted by increasing inflation, increasing energy costs, increasing interest rates and the impact of inflationary increases on discretionary spending. We continue to hold ECL to reflect the higher risk of default.

Interest-only lending

Interest only lending in our commercial lending is concentrated towards professional buy-to-let lending where interest only lending makes up 95% of lending (31 December 2021: 94%).

Table 13: Commercial term lending – excluding BBLS by repayment type (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Professional buy-to-let	Other term loans	Total commercial term loans	Professional buy-to-let	Other term loans	Total commercial term loans
Interest only	691	253	944	897	230	1,127
Capital and repayment	40	1,837	1,877	53	1,883	1,936
Total commercial term loans	731	2,090	2,821	950	2,113	3,063

Geographic exposure

The below table summarises the geographic distribution of the commercial term loans portfolio. 73% of commercial term loans are to companies in London and the South east (31 December 2021: 79%), which reflects our the historical concentration of our store network.

The following table reflects the geographic distribution of the commercial term loans portfolio excluding BBLS.

Table 14: Commercial term lending – excluding BBLS by geographic exposure (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Professional buy-to-let	Other term loans	Total commercial term loans	Professional buy-to-let	Other term loans	Total commercial term loans
Greater London	472	1,052	1,524	676	1,186	1,862
South east	149	377	526	160	390	550
South west	22	143	165	28	151	179
East of England	45	147	192	39	71	110
North west	13	153	166	18	150	168
West Midlands	8	112	120	9	84	93
Yorkshire and the Humber	3	23	26	3	17	20
East Midlands	12	43	55	9	27	36
Wales	3	11	14	4	12	16
North east	3	19	22	3	17	20
Scotland	–	7	7	–	6	6
Northern Ireland	1	3	4	1	2	3
Total commercial term loans	731	2,090	2,821	950	2,113	3,063

Risk report Continued

Sector exposure

We manage credit risk concentration to individual borrowing entities and sector. Our credit risk appetite includes limits for individual sectors where we have higher levels of exposure.

The sector profile for commercial term lending is broadly consistent with the position as at 31 December 2021. There has been an overall reduction in commercial real estate and professional buy-to-let.

The following table shows distribution of the commercial portfolio across business sectors.

Table 15: Commercial term lending – excluding BBLS by sector exposure (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Professional buy-to-let	Other term loans	Total commercial term loans	Professional buy-to-let	Other term loans	Total commercial term loans
Real estate (rent, buy and sell)	731	681	1,412	950	837	1,787
Hospitality	–	372	372	–	361	361
Health and social work	–	334	334	–	225	225
Legal, accountancy and consultancy	–	196	196	–	206	206
Retail	–	161	161	–	136	136
Real estate (develop)	–	6	6	–	46	46
Recreation, cultural and sport	–	87	87	–	88	88
Construction	–	62	62	–	85	85
Education	–	17	17	–	17	17
Real estate (management of)	–	9	9	–	9	9
Investment and unit trusts	–	11	11	–	6	6
Other	–	154	154	–	97	97
Total commercial term lending	731	2,090	2,821	950	2,113	3,063

Collateral

The following table shows distribution of the commercial portfolio DTV.

Table 16: Commercial term lending – excluding BBLS by DTV (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Professional buy-to-let	Other term loans	Total commercial term loans	Professional buy-to-let	Other term loans	Total commercial term loans
Less than 50%	278	817	1,095	306	770	1,076
51–60%	158	433	591	232	483	715
61–70%	219	112	331	282	158	440
71–80%	62	76	138	112	63	175
81–90%	3	53	56	8	30	38
91–100%	5	12	17	6	27	33
More than 100%	6	587	593	4	582	586
Total commercial term loans	731	2,090	2,821	950	2,113	3,063

Our commercial lending remains largely comprised of term loans secured against property. DTV covers property and cash backed lending in commercial. At December 2022, 76% of term lending had DTV less than 80% reflecting the prudent risk appetite historically applied. Lending with DTV >100% includes loans which benefit from additional forms of collateral, such as debentures. The value of this additional collateral is not included in the DTV. DTV >100% also includes Government backed lending where the facility does not also benefit from property collateral. The increase in DTV>100% in 2022 reflects the increase in RLS lending.

For commercial there have not been any changes to the collateral management or lending policies that significantly impact the quality of our collateral in 2022.

Risk report Continued

Supporting our commercial customers

The external environment has been challenging for commercial customers over the past few years, and current inflationary pressures, interest rate increases, supply chain challenges and staffing issues add to the existing pressure businesses face.

Our commercial book is predominately managed on a relationship basis with at least annual credit reviews by the relationship manager, and credit risk oversight through second line credit risk. Credit risk assessment focuses on affordability. Commercial customers who are showing signs of potential financial difficulty are supported through our relationship teams, and where appropriate, our business and credit support team. Each situation is individually assessed, and our preference is to provide flexibility where possible to help a customer avoid financial difficulty and resume normal contractual obligations. Forbearance may be offered where this is sustainable and appropriate to the nature of the customer's financial distress.

Government-backed lending

The table below summarises government-backed lending.

Table 17: Government-backed lending

	31 December 2022			31 December 2021		
Group	Drawn balance £'million	Number of loans	Average loan amount £'000	Drawn balance £'million	Number of loans	Average loan amount £'000
Bounce Back Loan Scheme	801	26,824	30	1,304	36,116	36
Coronavirus Business Interruption Loan Scheme	127	279	455	165	319	517
Coronavirus Large Business Interruption Loan Scheme	26	4	6,580	37	4	9,364
Recovery Loan Scheme[1]	385	1,349	285	157	675	233
Total government-backed lending	1,339	28,456	47	1,663	37,114	44

1. Recovery loan scheme includes £97 million acquired from third parties under forward flow arrangements (31 December 2021: £66 million). The loans are held in a trust arrangement in which we hold 99% of the beneficial interest, with the issuer retaining the remaining 1% (the trust retains the legal title loans).

Undrawn commitments

At 31 December 2022, we had undrawn loan facilities of £1,120 million (31 December 2021: £1,245 million). The reduction from 2021 to 2022 reflects the reduction in pipeline RLS lending as at 31 December 2022. In addition we have commitments of £250 million (31 December 2021: £302 million) in respect of credit card and overdraft facilities.

These commitments represent agreements to lend in the future, subject to certain conditions. We mitigate credit risk in respect of these undrawn balances by regular customer monitoring to allow undrawn limits to be removed if we observe credit quality deterioration. We also have exposure to invoice finance assets where the amount drawn is capped both by the discounted value of available invoices and a set relationship cap. Similarly, we have a small exposure to commercial real estate development finance, where a limit to draw down is agreed in principle and funds are released in stages, throughout the development and following satisfactory surveyor reports. In commercial lending, undrawn commitments are regularly reviewed to ensure relationship limits remain appropriate.

Investment securities

As well as our loans and advances, the other main area where we are exposed to credit risk is within our Treasury portfolio. At 31 December 2022 we held £5.9 billion (31 December 2021: £5.6 billion) of investment securities, which are used for balance sheet and liquidity management purposes.

We hold investment securities at amortised cost or fair value through other comprehensive income (FVOCI) depending on our intentions regarding each asset. We do not hold investment securities at fair value through profit and loss.

Table 18: Investment securities by credit rating (audited)

	31 December 2022 £'million			31 December 2021 £'million		
Group	Investment securities held at amortised cost	Investment securities held at FVOCI	Total	Investment securities held at amortised cost	Investment securities held at FVOCI	Total
AAA	3,649	356	4,005	3,675	376	4,051
AA- to AA+	1,694	215	1,909	1,101	422	1,523
Total	5,343	571	5,914	4,776	798	5,574

We have a robust securities investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2021, 68% of our investment securities were rated as AAA (31 December 2021: 73%) with the remainder rated AA- or higher, the majority of which comprises of UK gilts.

Additionally, we hold £2.0 billion (31 December 2021: £3.6 billion) in cash balances, which is either held by ourselves or at the Bank of England.

Risk report Continued

IFRS 9 macroeconomic scenarios and use of expert judgement

Macroeconomic scenarios and probability weightings

The ECL recognised in the financial statements reflects the effect on ECL of a range of possible outcomes, calculated on a probability-weighted basis. This is based on a number of economic scenarios, and includes management overlays where required. These scenarios are representative of our view of forecasted economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e., where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In line with our approved IFRS 9 models, macroeconomic scenarios provided by Moody's Analytics are used in the assessment of provisions. The use of an independent supplier for the provision of scenarios helps to ensure that the estimates are unbiased. Since the inception of COVID-19, the macroeconomic scenarios are assessed and reviewed monthly to ensure appropriateness and relevance to the ECL calculation.

During Q4 2022, management performed an annual review of the appropriateness of the macroeconomic scenarios and associated probability weights feeding into the IFRS 9 models. As a result, the current macroeconomic scenarios (i.e. Baseline, Upside, Downside and Severe Downside) have been maintained, however changes have been made to the associated probability weights as shown in table 19. The scenario probability weighting for the Baseline scenario has been increased and reducing the probability weightings for the downside scenarios. This reflects our view that the Baseline scenario now reflects the forecasted UK economic recession and a reduction in the degree of uncertainty of the future economic path.

The selection of scenarios and the appropriate weighting to apply are considered and discussed internally and proposed recommendations for use in the IFRS 9 models are made to the monthly Impairment Committee (designated ERC for impairments) for formal approval.

Our credit risk models are subject to internal model governance including independent validation. We undertake annual model reviews and have regular model performance monitoring in place. The impairment provisions recognised during the year reflect our best estimate of the level of provisions required for future credit losses as calibrated under our weighted economic assumptions and following the application of expert credit risk judgement overlays.

Scenarios and probability weights used as at 31 December 2022 are as follows:

Table 19: Macroeconomic Scenario Weightings

	31 December 2022	31 December 2021
Baseline	50%	40%
Upside	20%	20%
Downside	25%	30%
Severe Downside	5%	10%

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

- Baseline scenario (50% weight): Reflects the projection of the median, or '50%' scenario, meaning that in the assessment there is an equal probability that the economy might perform better or worse than the baseline forecast.
- Upside scenario (20% weight): This above-baseline scenario is designed so there is a 10% probability the economy will perform better than in this scenario, broadly speaking, and a 90% probability it will perform worse.
- Downside scenario (25% weight): In this recession scenario, in which a deep downturn develops, there is a 90% probability the economy will perform better, broadly speaking, and a 10% probability it will perform worse.
- Severe Downside scenario (5% weight): In this recession scenario, in which a deep downturn develops, there is a 96% probability the economy will perform better, broadly speaking, and a 4% probability it will perform worse.

Macroeconomic scenarios impact the ECL calculation through varying the PD and LGD models. We note that the scenarios applied comprise our best estimate of economic impacts on the ECL.

Risk report Continued

Macroeconomic variables
A wide range of potential economic variables have been considered in our ECL models, representing drivers of credit losses on our lending portfolios. Statistical methods are used to choose the subset of drivers which have the greatest significance and predictive fit to our data. This includes variables which impact gross domestic product (GDP), unemployment, interest rates, inflation, share prices, borrower income and the UK housing market.

The period-end assumptions used for the ECL estimate as at 31 December 2022 are as follows:

Table 20: Macroeconomic variable assumptions

		31 December 2022			
		2023	2024	2025	2026
Interest rates (%) – five-year mortgage rate	Baseline	5.5%	4.4%	4.0%	4.0%
	Upside	5.3%	4.3%	4.0%	4.0%
	Downside	5.5%	4.4%	3.6%	3.1%
	Severe downside	5.8%	4.0%	3.4%	3.0%
UK unemployment (%)	Baseline	4.3%	4.5%	4.5%	4.6%
	Upside	3.9%	3.6%	3.7%	4.0%
	Downside	6.2%	7.2%	7.2%	6.8%
	Severe downside	7.4%	8.3%	8.2%	7.9%
UK house price index (HPI) – % change year-on-year	Baseline	(4.4%)	2.3%	4.8%	2.9%
	Upside	9.0%	5.4%	2.1%	(1.2%)
	Downside	(14.9%)	(7.0%)	4.0%	5.7%
	Severe downside	(20.7%)	(10.9%)	4.4%	4.3%
UK GDP – % change	Baseline	(0.8%)	1.2%	1.4%	1.2%
	Upside	1.9%	1.2%	1.1%	1.2%
	Downside	(6.9%)	1.3%	2.5%	1.2%
	Severe downside	(8.3%)	(0.3%)	3.5%	2.1%
UK commercial real estate index, year-on-year – % change	Baseline	(8.2%)	(6.0%)	2.0%	1.4%
	Upside	3.2%	(3.6%)	(0.3%)	(2.2%)
	Downside	(23.2%)	(11.9%)	5.1%	4.2%
	Severe downside	(30.5%)	(14.8%)	6.9%	3.5%

Macroeconomic variable assumptions used as at 31 December 2021 can be found in note 30 to the financial statements on page 216.

Key assumptions underpinning the baseline December 2022 scenarios:

- The UK economy is already in recession, and GDP remains in contraction territory until the second quarter of 2023. The economy slowly recovers after that.
- Inflation peaks in the fourth quarter of 2022 but remains above target until the end of 2025 because of elevated wage pressures and second-round effects.
- Global oil prices remain around current high levels until mid-2023. Natural gas prices also remain at extremely high levels, but below their summer peaks. Businesses and households conserve energy but there is no need for gas rationing.
- Global supply-chain bottlenecks do not completely abate before 2023.
- Volatility in financial markets remains elevated, but the new UK Government regains some of its lost credibility.

The following variables are the key drivers of ECL:

- UK interest rate (five-year mortgage rate).
- UK unemployment rate.
- UK HPI change, year-on-year (adjusted across all scenarios to reflect further uncertainty in residential property values).
- UK GDP change, year-on-year.
- UK commercial real estate change, year-on-year (adjusted across all scenarios to reflect further uncertainty in commercial property values).

Sensitivity analysis
We have also assessed the IFRS 9 ECL sensitivity impact at a total portfolio level, by applying a 100% weighting to each of the four chosen scenarios. This sensitivity assessment has also been split by stages and is reflected in the table below. For 2022, the ECL for each scenario is more sensitive to changes in the economic conditions compared to 2021. This is due to the enhancement in the ECL sensitivity to macroeconomic scenario framework in 2022 which more accurately captures the changes in the economic scenarios. Further details on this sensitivity can be found on page 219.

Use of post model adjustments and overlays
During the year we have continued to apply expert judgement to the measurement of the ECL in the form of PMOs and PMAs. As at 31 December 2022 PMOs and PMAs made up £0.4 million and £30.5 million of the ECL allowance respectively (31 December 2021: £9.1 million and £35.0 million). Further details on these can be found on pages 217 to 218.

Risk report Continued

Capital risk

Appetite (audited)

We have a low appetite for capital risk. The Board has determined that we will maintain a surplus of regulatory capital resources above our total regulatory capital requirement, as identified through our risk identification process, summarised in the ICAAP and agreed with the regulator.

Assessment and monitoring (audited)

Capital risk is a core focus and our capital position is regularly monitored in ALCO and ExCo and reported to ROC and the Board. Currently we are operating within our capital buffers. Consequently our capital risk remains elevated, albeit stable year-on-year as we continue to target profitable growth.

Capitalisation is a core component of our annual planning process, involving the creation of our budget and multi-year Long Term Plan. This sets our forecast of our capital position and considers adequacy both a 'base' and 'downside' (stressed) scenarios. Mitigating actions to preserve capital are identified and applied, where necessary. Further details on this process are set out in our Viability statement on pages 96 and 97.

We monitor capital on an ongoing basis, which includes performance against our forecasts. This involves the production of regular reports including updated forecast levels of capital for the Board and management, which are compared to our risk appetite and limits for acceptable capitalisation.

The scale of risks to capital is also considered in the ICAAP, a mandated regulatory document, which expands stress testing and allows both the bank and the PRA to make informed judgments on risks, the adequacy of capital carried to support them and the overall robustness of our capital risk management approach.

As set out in our Operating environment on page 9, the regulatory environment in which we operate continues to evolve. Consequently a core component of our capital risk thinking involves horizon scanning of prudential developments, to ensure we continue to monitor potential future capital impacts and anticipate appropriate capital resources.

Mitigation (audited)

Sustainable profit growth

The main long-term mitigation to capital risk is the sustainable generation of additional capital, through the accumulation of profits. The Board and ExCo are focused on ensuring the successful delivery of a return to sustainable profitability. Core to this is the continued delivery of our strategic priorities (as set out on page 19). Our return to profitability in Q4 2022 on an underlying basis is an important milestone here, as is our focus on returning to statutory profitability in 2023.

Balance sheet optimisation

Another key mitigation used to manage capital risk is efficient deployment of our existing capital resources. One of our strategic priorities is ensuring we continue to optimise our balance sheet to ensure we maximise our risk-adjusted returns, while remaining above regulatory requirements. This approach saw us take active measures during the year to protect our capital ratios by matching originations to the level of asset run off.

Raising of additional capital

As we grow, we will need to raise additional regulatory capital in the form of qualifying debt to support lending growth. The ability to raise additional capital, as well as the associated cost, is dependent upon market conditions and perceptions.

In December 2022 the Bank of England's Resolution Directorate has agreed to provide a temporary, time-limited, adjustment for our existing Fixed Rate Reset Callable Subordinated Notes (the 'Notes') with respect to MREL eligibility, until 26 June 2025. This will come into effect upon the implementation of a holding company, which we are required to implement by 26 June 2023. Our Tier 2 note has a one-time call date in June 2023. Given the adjustment, we do not expect to exercise the call provision, unless it would be economically rational to do so. By not calling these notes their Tier 2 eligibility amortises at a rate of 20% per year.

Measurement

We measure our capital resources in line with regulatory requirements in order to appropriately manage our capital resources. The PRA expects prudential reporting, which includes capital reporting, to be as rigorous as that for financial reporting. Over the past few years we have invested in our regulatory reporting systems as well as made enhancements to our control environment to ensure we are continuing to produce accurate and reliable capital reporting and deliver against these expectations.

Risk report Continued

Table 21: Key regulatory metrics and ratios

	31 December 2022 £'million	31 December 2021 £'million
RWAs	7,990	7,454
CET1 ratio	10.3%	12.6%
Total regulatory capital ratio	13.4%	15.9%
Total regulatory capital plus MREL ratio	17.7%	20.5%
UK regulatory leverage ratio[1]	4.2%	5.2%

1. In October 2021 the Bank of England's Financial Policy Committee and the PRA published their changes to the UK leverage ratio framework. The changes, which came into effect from 1 January 2022, mean we are now only subject to the UK leverage ratio. The comparative figure of 5.2% differs to the regulatory ratio of 4.4% disclosed last year as it reflects the revised basis of calculation, which excludes claims on central banks.

Capital resources

We ended the year with CET1, Tier 1 and MREL ratios of 10.3%, 10.3% and 17.7% respectively (31 December 2021: 12.6%, 12.6% and 20.5%).

We continue to operate in capital buffers although we remained above regulatory minima throughout 2022 and our return to underlying profitability in the fourth quarter combined with constraining lending growth should see us return to steady capital generation.

Our capital resources position as at 31 December 2022 is summarised below:

Table 22: Regulatory capital (audited)

	31 December 2022 £'million	31 December 2021 £'million
Ordinary share capital	–	–
Share premium	1,964	1,964
Retained earnings	(1,015)	(942)
Other reserves	7	13
Intangible assets	(216)	(243)
Other regulatory adjustments	79	144
Total Tier 1 capital (CET1)	819	936
Debt securities (Tier 2)	250	249
Total Tier 2 capital	250	249
Total regulatory capital	1,069	1,184

On 1 January 2022 software assets reverted to being fully deducted from capital, reducing our CET1 and MREL ratios by 0.8% and 0.7% respectively.

At the same time the original IFRS 9 transitional relief reduced from 50% to 25% along with the COVID-19 transitional relief which moved from 100% to 75%, reducing CET1 and MREL by 0.3%. A further step down in the transitional reliefs occurred on 1 January 2023 (including an end to the IFRS 9 static relief came to an end and the transitional factor applied to IFRS 9 dynamic relief reduced by a further 25 per cent), leading a further reduction in our CET1 and MREL ratios of 0.4% and 0.3% respectively. Details of how these transitional reliefs would look on a fully loaded basis are set out in table 23.

Table 23: Transitional arrangements

		Transitional relief		
	31 December 2022	1 January 2023	1 January 2024	1 January 2025
CET1 ratio	10.3%	9.9%	9.6%	9.2%
Total regulatory capital ratio	13.4%	13.0%	12.7%	12.4%
Total regulatory capital plus MREL ratio	17.7%	17.4%	17.1%	16.8%

Capital requirement

We calculate our capital requirement in line with the regulatory requirements set out in the PRA Rulebook. This consists of a Pillar 1 calculation of RWAs and a Pillar 2A assessment that captures point in time risks not covered by the Pillar 1 calculation. The Pillar 2A assessment is conducted through the ICAAP process, which is documented and approved by the Board on an annual basis and discussed with the PRA as part of the Supervisory Review and Evaluation Process.

During the year our capital requirement reduced following the decision in June by the PRA to reduce our Pillar 2A capital requirement from 1.11% to 0.50% and the Bank of England agreeing that our binding MREL applicable from June 2022 would be equal to the lower of:

- 18% of RWAs.
- Two times the sum of our Pillar 1 and Pillar 2A.

Additionally, in December the PRA confirmed a further reduction to our Pillar 2A capital requirement from 0.50% to 0.36% effective from 1 January 2023, meaning that our MREL requirement (excluding buffers) reduced further to 16.7%.

Risk report Continued

Table 24: Capital requirements

	31 December 2022	
	CET1	Total capital
Pillar 1	4.5%	8.0%
Pillar 2A	0.3%	0.5%
Total capital requirement	4.8%	8.5%
Capital conservation buffer	2.5%	2.5%
UK countercyclical capital buffer	1.0%	1.0%
Total (excluding PRA buffer, if applicable)	8.3%	12.0%

Capital landscape

Basel 3.1

In 2022 the PRA published its Consultation Paper on the UK implementation of Basel 3.1. Amendments arising from this change include revisions to the standardised approaches for credit and operational risks as well as the introduction of a new RWA output floor.

We are currently working through the proposed changes, including assessing their impact and are engaged with the PRA as part of their consultation process.

Resolvability regime

The UK continues to adopt a rigorous approach to capital management. Financial institutions, with total assets greater than £15-25 billion, are subject to the most stringent MREL 'bail-in' requirements, which applies to ourselves. The requirements mean that we will need to continue to issue MREL eligible debt. In order to give further effect to the resolvability regime, the bank is in the process of establishing a holding company – further details of which can be found page 27.

Resolvability Assessment Framework

The Bank of England has introduced its Resolvability Assessment Framework, with implementation for UK mid tier firms from 1 January 2023. We fall into this category. In light of the proportionate requirements for mid-tier firms, we have conducted an internal resolution readiness assessment as at 1 January 2023. The assessment concluded that we have put in place capabilities to facilitate the management of a potential resolution event, if required, acknowledging that the firm's capabilities will continue to be enhanced as the Resolvability Assessment Framework is embedded into our business as usual activities.

Ring-fencing

In 2019 legislation came into force for banks with greater than £25 billion of 'core deposits', requiring them to separate their retail banking from other parts of their business including investment and international activities.

Given our current level of deposits we are not subject to this separation (referred to as 'ring-fencing'), although our planned level of growth could see us become subject to it in the future. As we are purely a UK-focused retail bank the impacts of ring-fencing should have limited consequences, beyond the costs of ensuring compliance.

In December 2022 the Government proposed the 'Edinburgh reforms' – a package of over 30 regulatory reforms aimed at unlocking investment and growth across the UK. These proposals included changes to the ring-fencing requirements, which would see retail-focused banks like ourselves exempt from the regime.

Risk-weighted assets

Our RWAs increased over the course of 2022 to £7,990 million (31 December 2021: £7,454 million).

Table 25: Risk-weighted assets

	31 December 2022			31 December 2021		
£'million	Exposure	Risk Density	RWAs	Exposure	Risk Density	RWAs
Loans and advances	13,102	45%	5,949	12,290	42%	5,204
Treasury portfolio[1]	7,870	3%	265	9,142	4%	353
Other assets	1,147	75%	859	1,156	83%	965
Total assets	22,119	32%	7,073	22,588	29%	6,522
Off-balance sheet			169			188
Credit risk (exc. CRR)			7,242			6,710
CRR, Market risk and operational risk			748			744
Total RWAs			7,990			7,454

1. Includes cash, balances at the Bank of England and investment securities.

A full reconciliation of our statutory balance sheet to our RWAs can be found on page 240 and further details on our capital position as at 31 December 2022 can be found in our Pillar 3 report (available on our website at: metrobankonline.co.uk/investor-relations/)

Risk report Continued

Financial crime risk

Appetite

We have a low appetite for customer relationships or activity that pose a high financial crime risk and have no appetite for customer relationships or activity that violate our sanctions obligations. The nature of our business model as a UK retail bank inherently exposes us to financial crime risk and as a result of this exposure, strong and effective controls are required to mitigate this. We have defined a set of quantitative and qualitative key risk appetite metrics against which we monitor performance. We do not accept customers outside of our financial crime risk appetite and likewise where customers are reassessed and found to be outside of appetite (i.e. where the risks are too great to manage effectively) they are exited.

Assessment and monitoring

We monitor compliance with policies and standards through a range of activities completed by specialist colleagues. These include quality checking and assurance within operational and first line risk teams, supported by assurance and internal audit reviews of key financial crime controls carried out by second and third line team. The results of these reviews and the status of follow up actions are escalated through our governance.

We currently consider our overall inherent financial crime risk to be medium based on our 2022 risk assessment (anti-money laundering/combating terrorist financing, anti-tax evasion facilitation and sanctions inherent risks are rated medium, anti-bribery and corruption inherent risk is rated low).

Mitigation

We have implemented a set of systems and controls, based on the requirements set out in our policies, to ensure that the financial crime risk that we are exposed to is adequately mitigated in line with our risk appetite.

Investment in our systems and controls

We continue to deliver enhancements to our financial crime controls. Our Financial Crime Improvement Programme continued to deliver strategic enhancements to our financial crime systems throughout 2022, supported by business led enhancements. This approach ensures that our approach to financial crime risk management remains effective.

Our financial crime systems and controls are currently the subject of an FCA investigation, further details of which can be found on page 228.

Horizon scanning

We continue to identify emerging trends and typologies through conducting horizon scanning activity, through information obtained from investigative and intelligence teams and through attending key industry forums (or associations) such as those hosted by UK Finance. As required, we continue to update our control framework to ensure emerging risks are identified and mitigated.

Resourcing and training

Resourcing continues to be a significant focus to ensure our Financial Crime Framework is implemented effectively. During 2022, we continued to invest in skilled resource with headcount increasing across operational, first and second line financial crime teams.

All colleagues have a key role to play in our management of financial crime risk. To this extent, all colleagues receive financial crime training, ensuring they are able to meet their personal obligations as well performing effectively in role. For colleagues in specialist financial crime roles, we continue to invest in their development to improve capabilities through industry-recognised financial crime qualifications.

Sanctions compliance

We comply with all applicable sanctions regimes. In response to the invasion of Ukraine by Russia we adjusted our risk appetite for activity connected to Russia and uplifted systems and controls to respond accordingly. We continue to closely monitor the situation along with our risk exposure, ensuring we're fully compliant with all applicable sanctions.

We will not tolerate any deliberate breach of financial crime laws and regulations (including Sanctions) that apply to our business and the activity we undertake and we continue to review and enhance our sanctions controls to improve their effectiveness.

During the year we concluded the matter with OFAC in relation to Cuba and Iran without fine or penalty.

Anti-money laundering and combating terrorist financing prevention

We comply with all relevant UK anti-money laundering and combating terrorist financing legislation and have a framework in place to support the implementation of these requirements into our systems and controls.

Anti-bribery and corruption and anti-tax evasion compliance

We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships and comply fully with the UK Bribery Act 2010 and Criminal Finances Act 2017. We do not give or receive improper financial or other benefits in our business operations, nor to we help facilitate tax evasion.

We will not tolerate any deliberate breach of financial crime laws and regulations that apply to our business and the transactions we undertake.

Measurement

Our financial crime risk appetite is reflected in key risk appetite metrics – a set of quantitative metrics, reported monthly through our governance. Where control performance is assessed as outside of our risk appetite, the issue plus remediation activity is escalated and tracked through our risk committees.

Risk report Continued

Operational risk

Appetite
We maintain a cautious appetite for operational risk and aim to minimise incidents, losses and adverse customer impacts arising from operational risk issues. We do this by maintaining a resilient infrastructure, including robust systems, employing and training the right colleagues, minimising the impact of external events and having a framework in place to ensure that operational risks are identified, assessed, responded to and monitored. Operational risk events and losses are recorded and assessed, corrective actions completed and steps taken to avoid recurrence.

Assessment and monitoring
The Operational Risk Management Framework sets our approach to the management of operational risks including through the performance of Risk and Control Self-Assessments and consideration of a variety of disruption scenarios. Operational risk is overseen by the CRO and teams in the first and second lines of defence, monitored via reporting to the Business Risk Committees, second-line Non-Financial Risk Oversight Committee, ERC and ROC.

Mitigation
We have put in place detailed policies, standards and controls to mitigate the variety of operational risks to which we are exposed. These are designed to both minimise impacts suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

Information Security and Cyber
We recognise that all colleagues have an important responsibility to safeguard the systems and sensitive information we hold. We continuously invest in our cyber and information security infrastructure to identify and respond to threats, protect customer data and minimise the risk of disruption. We also take pre-emptive actions to safeguard the end-to-end resilience of critical processes. We continue to enhance the control environment, recognising the rapidly changing cyber landscape, increased importance of digital channels and reliance on home working, as well as the changing risk profile of the business.

Operational resilience
Operational resilience is an outcome of our ability to proactively prevent, adapt, respond, recover, and learn from operational disruption events. By identifying and monitoring our important business services, we continue to ensure that adequate controls remain in place, including management of the technology upon which they rely, to minimise disruption and avoid causing intolerable harm to our customers.

Fraud
The safety and security of our customers and their funds is of the highest importance. Our dedicated teams monitor the rapidly-evolving threats posed to both ourselves and our customers and quickly respond by deploying a range of preventative and detective measures. Authorised and unauthorised payment fraud attempts and scams continue to present a threat. We share fraud prevention trends and best practice via our various communication channels to help protect our customers against such attacks.

People
Our ambition is to be the number one community bank will be delivered by our people. Similar to our peers, this year has presented risks related to the recruitment and retention of colleagues driven in large part by post-COVID dynamics and inflationary pressures. This is turn has put pressure on our operational capabilities. In response, our dedicated people team provides business support in resource management, talent identification, training and development to ensure that we have the right colleagues, in the right place, at the right time with the right skillset to create FANS.

Measurement
Material operational risk events are identified, reviewed and escalated in line with criteria set out in the Enterprise and Operational Risk Management Frameworks. Incidents and losses are recorded and root-cause analysis is undertaken with action plans implemented to prevent recurrence and continually improve our processes. Quantitative metrics are used to measure our material operational risks and assess our exposure against our stated risk appetite. We conduct regular operational risk scenario workshops to identify severe yet plausible events which could impact us. This enables us to quantify the potential losses that such events could cause and hold sufficient capital against them, as well as highlighting potential areas for ongoing enhancements to our operational risk capabilities.

Risk report Continued

Regulatory risk

Appetite
We have a low appetite for regulatory risk and seek to minimise this risk by maintaining robust systems and controls that are designed to meet existing regulatory requirements and to ensuring we comply with future changes to the regulatory landscape.

Assessment and monitoring
Regulatory Risk is considered by all three lines of defence as part of their oversight and assurance activities. Our Combined Risk Assurance plan independently assesses areas of the control framework underpinning compliance with laws and regulations.

Additionally, a clear governance structure is in place which enables escalation of regulatory risks from the first line risk committees through to the relevant second line oversight committees, including track and challenge of adherence to our risk appetite through our Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on maintaining regulatory compliance. As well as our Risk Report, this also includes periodic reporting on regulatory themes and key focus areas aligned to the regulators strategic priorities, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk appetite measures and Board-approved frameworks.

Mitigation
Investment in our systems and controls
We continue to invest in and develop are core systems that allow us to meet regulatory requirements, including in the regulatory reporting space where we have implemented a new system during the year.

The PRA expects our regulatory reporting, which includes capital and liquidity reporting, to be as rigorous as that for financial reporting. In achieving this we have continued to enhance our control environment to ensure we are continuing to produce accurate and reliable reporting and deliver against these expectations. Alongside this we have enhanced our first, second and third line oversight. We are currently preparing for the proposed enhancements to internal control requirements under the revised UK Corporate Governance Code requirements which will see us continue to invest in our controls across the Bank.

Horizon scanning
We undertake ongoing horizon scanning to identify and address upcoming regulatory change. As part of this process we engage proactively with our regulatory authorities as well as industry bodies in respect of any proposed changes.

Measurement
Regulatory risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against material regulatory initiatives and our relationship with our regulators, as well as a defined set of Board-approved risk appetite metrics relating to our key principal risks. This includes measures around major/critical regulatory, financial crime and operational impacts, impairment provisioning, credit, model and capital risk exposure, regulatory breaches, high risk assurance and audit findings, incidents and implementation of material regulatory change.

Risk report Continued

Conduct risk

Appetite
We are built around a culture of supporting our customers, offering them a range of relatively simple retail products. We have a low appetite for conduct risk and seek to minimise risks which may result in unfair outcomes or lead to customer detriment. Where unfair outcomes are identified we ensure these are remediated effectively to minimise risk, prevent recurrence and reduce customer harm.

Assessment and monitoring
Conduct risk is considered by all three lines of defence as part of their oversight and assurance activities. A Combined Risk Assurance plan, approved by the Audit Committee on an annual basis, independently assesses our ability to appropriately mitigate this risk.

Additionally, a clear governance structure is in place which enables escalation of conduct risks from the first line risk committees through to the relevant second line oversight committees, including track and challenge of adherence to our risk appetite through our Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on managing appetite against this risk. As well as the Bank Risk Report, this also includes periodic reporting on key conduct themes, alongside supporting key risk appetite measures and Board-approved frameworks.

Mitigation
The following controls and procedures help to mitigate conduct risk:

- A Conduct Risk Framework (with supporting policy and standards), sets out our Conduct Risk Appetite Statement, key regulatory requirements, principles and expectations including drivers of customer harm, defined governance and approach to risk identification and monitoring.
- Ongoing development, maintenance and reporting of conduct risk appetite measures (aligned to the risk taxonomy) inclusive of customer outcome measures, to ERC, ROC and the Board.
- Oversight and ongoing review of conduct risks and issues in relevant business risk and oversight risk committees, including progress against key customer remediation projects, conduct related regulatory change initiatives, complaints, vulnerable customers and arrears management.
- Maintenance of proactive and coordinated engagement with our regulators around key customer initiatives.
- Consideration of customer profiles, target markets, fair value, and customer needs and vulnerability in the context of product and proposition development, ongoing review, and associated appropriate governance.
- Ongoing quality assurance and review measures to assess delivery of good customer outcomes, supported and embedded through training.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Measurement
Conduct risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against key conduct priorities set by the regulators, as well as a defined set of Board-approved risk appetite metrics relating to complaints, arrears management, product performance, colleague training and customer outcome delivery.

Risk report Continued

Strategic risk

Appetite

We have not set a separate risk appetite for strategic risk and instead monitor it via the full range of reporting via our governance structure and direct risk input into the formulation of our strategy and Long Term Plan and its ongoing monitoring at ExCo, ERC and ROC.

Assessment, monitoring, mitigation and measurement

Strategic risk is addressed through the Board-approved strategy and long-term financial plan. We consider strategic risk as part of ongoing risk reporting and an annual review of our strategy and Long Term Plan, as well as ongoing monitoring and management via our risk governance structure and ExCo oversight of execution, including oversight and challenge by the second line of defence.

Model risk

Appetite

We adopt a cautious appetite for risk due to errors in the development, implementation or use of models, which it mitigates via effective governance over the specification and design, implementation and running of its models and over model input data.

Assessment and monitoring

Our model risk assessment starts with an overarching Model Risk Management Framework, setting out the roles and responsibilities of the various stakeholders, underpinned by a comprehensive model risk governance policy supported by model development, monitoring, validation, implementation, and risk appetite standards.

Mitigation

Governance

The main mitigant to model risk is the robust governance process that is followed, including two dedicated model committees: the Model Oversight Committee and the Model Governance Committee, as well as an expert panel to opine on contentious issues. The Committees evaluate the appropriateness of the Model Risk Management Framework and monitor progress on the implementation of an enhanced modelling infrastructure, including a review of findings in relation to specific modelling processes, escalating to ERC and ROC as appropriate.

We have in place a well-qualified independent model validation function that performs model validations prior to model implementation, both when a model is changed and on a periodic basis.

Measurement

Model risk is assessed across a number of key risk indicators including regulatory reporting, materiality, complexity, impact, impairment computations, periodicity of review and data sources incorporated, reporting into the model risk committees, ERC and ROC.

Risk report Continued

Liquidity and funding risk

Appetite

Our liquidity and funding risk appetite is set though a number of sub-risk appetites:

Liquidity – We have a cautious appetite for liquidity risk. The Board has determined that we should be able to survive a combined name-specific and market-wide liquidity stress event for at least three months, at a level of severity determined by our internal risk appetite stress test, utilising the liquidity pool.

Funding – We have a cautious appetite for funding risk. The Board has determined that we should maintain a prudent funding profile by using stable funding to fund illiquid assets, without undue reliance on wholesale funding markets. As an additional safeguard to the quality of funding, limits are set to ensure that funding is not inappropriately concentrated by customer, sector or term, as identified during our liquidity stress testing.

Encumbrance – We have a cautious appetite for encumbrance risk. The Board has determined that encumbrance of our balance sheet should be no greater than 30% of our total assets in business-as-usual conditions. However, encumbrance is not limited in relation to any repo or use of Bank of England facilities since this might prevent the bank from taking appropriate action to manage through a liquidity stress situation, or testing the adequacy of those facilities from time to time.

Assessment and monitoring

We consider the effective and prudent management of liquidity to be fundamental to our ongoing strength and viability. The Board has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of our liquidity and funding risks. We are committed to ensuring that at all times we have sufficient liquidity resources – in terms of both quantity and quality – to ensure we can meet payments as they fall due.

The treasury function has responsibility for our compliance with liquidity policy and strategy. We have a dedicated prudential risk team who monitor our liquidity and funding risk daily including ensuring compliance with the policies we have developed. The regulatory reporting team also monitors compliance with relevant metrics.

Mitigation

Deposit-funded approach

We aim to attract service-led core deposits which are less sensitive to competition within the deposit market. At 31 December 2022, 51% of our deposits came from commercial customers (31 December 2021: 48%) with the remaining 49% (31 December 2021: 52%) coming from retail customers. Additionally, 49% of deposits at year end (31 December 2021: 44%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products.

Liquidity management (audited)

We continue to hold a prudent level of liquidity to cover unexpected outflows, ensuring that we are able to meet financial commitments for an extended period. We recognise the potential difficulties in monetising certain assets, so set higher quality targets for liquid assets for the earlier part of a stress period. We have assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. Our internal liquidity stress test ensures that we comply with our own risk appetite as well as regulatory requirements.

Assets and liabilities by maturity (audited)

Table 26 sets out the maturity structure of our assets and liabilities, by their earliest possible contractual maturity date. The contractual maturity will differ from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis, such deposits are repayable on demand or at short notice. In reality, they are static in nature and provide long-term stable funding for our operations and liquidity. Equally, our loans and advances to customers, specifically mortgages, are lent on longer contractual terms, but may be redeemed or re-mortgaged earlier. The total balances set out in the analysis do not reconcile with the carrying amounts as disclosed in the consolidated balance sheet. The difference arises from the maturity analysis incorporating all the expected future cash flows (including interest), on an undiscounted basis.

Measurement

We measure our liquidity and funding resources in line with regulatory requirements, with the key metric for liquidity being the liquidity coverage ratio and for funding, the net stable funding requirement. This is supported by monitoring of the encumbrance ratio and other balance sheet metrics.

In order to appropriately manage our liquidity and funding resources, we run an ILAAP exercise which considers the risks that we are exposed to in both normal and stressed conditions. The ILAAP process also set appropriate limits and determines the Bank's liquidity risk appetite, and internal liquidity stress scenario. We produce regular reports on the current and forecasted level of liquidity and capital, which are tracked against limits both at the operational level in Treasury and at the Executive level at ALCO.

As at 31 December 2022 our liquidity coverage ratio was 213% (31 December 2021: 281%) and our net stable funding ratio was 134% (31 December 2021: n/a).

Risk report Continued

Table 26: Contractual maturity (audited)

	31 December 2022 £'million									31 December 2021 £'million								
	Carrying amount	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No contractual maturity	Total	Carrying amount	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No contractual maturity	Total
Cash and balances with the Bank of England	1,956	1,956	–	–	–	–	–	–	1,956	3,568	3,568	–	–	–	–	–	–	3,568
Loans and advances to customers	13,102	–	573	507	942	5,472	17,525	341	25,360	12,290	–	489	427	791	4,740	10,850	349	17,646
Investment securities	5,914	–	576	206	951	4,312	164	59	6,268	5,574	–	123	9	672	4,488	451	30	5,773
Other assets	1,147	–	–	–	–	–	–	1,147	1,147	1,155	–	–	–	–	–	–	1,147	1,147
Total assets	22,119	1,956	1,149	713	1,893	9,784	17,689	1,547	34,731	22,587	3,568	612	436	1,463	9,228	11,301	1,526	28,134
Deposits from customers	(16,014)	(15,310)	(139)	(136)	(201)	(162)	–	(75)	(16,023)	(16,448)	(14,910)	(348)	(350)	(458)	(303)	–	(122)	(16,491)
Deposits from central banks and repurchase agreements	(4,038)	–	(215)	(41)	(147)	(4,147)	–	–	(4,550)	(3,969)	–	(23)	(3)	(110)	(3,987)	–	–	(4,123)
Debt securities	(571)	–	–	(272)	(17)	(383)	–	–	(672)	(588)	–	–	(23)	(24)	(672)	–	–	(719)
Other liabilities	(540)	–	(6)	(6)	(12)	(111)	(263)	(292)	(690)	(547)	–	(6)	(6)	(13)	(94)	(224)	(214)	(557)
Total liabilities	(21,163)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(367)	(21,935)	(21,552)	(14,910)	(377)	(382)	(605)	(5,056)	(224)	(336)	(21,890)
Equity	(956)	–	–	–	–	–	–	(956)	(956)	(1,035)	–	–	–	–	–	–	(1,034)	(1,034)
Total equity and liabilities	(22,119)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(1,323)	(22,891)	(22,587)	(14,910)	(377)	(382)	(605)	(5,056)	(224)	(1,370)	(22,924)
Derivative cash flows		–	(2)	(1)	(3)	–	–	–	(6)		–	(3)	–	(2)	(6)	–	–	(11)
Cumulative liquidity gap		(13,354)	(12,567)	(12,310)	(10,797)	(5,816)	11,610				(11,342)	(11,107)	(11,053)	(10,195)	(6,023)	5,054		

Risk report Continued

Market risk

Appetite (audited)

Our market risk appetite is determined by reference to a number of sub-risk appetites:

Earnings – We have a low appetite for earnings risk, with the Board determining a limit calibrated to ensure net interest income does not exceeding an amount recommended and scrutinised by the ALCO and approved by ROC. The limit is calibrated using a 2% instantaneous shock in both directions.

Economic value – We have a low appetite for economic value risk, with the Board determining a limit calibrated to ensure that a change to the present value of our balance sheet does not exceed an amount as recommended and scrutinised by ALCO and approved by ROC. The limit is calibrated by calculating the impact of a 2% instantaneous shock in both directions.

Revaluation risk – We have a low appetite for revaluation risk, with the Board prescribing that we should avoid situations where the potential losses caused by changes in market prices shall not exceed capital held under standard risk weights, taking account of any offsets, determined by our Revaluation Risk stress scenario.

Foreign exchange risk – We have no appetite for foreign exchange risk, with the Board determining that exposures in foreign currencies should not represent a material portion of our capital resources.

Assessment and monitoring (audited)

Our market risk is driven by interest rate risk in the banking book. It is encountered by all banks due to intermediation activities, which lead to maturity mismatches and mismatches between fixed and floating rate assets and liabilities. The Board is responsible for setting market risk appetite. Market risk is mitigated through a risk management framework that allows it to be monitored and managed by first line management and second line risk, with oversight from ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control the interest rate risk in the banking book is consistent with the approved strategies and policies.

Management limits are set at the ALCO for economic value and net interest income sensitivity to ensure prompt action and escalation. Limits and the relevant metrics are also reported to ROC and the Board.

The treasury function has responsibility for our compliance with market risk policy and strategy. We have a dedicated prudential risk team who monitor our market risk daily including ensuring compliance with the policies we have developed. The prudential risk function run additional interest rate risk simulations monthly to assess other threats that may not be evident in the standard parallel shock metrics.

Mitigation (audited)

Interest rate risk

We benefit from natural offsetting between certain assets and liabilities, which may be based on both the contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes.

Our treasury and prudential risk teams work closely together to ensure that risks are managed appropriately – and that we are well-positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure

We have very limited exposure to foreign exchange risk. Foreign currency denominated assets and liabilities are matched off closely in each of the currencies we operate, and we eliminate our foreign exchange exposure as far as is practical on a daily basis. In any event the risk is strictly capped at 2% of our capital base. We offer business current accounts in foreign currency and foreign exchange facilities to facilitate customer requirements only.

Measurement

We measure interest rate risk exposure using methods including the following:

- Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.
- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities over the horizon of our balance sheet and then evaluating the change in value arising from an instantaneous 2% change in the yield curve in both directions, taking into consideration any embedded customer optionality. Our economic value sensitivity risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. Additionally, we evaluate the PRA's outlier test in line with regulatory requirements.
- Net interest income sensitivity: calculating repricing mismatches across our assets and liabilities over a one-year horizon and then evaluating the change in net income arising from an instantaneous 2% change in the yield curve in both directions. Our net interest income risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. We also assess basis risk by considering divergences between Bank of England base rate and the Sterling Overnight Index Average (SONIA), which replaced the London Inter-Bank Offered Rate (LIBOR) from January 2022.

Risk report Continued

Interest rate risk

Table 27 set out the interest rate risk repricing gaps of our balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods, after applying expected pre-repayments in line with our policy.

A positive interest rate sensitivity gap exists, when more assets than liabilities reprice during a given period. A positive gap tends to benefit net interest income in an environment where interest rates are rising; however, the actual effect will depend on multiple factors, including actual repayment dates and interest rate sensitivities within the periods. The converse is true for a negative interest rate sensitivity gap.

Table 28 shows the sensitivity arising from the standard scenario of a +200bps and -200bps parallel interest rate shock upon projected net interest income for a one-year forecasting period. This is a hypothetical scenario based on a constant balance sheet as well as a full pass through of the increase to all of our variable rate assets and liabilities.

Table 28: Interest rate sensitivity (audited)

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'million	200bps decrease (not floored at zero) £'million
31 December 2022	(8.3)	8.4
31 December 2021	5.7	(5.3)

During the year we took advantage of the rising interest rate environment to redeploy some of our excess variable rate cash balances held at the Bank of England into higher-yielding assets. At the same time we continued to let higher cost fixed term deposits roll off. A combination of these factors increased the fixed interest components of our assets, while at the same time the fixed interest component of our liabilities decreased. This has the effect of reversing the impact of a hypothetical +200bps interest rate shock, compared to the position last year. As our pass through rate on deposits is typically lower than increases to base rate, overall this scenario would unlikely materialise and overall we remain geared towards a rising interest rate environment.

Table 27: Repricing analysis (audited)

	31 December 2022 £'million							31 December 2021 £'million						
	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with the Bank of England	1,881	–	–	–	–	75	1,956	3,472	–	–	–	–	96	3,568
Loans and advances to customers	4,154	915	2,010	5,850	173	–	13,102	4,335	635	1,479	5,666	175	–	12,290
Investment securities	2,163	–	539	3,052	160	–	5,914	2,282	–	273	2,667	352	–	5,574
Other assets	–	–	–	–	–	1,147	1,147	–	–	–	–	–	1,156	1,156
Total assets	8,198	915	2,549	8,902	333	1,222	22,119	10,089	635	1,752	8,333	527	1,252	22,588
Deposits from customers	(6,186)	(613)	(1,154)	(7,456)	(605)	–	(16,014)	(7,023)	(747)	(1,251)	(6,904)	(523)	–	(16,448)
Deposits from central banks and repurchase agreements	(3,978)	–	(60)	–	–	–	(4,038)	(3,800)	–	(99)	(70)	–	–	(3,969)
Debt securities	–	(249)	–	(322)	–	–	(571)	–	–	–	(588)	–	–	(588)
Other liabilities	–	–	–	–	–	(540)	(540)	–	–	–	–	–	(548)	(548)
Total liabilities	(10,164)	(862)	(1,214)	(7,778)	(605)	(540)	(21,163)	(10,823)	(747)	(1,350)	(7,562)	(523)	(548)	(21,553)
Equity	(760)	(10)	(21)	(165)	–	–	(956)	(759)	(28)	(55)	(193)	–	–	(1,035)
Total equity and liabilities	(10,924)	(872)	(1,235)	(7,943)	(605)	(540)	(22,119)	(11,582)	(775)	(1,405)	(7,755)	(523)	(548)	(22,588)
Interest rate derivatives	(68)	40	(62)	105	(15)	–	–	264	(90)	(429)	255	–	–	–
Interest rate sensitivity gap	(2,794)	83	1,252	1,064	(287)	682	–	(1,229)	(230)	(82)	833	4	704	–
Cumulative gap	(2,794)	(2,711)	(1,459)	(395)	(682)	–	(8,041)	(1,229)	(1,459)	(1,541)	(708)	(704)	–	–

Risk report Continued

Legal risk

Appetite

We have a low appetite for legal risk, limited to those events where there is a minimal chance of material financial, reputational or commercial negative consequences.

Assessment and monitoring

Given the pervasive and fundamental nature of legal risk, rather than having a separate framework, the methodology for the robust management of legal risk is set out in reporting to ERC and ROC.

Mitigation

We minimise legal risk via a range of mitigants, including:

- In house legal expertise, maintained via appropriate training and development and specialist recruitment.
- Selective use of expert external legal advice via an approved panel of lawyers.
- Appropriate policy documentation and training related to specific legal requirements.
- Monthly reporting of metrics to measure compliance with our legal risk appetite.

In 2022, we successfully enhanced our approach further by updating our Enterprise Risk Management Framework to clarify the role of the legal function in helping the business manage and mitigate legal risk.

Measurement

A range of key risk indicators is used to measure our exposure to legal risk, including the risk of defective contracts and claims made against us. Details of our material legal and regulatory matters can be found in note 32 to the financial statements on page 228.

This Strategic Report was approved by the Board and was signed on its behalf by:

Daniel Frumkin
15 March 2022

Viability statement

Assessment of principal and emerging risks

The Board is responsible for monitoring the nature and extent of the principal risks we face as well as determining the level of appetite we are willing to take in order to achieve our strategic objectives. Our principal risks, which we actively monitor and manage, are described on pages 54 to 96 which includes our appetite, assessment, monitoring, mitigation and measurement approaches. As part of this process the Board consider the emerging risks we face (which are set out on pages 56 and 57).

In line with the requirements of the Corporate Governance Code (‘the Code’), the Directors have performed a robust assessment of the principal and emerging risks we face, including those that would threaten our business model and impact our performance, capital or liquidity. Our business model is set out on pages 15 to 17 which also show how this links to our principal risks.

Risk management and internal controls

As described in the Corporate governance and Risk reports, our risk management and internal control systems are monitored at Board level. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

Assessment of prospects

The Directors have an obligation in accordance with provision 31 of the Code to confirm that they believe that we will be able to continue in operation, and to meet their liabilities as they fall due. Our prospects are assessed primarily through our strategic planning process (our Long Term Plan), the first year of which reflects the our 2023 budget. This process includes an annual review of the ongoing plan, led by the CEO and CFO through ExCo and Board. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so consider whether the plan continues to take appropriate account of the external environment (see operating environment on pages 8 to 9 for further details). The latest updates to the Long Term Plan (covering the period 2023 to 2027) were formally approved by the Board in February 2023.

Our business model (see pages 15 to 17) are central to an understanding of our prospects. The nature of the our activities is long term and our business model has remained unchanged since we were founded. At the end of 2022 we refreshed our strategy for the next stage of our growth (see page 19). This strategy will be subject to ongoing monitoring to ensure it remains appropriate.

Risk report Continued

Our new strategy continues to be based on a combination of balance sheet optimisation, revenue growth and cost control, alongside ongoing infrastructure investment, with decisions on new investment being taken based on the long-term benefits they will provide. Although decisions are taken for the long term any investment has to align with our appetite for risk as well as be able to demonstrate an appropriate payback period. The Directors have reviewed the assumptions underpinning our plan and have determined they are appropriate.

Although our Long Term Plan covers a five year period to 31 December 2027, the Directors have assessed prospects and viability for the four years through to 31 December 2026. This is felt appropriate as this is the period over which forecasts have a greater level of certainty (although the fifth year still provides a robust planning tool against which strategic decisions can be made). The assessment has included reviewing the plan against our principal risks to examine those matters that could prevent us from delivering on our strategy.

Of our principal risks only operational failure (operational risk), a lack of liquidity (liquidity and funding risk); or insufficient capital (capital risk) were felt could directly lead to us not being able to continue in our current form if they were to occur (although a failure of our other principal risks could lead to one of these events).

Of these three risks, insufficient capital is where there is most uncertainty and where extra consideration was given by the Directors in their assessment of our viability.

One of the key assumptions in the Long Term Plan is the our ability to raise qualifying debt over the forecast period to fund anticipated growth and to continue to meet regulatory requirements. In order to be able to issue certain regulatory debt instruments we will need to create distributable reserves in order to pay the required dividend payments on these. We are currently undertaking a process to insert a holding company, to meet our regulatory requirements, part of which involves a process to create distributable reserves. This remains subject to various regulatory and legal approvals. Further details on this can be found on page 27.

Assessment of viability

Although our Long Term Plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact by examining our sensitivity to a 'severe but plausible' downside. This has been undertaken via the creation of a scenario that reflects additional downside risks. This 'severe but plausible' consisted of a stressed economic downturn that led to increased ECL, deposit outflows, reduced fee income, increased costs as well as the removal of our ability to raise incremental regulatory capital (alongside forecasting increased coupons on the refinancing of existing regulatory debt) during the early years of the plan.

In this scenario we fell below regulatory minima at a total regulatory capital + MREL level. The Directors considered the actions that could reasonably be deployed. This involved making reasonable adjustments to our operating plans, although these were within what would typically be done in the normal course of business and therefore these mitigating actions did not in of themselves constitute any additional risk, although would involve us operating in our capital buffers for longer than envisaged. These actions centred around cost reductions, reducing lending origination as well as not seeking to raise any further regulatory capital (other than refinancing existing debt) that would have supported future growth.

In addition to the scenario outlined above we also undertake routine stress testing (including reverse stress tests) for both management and regulatory purposes including as part of the ICAAP and ILAAP. The results are then assessed to understand the likelihood of such events occurring and what mitigating actions could be taken. The results of the stress testing performed to date are in line with the assessment outlined above and has not given rise to any additional factors that would impact either our viability or going concern.

Assessment of going concern

In line with the work undertaken in respect of viability the Directors also undertook an assessment of going concern, which they consider to cover a period of at least 15 months from the date of approval of the financial statements.

Consistent with their approach to considering viability, the Directors assessed whether we continued to maintain sufficient liquidity and capital for the period of assessment. This combined with the fact the Directors do not intend to liquidate or to cease our operations, they concluded that there was a reasonable expectation that we have adequate resources to continue as a going concern. They have also concluded that there are no material uncertainties that could cast significant doubt over this assessment.

Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the four year assessment period to 31 December 2026.

Going concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained further in the Basis of preparation paragraph in note 1 to the financial statements.

Governance

In this section

Corporate governance introduction

"The Board is committed to adhering to high standards of corporate governance, which is reflected in the decisions we take

Robert Sharpe
Chair

I am pleased to set out Metro Bank's Corporate governance report on behalf of the Board. The purpose of this section is to explain how we, as a Board, considered and made decisions that are in the best interests of shareholders, customers, colleagues and all stakeholders in 2022. The Board is committed to adhering to high standards of corporate governance which is reflected in the decisions we take, the transparency of the standards we set, our culture and how we communicate with stakeholders.

In 2022, the Board continued to focus on the Bank's transformation journey, delivered by our ExCo and centred on our five strategic priorities. Despite significant internal and external headwinds faced during the year, the Bank markedly reduced losses with statutory loss before tax reducing to £70.7 million (2021: £245.1 million). This was a fantastic achievement and I'm hugely proud of what we accomplished during the year and the momentum in the business. Moving forward the Board are focused on how the Bank can deliver sustainable profitability and growth for our stakeholders while navigating an uncertain economic environment. We remain committed to our community banking model.

The Board held its annual away days in September. These sessions provide an excellent opportunity for the Board to engage in deep, extended sessions with the Bank's senior leaders about the future strategy for the Bank.

The Bank continues to operate in capital buffers and capital management was a focus of discussions. The Board also discussed how the Bank could return to profitability, could grow in a sustainable way and forward our ambition to be the number one community bank. More information on the strategy away days can be found on page 107.

As part of our end-state MREL requirements set by the Bank of England, the Bank is advanced in its plans to introduce a new holding company, to be inserted into the Group, subject to shareholder approval. The Board have been overseeing the progress of these plans and more information on this will be shared in due course.

As announced in late 2022, upon implementation of a holding company, the Bank of England's Resolution Directorate has agreed to provide a temporary, time-limited, adjustment for the Company's existing £250 million 5.5% Tier 2 Notes (the 'Notes') with respect to MREL eligibility until 26 June 2025. The adjustment permits the Notes to remain eligible to count towards the holding company's MREL requirement until 26 June 2025, while remaining within the operating company. The Board will continue to work with management to ensure we are managing our capital requirements prudently while we continue to optimise our balance sheet to maximise our return on regulatory capital.

Corporate governance introduction Continued

As well as this news on capital, we also announced in 2022 the conclusion of the OFAC investigation into sanctions breaches with no financial penalty. In December, we also settled with the FCA in respect of the 2019 RWA matters. I am pleased that these legacy issues have been brought to a close as the Bank moves into its next phase of growth. The Board looks forward to continuing to support and challenge management on its business model as we take the Bank through the next stage of its journey.

Leadership

There were changes to the membership of the Board in 2022. David Arden and Sally Clark stepped down from the Board on 15 February 2022 and 30 June 2022 respectively. On behalf of the Board, I would like to take this opportunity to thank David and Sally for their contributions to the Bank.

James Hopkinson joined the Bank as CFO and Executive Director on 5 September 2022. Dorita Gilinski was appointed to the Board as a shareholder-nominated NED on 26 September 2022.

In the short period since joining, both have embraced the unique culture of the Bank and are providing valuable insight and experience to the Board. They have both been through a detailed induction process and continue to build their knowledge of the business while building positive rapport with fellow Board members and the ExCo.

I am pleased that the Board has retained its gender diversity and improved its ethnic diversity in light of membership changes during the year. We recognise the benefits of having a balanced and diverse Board that represents the views, experiences and backgrounds of our customers and colleagues. We are committed to increasing the diversity of our Board over time and in line with our Board succession plan.

There were a number of changes to the membership of the ExCo in 2022. Kirsten McLeod was promoted to CRO, replacing Richard Lees. Faisal Hussain was promoted to Chief Information Officer, replacing Cheryl McCuaig. Both appointments were overseen by the Nomination Committee and the Committee is delighted that the strong pipeline and succession planning we have in place for our senior leaders is bearing fruit.

These two appointments, as well as the appointment of James Hopkinson, reflect our continuing commitment to creating a strong, experienced and diverse leadership team.

As part of the agenda for 2022, the Board received regular updates on culture, including current and future initiatives to define, measure and sustain culture at the Bank. The Board also received updates from our DNED. At Metro Bank, our unique culture is what sets us apart. The latest results from our Voice of the Colleague survey have shown that Colleagues continue to feel a strong sense of belonging at the Bank.

Governance

Our aim in this Corporate Governance Report is to provide a clear and meaningful explanation of how the Bank applies the principles of the 2018 UK Corporate Governance Code (the ‘Code’) and how our Board provides oversight of the Bank and discharges our governance duties.

The Board assessed our effectiveness and performance through an internal evaluation in 2022, facilitated by the Company Secretary. I am pleased to report that the Board is operating very effectively, despite the many headwinds we have seen during 2022. We feel that the Board has the right composition, resources and forward planning processes in place to effectively lead the Bank. In line with Code requirements we will appoint an external facilitator for the 2023 evaluation. The Board and I welcome this opportunity to assess our performance, to ensure we continue to be effective in our role, which is to the benefit of all our stakeholders.

More information about the outputs of the 2022 evaluation can be found on page 121.

Corporate governance introduction Continued

Following the hiatus during the COVID-19 pandemic, the Board and I were delighted to hold the 2022 Annual General Meeting (AGM) in person. I would like to thank shareholders for the overwhelming support received for all resolutions. I look forward to welcoming shareholders again to the 2023 AGM and the face-to-face engagement this provides.

One of the more significant governance developments this year has been the changes to the remit of the Bank's Remuneration Committee, which is now the People and Remuneration Committee. We have added to the remit of this Committee, so that it now includes oversight of talent development, succession plans for our Material Risk Takers, and the Bank's D&I Strategy. This allows the Committee to take a more holistic view across our people and remuneration practices ensuring that we are aligned to the highest standards of best practice. More details of these changes are included in our People and Remuneration Committee Report on page 138.

Future priorities

As we move forwards, both the Board and Management still fundamentally believe that to be successful we must continue to offer both physical and digital services and we know the value this creates for our customers and our communities. The Bank remains committed to the community banking model, with our store presence being the differentiator for our FANS. We continue to be rated the top high street bank for overall service quality for personal and business customers in the latest CMA Service Quality rankings and number one for store service for the tenth time running. I was delighted to see the successful grand opening of our newest store in Leicester in late February 2022. We have made great advances in our digital products for both retail and business customers and we continue to invest further into creating products and services that meet the needs of our diverse customer base and create an even better consumer experience for our FANS. Looking forwards to 2023, I remain very positive about the future of the Bank. As a Board, our focus will be on continuing to provide effective oversight of management as they deliver our evolved strategic priorities of revenue, balance sheet optimisation, cost, infrastructure and communication.

Robert Sharpe
Chair
15 March 2023

Compliance with the UK corporate governance code

Good corporate governance is essential to our ambition in becoming the UK's best community bank.

The table below details where key content on the compliance with the Code can be found in this report. During 2022, there was one instance of non-compliance with a provision of the Code, which has been complied with since February 2022, and we have set out our explanation below. From 15 February 2022 and as at the date of this report, the Bank was fully compliant with the requirements of the Code.

Board leadership and company purpose	
Corporate governance introduction – page 99 Section 172 statement – page 43 Board of Directors – page 102	2022 governance at a glance – page 106 Strategic priorities – page 19 Business model – page 15
Division of responsibilities	
Board roles and responsibilities – page 120 Board and Board Committee attendance – page 106	Board independence – page 106
Composition, succession and evaluation	
Board of Directors – page 102 Board effectiveness – page 121	Nomination Committee Report – page 134
Audit, risk and internal controls	
Audit Committee Report – page 124	Risk Report – page 130
Remuneration	
People and Remuneration Committee Report – page 138	Annual Report on Remuneration – page 148
Code non-compliance	
Provision 38 – The pension contribution rates for Executive Directors, or payments in lieu, should be aligned with those available to colleagues. Explanation – As per the Bank's Remuneration Policy, any new Executive Director hire will have a maximum pension contribution at a level aligned with those available to colleagues, which is currently at a rate of 8% of base salary.	The pension contribution rate for the former CFO, who resigned from the Board on 15 February 2022, was 10% of base salary during the year under review. The pension contribution rate for the current CFO is 8%, so the Bank now complies with the Code provision.

Board of Directors

As at the date of publication

Robert Sharpe
Chair

Appointed to the Board:
1 November 2020

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

Daniel Frumkin
Chief Executive Officer

Appointed to the Board:
1 January 2020

Daniel is responsible for leading the Bank – with a focus on driving long-term growth by delivering great customer service at the right cost, to create even more FANS. Prior to joining Metro Bank, Daniel worked in America, the UK, Eastern Europe and Bermuda. He has performed business, risk, product and commercial executive level roles throughout his career. Most recently, Daniel was Group Chief Operating Officer at Butterfield Bank, with responsibility for eight jurisdictions across the globe covering a range of business and support areas.

James Hopkinson
Chief Financial Officer

Appointed to the Board:
5 September 2022

James's career started at PricewaterhouseCoopers where he specialised in tax accounting and consultancy and qualified as a Chartered Accountant with the Institute of Chartered Accountants of England and Wales. He worked for Standard Chartered Bank from 2001 to 2019 in a variety of roles ranging from heading up corporate and institutional businesses, to Group Head of Investor Relations and most recently performing the role as Chief Financial Officer for the Group's countries, regions and business segments. James was also the CFO for the Global Retail Banking business and the co-leader of the global finance function. In 2019, James joined ClearBank as CFO and Executive Director.

Anna (Monique) Melis
Senior Independent Director

Appointed to the Board:
20 June 2017

Monique is a Managing Director and the Global Service Line Leader of the Financial Services Compliance and Regulatory practice at KROLL Advisory Ltd. She is also a Director of the KROLL Luxembourg Management Company Board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included Executive Board member at Kinetic Partners and roles at the Cayman Islands Regulator and Stock Exchange, the Financial Services Authority and the Securities and Futures Authority. Monique is also a NED at The Bank of London.

Key to committees

- A Audit
- N Nomination
- O Risk Oversight
- R Remuneration

Board of Directors Continued

Anne Grim
Independent Non-Executive Director

Appointed to the Board:
20 April 2020

Anne is an experienced executive turned advisor, consultant and Board Director with more than 30 years in senior financial services leadership roles at Barclays, Wells Fargo, American Express, Mastercard and most recently as Chief Customer Officer at Fidelity International, prior to embarking on her Board portfolio career. Her expertise is in customer experience, strategic planning and execution, technology innovation and business transformation. Anne is an independent non-executive Board member for Insight Investment, where she chairs Insight Investment Fund Management Ltd and the Insight Investment Strategic Technology Committee; Plus500 Ltd, where she is Senior Independent Director and chairs the Remuneration Committee; and Openwork Holdings Ltd. where she chairs the Risk and Compliance Committee. Anne holds a Bachelor's degree in Mathematics and Computer Science and a Master's of Business Administration in Strategic Management and Finance, both from the University of Illinois.

Nicholas Winsor MBE
Independent Non-Executive Director and Designated Non-Executive Director for Colleague Engagement

Appointed to the Board:
20 April 2020

Nick is an independent consultant and NED. He is a NED of Schroder Oriental Income Limited, Chair of its Nomination and Remuneration Committee and a member of its Audit and Management Engagement committees. He is also Senior Independent Director of the States of Jersey Development Company, Chair of its Remuneration and Nomination Committee and a member of the Deal Advisory Panel. Nick has more than 35 years of international banking experience with HSBC Group in a number of markets: Brunei; Channel Islands; Hong Kong; India; Japan; Qatar; Singapore; Taiwan; United Arab Emirates and the United Kingdom. He was Chief Executive Officer of HSBC Group's businesses in Channel Islands and Taiwan and a Director of HSBC Bank Middle East Limited. Nick is also Chair of Autism Jersey and was awarded an MBE for services to the community in the Queen's 2020 Birthday Honours List. He holds a Masters in Physics from Oxford University and is a Fellow of the Institute of Directors.

Ian Henderson
Independent Non-Executive Director

Appointed to the Board:
20 April 2020

Ian is currently CEO of Kyckr, a RegTech business providing global KYC solutions to banks, payments services providers and other regulated businesses. He joined Kyckr after a 30-year career in retail and business banking and wealth management. Ian is also a Member Trustee of the Chartered Bankers Institute. Since 2012, he has been actively involved in the UK challenger bank sector holding CEO roles at Arbuthnot Latham & Co Limited, Kensington Mortgages, and Shawbrook Bank. Prior to this, he was Chief Operating Officer of the Private Banking Businesses in Barclays Wealth and before that he was with RBS for 21 years. His final role there was as CEO of RBS International. He also held the positions of Chief Operating Officer Retail Banking and Marketing Director RBS & NatWest. Ian holds degrees in Economics and Finance from Scottish and Canadian universities and an MBA.

Catherine Brown
Independent Non-Executive Director

Appointed to the Board:
1 October 2018

Catherine holds various NED roles including: NED of FNZ (UK) Limited and NED of QBE Underwriting Limited and QBE UK Limited, and Chair and NED of Additive Flow Limited and The Plastic Economy Limited. Until 31 March 2020, she was a NED at the Cabinet Office. In mid-2019, she joined QBE Underwriting Limited (QBE UK Ltd), one of the world's leading international insurers, as a NED for the UK. She is a Trustee of Cancer Research UK, one of the UK's largest charities. Catherine has extensive experience in organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous appointments include: Group Strategy Director at Lloyds Banking Group, Executive Director of Human Resources at the Bank of England and Chief Operating Officer at Apax Partners.

Board of Directors Continued

Paul Thandi CBE
Independent Non-Executive Director

Appointed to the Board:
1 January 2019

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

Michael Torpey
Independent Non-Executive Director

Appointed to the Board:
1 September 2019

Michael retired from the position of Chief Executive of the Corporate & Treasury division and Member of the Group Executive Committee at Bank of Ireland in August 2018. He has extensive experience in senior roles across financial services. He is currently a Non-Executive Director of Studio Retail Ltd and Shelbourne Bidco Ltd (Finance Ireland Group). His past appointments include: Head of Banking at the National Treasury Management Agency in Ireland; Group Treasurer at Irish Life and Permanent plc; Senior Treasury Adviser at Irish Financial Regulator; Finance Director at Ulster Bank Group; and Finance Director at First Active plc.

Dorita Gilinski
Shareholder-Nominated Non-Executive Director

Appointed to the Board:
26 September 2022

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

Stephanie Wallace
General Counsel and Company Secretary

Appointed:
31 December 2022

Prior to her role at Metro Bank, Stephanie led the legal function at RateSetter and joined the Metro Bank team as part of the acquisition of RateSetter in 2020. She was appointed General Counsel in 2021. Stephanie began her career in private practice, qualifying as a solicitor at Hogan Lovells in London and spent several years there as a financial services regulatory specialist.

Executive Committee

As at date of publication

Daniel Frumkin
Chief Executive Officer

Daniel is responsible for our overall leadership and our focus on driving long-term growth by delivering great customer service at the right cost, to create even more FANS.

James Hopkinson
Chief Financial Officer

James is responsible for planning, implementing, managing and controlling all of our financial, treasury, strategy and investor relations activities.

Tina Coates
Director of Corporate Affairs

Tina is responsible for our internal and external communication, public affairs, reputation management and setting our ESG agenda.

Carol Frost
Chief People Officer

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

Faisal Hussain
Chief Information Officer

Faisal is responsible for running and developing our IT. He is also responsible for developing and delivering our transformation and change agenda.

Aisling Kane
Chief Operations Officer

Aisling looks after everything that makes us run smoothly, including our call centres, all banking and lending operations, customer support, financial crime prevention, procurement and property.

Kirsten McLeod
Chief Risk Officer

Kirsten is responsible for management and oversight of our risk and control framework.

Richard Saulet
Managing Director, Consumer Finance

Richard is responsible for our unsecured lending to consumers and businesses under both our Metro Bank and RateSetter brands and driving our customer experience agenda.

David Thomasson
Managing Director, Banking Products and Digital

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

Ian Walters
Managing Director, Distribution

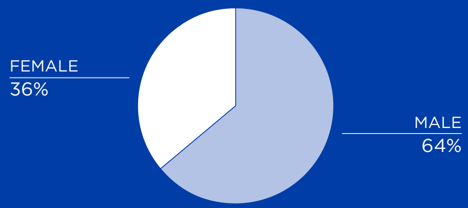
Ian is responsible for our front-line teams serving retail, business, private and commercial customers. This includes our stores and relationship teams who are focused on delivering great customer service.

Chit Ghee Yeoh
Chief Internal Auditor

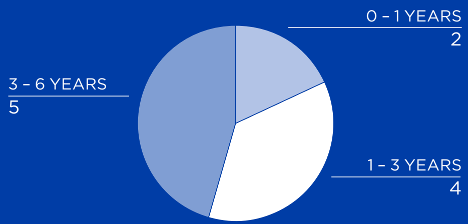
Chit Ghee is responsible for providing assurance to ensure that we operate in a safe and sustainable way.

2022 governance at a glance

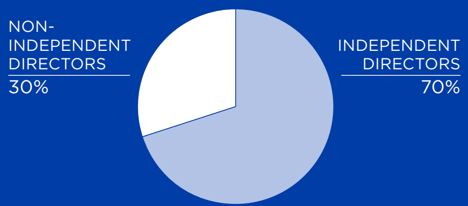
Board gender diversity
As at 31 December 2022



Board Tenure
As at 31 December 2022



Board Independence
As at 31 December 2022



Highlights

2022 Board changes
David Arden stepped down from the Board in February 2022. Sally Clark stepped down from the Board in June 2022 and was replaced as Designated NED for Colleague Engagement by Nick Winsor. In September 2022, James Hopkinson was appointed as Executive Director and CFO and Dorita Gilinski was appointed as a shareholder-nominated NED.

AGM
We held our first face-to-face AGM since 2019. All resolutions were passed with a significant majority of votes in favour. We thank shareholders for their continued support.

Board training
Sessions held during the year included, Technology, Regulation, Cost of Living, MREL and the requirements to introduce a Holding Company. Additional training sessions were also held for each committee, including topics such as audit reform, Consumer Duty and remuneration specific regulatory changes and developments.

2022 Board and Committee attendance

	Board 8 meetings	Audit 8 meetings	ROC 8 meetings	PRem 5 meetings	Nom 3 meetings
Robert Sharpe	8				3
Daniel Frumkin[1]	7				
James Hopkinson[2]	3				
David Arden[3]	1				
Catherine Brown[4]	8		8	5	2
Monique Melis[5]	7	6			2
Paul Thandi[6]	6			4	3
Michael Torpey	8	8	8		
Sally Clark[7]	4	5		3	
Nick Winsor	8		8		
Ian Henderson	8	8	8		
Anne Grim	8			5	
Dorita Gilinski[8]	3				

1. Daniel Frumkin was not able to attend one Board meeting for personal reasons.
2. James Hopkinson was appointed to the Board on 5 September 2022.
3. David Arden resigned from the Board on 15 February 2022.
4. Catherine Brown was not able to attend one Nomination Committee meeting for personal reasons.
5. Monique Melis was not able to attend one Board meeting, two Audit Committee meetings and one Nomination Committee meeting due to personal reasons.
6. Paul Thandi was not able to attend one Board meeting and one People and Remuneration Committee meeting for personal reasons.
7. Sally Clark resigned from the Board on 30 June 2022.
8. Dorita Gilinski was appointed to the Board on 26 September 2022.

2022 governance at a glance Continued

Highlights

The Board considered the following areas at its strategy away day in September 2022:	Actions, considerations, and priorities for the Board, the Bank, and senior leadership team for 2023:
What does it truly mean to be a community Bank and how does this deliver sustainable competitive advantage and shareholder value?	Commit to community banking as our vision with service as our differentiator.
What is the impact of the changing market context on our customers and strategy?	Close monitoring and management of the impacts of the macroeconomic environment on our business performance and on customers, colleagues and wider stakeholders.
How do we ensure our service model remains differentiated?	Maintain robust cost discipline and capital management whilst focusing on delivering great customer outcomes. Support the plan for future store openings, subject to individual store business cases.
What capabilities do we need to develop as we continue to grow?	Continue to review talent gaps in our organisation and the plans in place to address these.
How do we attract, retain, and motivate our people to deliver on our transformation?	Continue to focus on voice of the colleague activities.

Colleague engagement 2022

Colleagues feel they can be themselves at work 2022

Colleagues feel that regardless of background, they have an equal opportunity to succeed 2022

Employee engagement scores for 2022

Our overall measure of engagement was 75, which is up six points from 2021.

Our colleagues feel they can be themselves at work, this measure scored 83 which is up four points from 2021.

Our colleagues feel that regardless of background, they have an equal opportunity to succeed. This measure scored 81, which is five points up from 2021.

Board activities and stakeholder engagement

Board activities

The Board has a forward plan for its meetings, which includes regular updates from the ExCo and on financial, strategic, risk management, people and culture, and operational matters. Each Board Committee has a defined Terms of Reference with delegated specific areas of responsibility to ensure that all areas for which the Board has responsibility are addressed and reviewed during the year.

Reports from the CEO, CFO and CRO are standing items on every Board agenda. The Company Secretary, or her delegate, reports on governance matters and updates the Board on any changes to their statutory duties or the regulatory environment which are pertinent to their role. The Chair of each Board Committee reports on the proceedings of the previous Board Committee meeting at the next Board meeting, and minutes of the Disclosure Committee are included in the Board papers.

The ExCo, senior management and advisors are invited to attend Board and Board Committee meetings to present, contribute to the discussion, and advise members of the Board or Board Committees on particular matters. The involvement of the ExCo and senior management in Board and Board Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategic direction.

Furthermore, it enables the Board to scrutinise and challenge management on the delivery of strategic objectives. The Chair, assisted by the Company Secretary and her team, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Board Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary and her team ensures that feedback on Board papers is relayed to senior management. The Company Secretary prepares minutes of each meeting and is responsible for following up on any action items.

	Jan	Feb	Mar	Apr
Boards and Board Committee meetings	• Board • AuditCo • PRemCo • ROC	• Board • AuditCo • NomCo • ROC	• AuditCo • PRemCo	• Board • ROC
Key announcements, decisions and Board activity	Reviewed and approved the Bank's Long Term Plan, including capital and reviewed an update on the Operations function who continue to go the extra mile for customers despite a number of challenges internally and externally.	**2021 year-end results** Received an update on the measures we use to assess the health of our Culture and Colleague experience and engagement. Approved the Risk Appetite for the Bank ensuring that we can maximise returns in a safe and sustainable way. Approved the Bank's Operational Resilience assessment in line with regulatory requirements.		**Q1 2022 results** Received an update on customer insights and strategic implications, as we continue to further understand the evolving consumer base of the Bank and the relationships we have. Received an update on the Bank's D&I strategy, ensuring that we are able to attract and retain high calibre diverse talent.

Board activities and stakeholder engagement Continued

May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
• Board • AuditCo • NomCo • PRemCo • ROC		• Board • AuditCo • ROC		• Board • ROC	• Board • AuditCo • PRemCo • ROC	• Board • AuditCo • NomCo • PRemCo • ROC	
Welcomed shareholders to our first face-to-face AGM since 2019.	Reviewed and approved the appointment of Nick Winsor as the dedicated DNED replacing Sally Clark.	**H1 2022 results** Following recommendation from the Nomination Committee, reviewed and approved the appointment of James Hopkinson as CFO, and Kirsten McLeod as CRO, subject to regulatory approval. Reviewed and monitored the Bank's capital planning. Approved the purchase of the freehold of the Oxford store.		Received updates in relation the Bank's response to the cost of living crisis. Following recommendation from the Nomination Committee, reviewed and approved the appointment of Faisal Hussain as CIO, subject to regulatory approval and the appointment of Dorita Gilinski as a shareholder-nominated NED. Held our annual away day to agree our vision of the Bank's strategic objectives for 2023.	**Q3 2022 results** Reviewed the Bank's ESG roadmap and the progress made against the agreed milestones. Reviewed the Bank's plans for the implementation of the Consumer Duty Regime.	Following recommendation from the Nomination Committee, reviewed and approved the appointment of Richard Saulet as MD of Consumer Finance. Reviewed and approved the 2023 budget and capital management planning. Received an update on Culture and Colleague engagement. Received an update on the Bank's cloud strategy.	Agreed the Bank's response to the outcome of the FCA investigation. Agreed the appointment of Stephanie Wallace as Company Secretary.

Board activities and stakeholder engagement Continued

ESG

The Board remains focused on doing the right thing for our colleagues, customers, shareholders and other stakeholders. During the year, the Board reviewed our progress against our ESG roadmap and was pleased to see increased coordination and good progress in this area. More information on our environmental, social and governance priorities can be found in the environmental, social and governance review on page 28.

Stakeholders considered:

Consumer Duty

As a bank it is our responsibility to ensure we are delivering good customer outcomes. Recently the FCA introduced a new Consumer Duty which comes into effect on 31 July 2023 for our open products and services, and 31 July 2024 for our closed products. We are working hard to review our products and services, customer communications and interactions, and end-to-end customer journeys to align with the requirements of the Consumer Duty. We are looking at how we monitor outcomes for our customers and how we report on those internally. We have also appointed an independent NED, Catherine Brown, to provide oversight and challenge of our implementation of the Consumer Duty regulations.

Stakeholders considered:

Cost of living

In response to the rising cost of living pressures, in the second half of the year the Board endorsed Management's decision to give all colleagues below senior management, an additional 2.75% salary increase. This was on top of the average 5% increase delivered at the start of the year – meaning that 98% of colleagues have received on average a 7.75% salary increase during 2022. We decided to take this approach, as opposed to a one-off payment, to provide lasting support to help our colleagues with the increased cost of living challenges. We are aware of the impact increased living costs can have on our customers, we therefore keep the lending books and signs of financial distress under close review. We have a range of support mechanisms in place for both our colleagues and customers during these difficult times.

Stakeholders considered:

Focus on Strategic Priorities

Costs

Throughout the year, the Board considered cost priorities.

We've seen great momentum across the Bank to reduce costs while enhancing customer experience, including the delivery of functionality in the mobile app and online platform. These enhancements enable customers to self-serve, access information quickly and easily, and reduce the number of calls into AMAZE Direct.

We made the decision not to renew the AMAZE Central Bishopsgate lease when it expires in 2023. Colleagues based in Bishopsgate will re-locate to AMAZE Central Holborn. We remain committed to having a presence in London, but we felt this was the right decision given the more flexible ways colleagues work. We anticipate this will allow for more collaboration with colleagues working at one central London location.

Despite the difficult decision to close three stores in 2022, we remain committed to our store model.

The Board oversaw the purchases of the freehold and long-leasehold of our Bradford and Oxford stores.

Stakeholders considered:

Our stakeholders are considered at all times throughout the decision-making process:

- Our FANS
- Our colleagues
- The communities we serve
- Our suppliers
- Our regulators
- Our investors

Board activities and stakeholder engagement Continued

Revenue

Throughout the year the Board had oversight of our efforts to deploy valuable deposits into more lending for our customers. To do this we developed new lending products as well as refreshed our existing ones.

The Board has had oversight as we adapted to the market changes throughout the year, ensuring our service proposition, communication and products have stayed relevant to the needs of our brokers and customers. The Board supported management as they made enhancements to our product range and criteria, expanded into the interest-only space, and expanded lending coverage in Scotland. The Board was also pleased to see growth in the lending portfolio driven by the RateSetter acquisition and the launch of a motor finance lending product during the year.

A key focus for the Board has been to ensure that growth has been delivered in a sustainable way while ensuring that we keep both our customers and the Bank safe by working together to ensure we have the appropriate controls and monitoring in place.

Stakeholders considered:

Infrastructure

The Board considered throughout the year which parts of our infrastructure would benefit from investment or upgrade. It was recognised that significant investment has been made in recent years and that we are now seeing the benefits: notably our investment to provide greater digital and automation capability; and our investments in IT resilience and improved controls and risk management capabilities.

Going forward, it was acknowledged investment spend would need to be lower to deliver on our profitability targets, but that an appropriate level of spend was required to enable colleagues to do their job better, support our products and services and keep the Bank safe and secure, as well as making life easier for our customers.

The Board has had regular updates on our preparation for the introduction of the Consumer Duty and is pleased with the progress to date, ensuring that products, services, communications and customer journeys, along with monitoring customer outcomes, align with the requirements.

Stakeholders considered:

Balance sheet

Capital remains a core constraint and as such was a focus for the Board. While we meet all of our minimum requirements, we continue to operate within our capital buffers.

The Board had oversight of how we will return to sustainable capital generation, and as such our path to exiting capital buffers. This will be achieved through a return to profitability combined with a continued focus on balance sheet optimisation, including actively managing lending. This also included reviewing progress on our IRB application.

As we continued to shift the balance towards assets with higher yields, growing our unsecured consumer finance under the RateSetter brand along with higher-yielding residential mortgage lines and asset finance, the Board has been maintaining oversight of how we manage credit risk.

Stakeholders considered:

Communication

We continuously communicate with our internal stakeholders, our colleagues, and externally to our customers, investors, communities, regulators, and suppliers – all with the aim to strengthen our relationships and engagement. We've done lots of work to showcase what makes us stand out from the crowd in 2022, from our Local Area Marketing campaign to the work we are doing through digital marketing channels, where we have made significant account growth. 2022 has been a great year for our people-people approach and our AMAZEING culture remains as strong as ever. We are proud to have been recognised as one of the top 10 places to work in the UK.

Stakeholders considered:

Stakeholder engagement

Our FANS

Our diverse range of FANS all have their own individual needs, but what binds them together is the desire for AMAZEING service and a range of banking services. We are rated the top high street bank for overall service quality for personal and business customers in the latest CMA rankings and number one for store service for the tenth time running.

What matters most to them

- All of our stores are open seven days a week, 362 days a year.
- A wide range of banking services and products that are easily accessed.
- AMAZEING service.
- Product enhancements.

How we engage

- Voice of the Customer programme allows us to monitor customer service delivery.
- Creating FANS and meeting their needs is one of our core values and the Board takes our customers into account in every decision it makes.
- Regular external communications, social media and advertising.

This year we have invested into our digital channels by upgrading our online banking platform and enhancing self-serve options online and via our mobile app. We've introduced QR codes to the personal account online journey, so that FANS can pass our identification and verification requirements by switching to their smartphone.

A new Products and Services Hub is available in the mobile app to show customers all the AMAZEING products we offer. Customers can now search and filter transactions, and there is a duplicate payee pop up so customers know if they're adding a payee who has already been added to their account.

We have continued our programme of launching new products and services for our SME community. In March 2022, we launched the Enhanced Business Overdraft, which has cut the time it takes our SME FANS to get an overdraft from weeks to less than 30 minutes, wherever they want, whenever they want. We also introduced Enabled Advanced Search online for our SME customers, so they are able to search and export transactions by date, time, and amount, or by debit and credit, making it easier for them to find the information they need. We've also reinvigorated business lending by using automated decision-making to expand our SME lending portfolio.

2022 outcomes and highlights

- Investment into our digital infrastructure – all to heighten the consumer experience.
- Launched a Creating FANS hub for colleagues, providing a central source of information to help colleagues support customers.
- Upgraded our online banking platform and enhanced self-serve options online and via our mobile app.

Our colleagues

We understand that our colleagues are what makes the Bank different. We do people-people banking and to live up to that ethos we ensure we support and invest in our people.

What matters most to them

- Health, safety and culture.
- Development and career opportunities.
- Inclusion, diversity and culture.
- Fair pay, reward and opportunity to make a difference.
- Agile and flexible working practices.

How we engage

- Voice of the Colleague surveys.
- Have your say cafés and colleague meetings with leaders.
- Revolution Updates with ExCo members.
- Remuneration working groups.
- Face-to-face and virtual opportunities to meet and provide feedback to our DNED, Nicholas Winsor.

The Board reviews Voice of the Colleague survey results and receives updates on people and culture to ensure we keep track of how our culture is evolving and that it continues to be strong, healthy and reflects our purpose and beliefs. The surveys assist the Board in understanding the feedback from our colleagues and the actions taken by management to address this.

We engage with our colleagues through our internal networks, including: Women on Work (WOW), Mpride for our LGBTQ+ colleagues, Mbrace for our Black, Asian and Ethnic Minority colleagues, Mfamily for all working parents, parents-to-be or non-parents, and MBody which is focused on colleague wellbeing. During the year, the Board and Exco were invited to attend and speak at colleague network events.

Our 'MAGIC Yammer' page allows our colleagues to share their ideas, individually or as a team, on how the Bank can improve its customer experience. The ideas are reviewed by the MAGIC committee, which assesses the ideas and puts them through to the next stage – Zest Den. The selected colleagues going through to Zest Den, have the chance to work alongside an ExCo nominated sponsor, to prepare and build the concept into an AMAZEING pitch to our ExCo panel.

The Board received colleague engagement updates throughout the year. More information on how we engaged with our colleagues is on page 35.

2022 outcomes and highlights

- Engagement score of 75, meeting the new global benchmark.
- 'Natter with Nick' on Teams.
- Online Q&As with senior leadership.
- We welcomed over 1,450 of new colleagues to the bank this year.
- Promoted over 600 colleagues.

Stakeholder engagement Continued

Our investors

Engaging with our investors to keep them up to date on our performance, share our vision for the future and understand their views continues to be very important to us. We engage openly and transparently with our investors, who are helping us to grow and shape the Bank for the future.

What matters most to them
- Successful delivery of the strategic plan.
- The path to sustained profitability.
- Ability to maintain cost discipline and leverage the cost base for revenue growth.
- ESG.
- Progress towards IRB accreditation.
- Capital management and ability to lend more to our FANS.

How we engage
- 2022 AGM and Annual Report and Accounts.
- Quarterly trading updates and investor presentation at half/full year.
- Investor roadshows and conferences.
- Proxy advisor and institutional investors meetings.

We ensure the needs and views of our shareholders are brought into the boardroom and are considered at all times throughout the decision-making process. The Board regularly receives updates from the Investor Relations team to remain informed on investor views, the market and latest trends. The Board appointed a shareholder-nominated NED in 2022, with the purpose of further enhancing the existing rigorous Board discussions to ensure that shareholder views are considered as part of Board decision-making.

We provide comprehensive updates to the market at half and full year, with condensed trading statements at Q1 and Q3. The results presentation and Q&A with management provides stakeholders with clear guidance on our capital planning priorities alongside strategic updates and financial results. The announcements are reviewed and approved by the Board.

2022 outcomes and highlights
- Appointment of a shareholder-nominated NED.
- All resolutions at the 2022 AGM passed with 90% or more votes in favour – most passed at 99%.

Our regulators

We are subject to financial services regulations and approvals in the markets in which we operate. We engage with our regulators to ensure we meet all the relevant regulations and ensure we do the right thing. The Bank is committed to promoting integrity, transparency and engaging in a collaborative and open manner with our regulators. The financial services regulatory landscape continues to evolve, and the Board ensures the Bank's strategic priorities are in line with regulatory requirements and new initiatives. For example, the new standards relating to Consumer Duty, evolving capital standards and corporate reforms are all areas in which the Bank will engage with our regulators in the year ahead.

What matters most to them
- Compliance with relevant laws and regulations.
- Governance and accountability.
- Transparent and constructive communication.

How we engage
- Annual PRA presentation to the Board.
- Regular meetings with our regulators and certain Board directors and ExCo members.

We aim to maintain our positive relationship with regulators through an approach of early and regular engagement, particularly on areas of critical importance. The FCA and PRA receive copies of our Board papers.

We have engaged constructively with our regulators during 2022 with respect to key initiatives and will continue this engagement across upcoming changes to the regulatory landscape in 2023 and beyond. The CRO reports regularly to the Risk Oversight Committee and the Board on material matters of regulatory engagement including an assessment of the status of our regulatory relationships.

The Board has reviewed and engaged with the FCA in relation to the investigation into the RWA adjustment and is pleased that this matter is now concluded. The Bank continues to make improvements to, and substantial investment in, its regulatory reporting processes and controls. It has also strengthened its broader risk management and governance, demonstrating our commitment to improving our regulatory reporting controls.

The Board spent a considerable amount of time reviewing the Bank's capital position. We understand that this is important to our investors and all stakeholders. The Bank's IRB accreditation application is progressing.

Stakeholder engagement Continued

Our suppliers

Our supply chain helps us to deliver banking products and services to all of our stakeholders.

What matters most to them

- Collaboration.
- Open and fair terms of business, including payment terms and practices.
- Social and ethical business relationship.
- Long-term partnerships.

How we engage

- Report on supplier payment practices.
- Supplier Code of Conduct.
- Consistent supplier feedback loop.
- Dedicated relationship manager with the Bank.
- Supplier surveys.

We are committed to paying our suppliers within clearly defined terms and we have processes for dealing with any payment issues that may arise. The Audit Committee reviews and approves the Bank's disclosure on supplier payment practices, and, as required by law, we publicly report this information on a bi-annual basis.

For the last reporting period between 1 July 2022 to 31 December 2022 we reduced our average invoice payment turnaround to 21 days. We continue to review and improve our processes with the aim of ensuring all of our suppliers are consistently paid within defined terms.

We understand the risks posed by our suppliers and ensure that they are appropriately managed by the Bank. All suppliers have a relationship owner within the Bank and a Supplier Commercial Manager within the Procurement, Supplier Risk and Commercial Management teams. We maintain effective relationships with our suppliers and consider their interests when making relevant decisions.

We actively solicit suppliers' feedback on their relationship with Metro Bank and act on it as appropriate. We work closely with our key third party partners. We held our second supplier conference in 2022 to build on communication, and launched our first Supplier Code of Conduct. We have also ensured that climate change considerations are embedded in engagement with new suppliers and our conversations with existing suppliers. We also substantially bolstered our oversight of material supplier risk and controls.

2022 outcomes and highlights

- Supplier conference.
- Our new Supplier Code of Conduct took effect in 2022.
- Further steps to ensure climate change considerations are imbedded in the procurement process.

The communities we serve

We are proud to be an integral part of the communities we serve and they are at the heart of our ambition to be the number one community bank. Our communities bring Metro Bank to life, providing vital services to local people and businesses, as well as employment opportunities when we expand into new locations. The people and businesses close to our stores are crucially important to us, as we deliver on our ambition to become the UK's best community bank.

What matters most to them

- Effective engagement and communication.
- Safe and friendly environment in store and outside.
- Impact on the local economies.

How we engage

- Money Zone, our financial educational programme for school children and young adult care leavers. The programme will be expanded in 2023.
- Networking and community events.
- Days to AMAZE volunteering.
- Fundraising for charities.

The Board understands how important it is to have a physical presence in our communities and was pleased to open a new store in Leicester in 2022. In deciding where to build a new store, we take into account where we can reach the most people so that we can continue to offer convenient banking at a time that suits our FANS and will be looking at opportunities to open more stores in the North of England in 2023.

We have supported our colleagues in joining a Community Champion Group of their choice. Champions give back by helping our local communities and registered charities.

2022 outcomes and highlights

- Opened a new store in Leicester.
- 177 events at stores in the year.
- 2,460 children through Money Zone.

Letter from the Designated Non-Executive Director for Colleague Engagement

Our Board continues to welcome our colleagues' views, recognising the benefit of a colleague base that is the bedrock of our business model, ensuring we can deliver over and above for our customers, the communities we serve and for each other

Nicholas Winsor
Designated Non-Executive Director for Colleague Engagement

I'm very pleased to set out my letter to Metro Bank's stakeholders as the designated Non-Executive Director for Colleague Engagement (DNED). I would like to take this opportunity to thank Sally Clark, who was the DNED until 30 June 2022, for her efforts in the role during the first half of the year. I am delighted to have been appointed and I am looking forward to meeting even more colleagues and hearing their views as I take the role forwards into 2023.

The Board continues to be of the opinion that appointing a DNED is the most appropriate engagement mechanism for the Bank to ensure there is effective, two-way engagement between colleagues and the Board, with the ultimate objective of aiding and informing Board decision-making. I have seen first-hand how much our colleagues value access to the Board. In turn, the Board strongly values the feedback provided and we are open and transparent in how we consider and address this.

The Board recognises that the DNED role doesn't replace existing engagement channels. The ExCo already plays a key role in communicating Board decisions to colleagues and we have a number of established networks and forums which help us to understand the views of our diverse colleague population.

The Bank also seeks colleague views through other mechanisms including the Voice of Colleague surveys and feedback via our internal social media channel, Yammer. My role is to garner the views of colleagues and escalate these to the Board as a whole in order to inform effective decision-making. I formally report on engagement activities and the feedback I have gathered to the Board throughout the year.

The Board reviewed the Terms of Reference for the DNED role in 2022 to ensure that it was made explicit that the role also included engaging with colleagues regarding remuneration, including executive remuneration, as appropriate. I also provide a report to the People and Remuneration Committee each year on the outcome of this engagement ahead of the People and Remuneration Committee's year-end decisions.

Colleagues were able to connect in person more frequently in 2022 compared to recent years. Hybrid working continues for many colleagues, so it is important that they have opportunities to come together and have meaningful engagements, regardless of whether they work in a Metro Bank Store, AMAZE Central or an AMAZE Direct site. The Board also discusses and seeks assurance that colleagues working remotely continue to feel connected to the Bank, listened to and supported. We want colleagues to be empowered to come together, so they feel engaged, productive and can provide maximum impact in whatever they are doing.

Letter from the Designated Non-Executive Director for Colleague Engagement Continued

We are proud of the culture we have at Metro Bank, which we recognise as one of the main reasons that colleagues want to work here. It was great to hear from colleagues that our AMAZEING values continue to inspire and motivate them. The Board plays an active role in defining and monitoring culture, particularly in the context of evolving work practices, and we are pleased to see a strong sense of belonging and inclusion as we embed hybrid working.

2022 DNED engagement activities and feedback

The DNED Working Group, comprising of myself, the Director of Corporate Affairs, the Chief People Officer and members of the Company Secretarial team, meet periodically throughout the year to discuss the DNED schedule of events, feedback from colleagues, and the strategy for engagement.

Throughout 2022, I had many opportunities both face to face and remotely to speak to colleagues. I met colleagues in a range of settings, from store visits, to attending an operations team leadership event, to attending Yammer sessions. These events provided an excellent opportunity to listen to what our colleagues like about working at Metro Bank and also as to what leadership can do to enhance their experiences.

The general consensus is that our colleagues love the culture at the Bank, they feel they can be themselves, and that we all work together as one team towards a common goal of being the number one community bank.

Colleagues have also expressed an interest in more in-person training. As part of the induction process all colleagues attend a 'Visions' event, and we are pleased that these sessions have returned to being in-person events in 2022, so new colleagues can see and live our culture at the start of their Metro Bank careers. Graduation events have also returned to being held in-person.

Following career development feedback, management has refreshed Mentor Bank, ahead of the AMAZE review period, when objective setting and development planning is agreed. In 2022, one in five of our colleagues were promoted demonstrating our commitment to growing and promoting our talent.

Training on unconscious bias was identified as an area of focus to help managers better consider their interactions with their teams. An unconscious bias training module has been developed. It is available to all colleagues, and will form part of our induction learning. Plans are being developed to roll out the training module to existing colleagues as part of the objective setting and development planning process.

Having met a number of store-based colleagues at recent engagement events, there was a strong sense that colleagues value Metro Bank's customer focus and this drives colleague engagement. Colleagues also value the number of career opportunities available at Metro Bank.

There is an overall positive energy in the stores and colleagues are looking forward to connecting in-person post-COVID-19.

I was delighted to attend the Bank's black history month event. Our Black, Asian and Ethnic Minority network, Mbrace hosted a night of Afro-Caribbean food, entertainment from young Black artists, and networking at AMAZE Central Holborn. The evening was both emotional and impactful and it was well supported by a broad cross-section of colleagues. The event also coincided with Faisal Hussain's appointment as Chief Information Officer which got special mention on the evening and was well received by our colleagues.

Alongside this, I regularly log into Yammer, an internal social media tool for colleagues to share information, ideas and socialise. The platform is self-moderating, rather than top-down, and is used as a solutions tool when colleagues have a question.

Colleagues are very active on the platform, which reinforces my view that our colleagues feel engaged. There are colleagues that are 'Yammer Champions', they are very active and support the wide ranging questions that colleagues submit.

The Bank also has a platform called 'Recognise' that allows colleagues to call out each other's achievements and it was great to see colleagues celebrating one another's successes during the year.

Looking forwards

The Board recognises that the role of DNED will continue to evolve, particularly as a result of changing working practices, as new areas of colleague focus are identified, and as fresh opportunities for engagement arise. I am pleased to already have an interesting schedule of engagement opportunities with colleagues in 2023.

The Board continues to welcome all of our colleagues' views, recognising the benefit of a colleague base that is the bedrock of our business model, ensuring we can deliver over and above for our customers, the communities we serve and for each other. I look forward to meeting even more of our AMAZEING colleagues in the future.

Nicholas Winsor
Independent Non-Executive Director
15 March 2023

Letter from the Designated Non-Executive Director for Colleague Engagement Continued

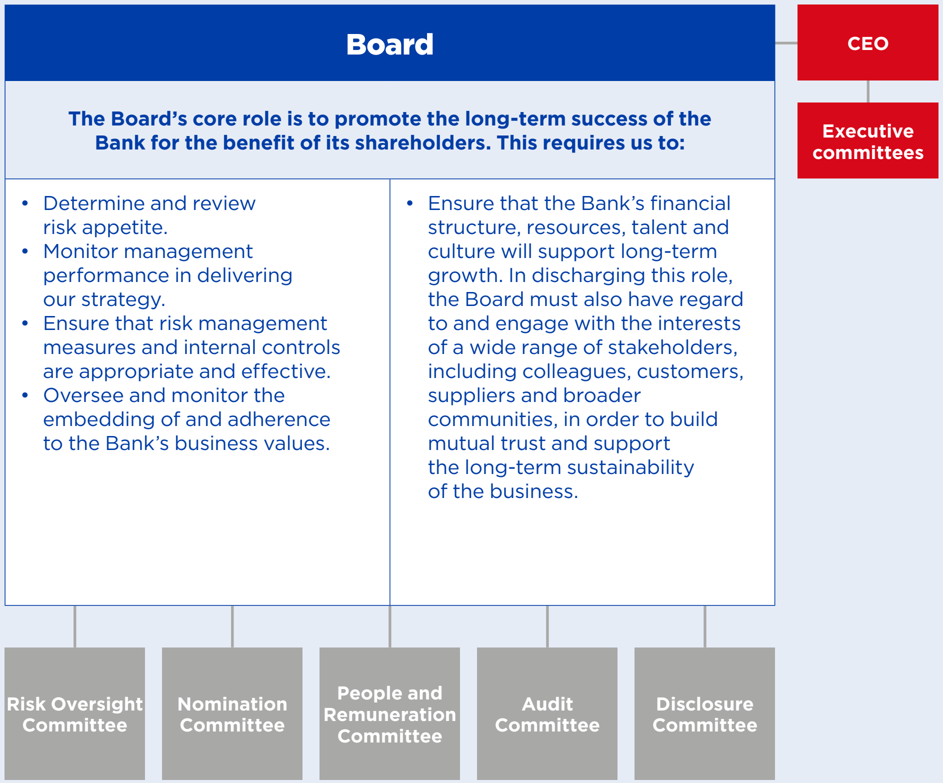
Summary of key activities undertaken by DNEDs during 2022

2022	Q1 (Jan to Mar)	Q2 (Apr to Jun)	Q3 (Jul to Sep)	Q4 (Oct to Dec)
Colleague contact	• Sally Clark and Anne Grim (as former NED of RateSetter) met consumer finance colleagues at our Bishopsgate Office.	• Robert Sharpe attended the AMAZE Awards.	• Nick Winsor attended a COO leadership event to discuss their 'People-People Plan' & 'Leadership Programme' at the Holborn Office. • Nick Winsor participated in a walk of the floor at Holborn to introduce himself to various teams in the building. • Nick Winsor attended a virtual Revolution update. • Nick Winsor visited Holborn and Tottenham Court Road stores.	• Nick Winsor visited Edgware and Borehamwood stores. • Nick Winsor hosted a 'Natter with Nick' virtual event with a selection of colleagues from across the business.
Colleague insight		• Voice of the Colleague Survey update.		• Voice of the Colleague Survey update.
Formal/informal reporting	• DNED update to the Board at February meeting. • DNED letter published in 2021 annual report.		• DNED update to Board.	• DNED update to Board.
Key inclusion network events	• Sally Clark attended the International Women's Day virtual event 'Creating a workspace free from bias, stereotypes and discrimination'.	• Nick Winsor attended the Pride Month virtual event lunch and learn: 'History and Allyship'.		• Nick Winsor attended an Mbrace event for Black History Month.

Board leadership and company purpose

The Board has a robust and coherent corporate governance structure with clearly defined responsibilities and accountabilities. These have been designed to provide prudent oversight of the strategic and operational direction of the Bank.

Governance framework



Board leadership and company purpose

Role of the Board

The Board is accountable to our shareholders and sets our strategy for achieving long-term success. The Board is ultimately responsible for the oversight of management, governance, controls, risk management, direction and performance of the Bank. The importance we place on the interests of our wider stakeholders, and having the customer at the heart of everything we do, is always at the forefront of the Board's agenda.

Composition of the Board

As at the date of this report, the Board consists of the independent Non-Executive Chair, the CEO, the CFO, seven independent NEDs and one shareholder-nominated Non-Executive Director. The Board has formally documented the separate roles and responsibilities of the Chair and CEO. More information on the composition of the Board can be found on pages 102 to 104 and information on the responsibilities of the Board can be found on page 120.

Matters reserved for the Board

The Board is responsible for setting and managing our strategic direction. The Board has a formally documented schedule of matters that are reserved for our approval. This includes decisions concerning our strategic aims and long-term objectives, the structure and capital of the Group, financial reporting and controls, risk management, and various statutory and regulatory matters. The Board is also responsible for effective communication with shareholders, the Bank's culture, purpose and values, any changes to Board or Board Committee membership or structure, and has the authority to recommend the Directors' Remuneration Policy to shareholders. The Board delegates responsibility for day-to-day management of the business to the CEO and sets out the basis for delegation of authorities from the Board to the Board Committees.

Board Committees

The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination, and People and Remuneration Committees, and reports for each are set out on pages 124, 130, 134 and 138. Each Committee has a Terms of Reference setting out its duties, authority and reporting responsibilities. Copies of all the Board Committee Terms of Reference are available on our website: metrobankonline.co.uk.

Board leadership and company purpose Continued

The Board also delegates the review of the Bank's disclosure obligations to a Disclosure Committee, formed of the CEO, CFO and General Counsel and Company Secretary. The Disclosure Committee has an approved Terms of Reference.

The Terms of Reference of each Board Committee are kept under regular review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. These documents are also reviewed formally every year by the relevant Board Committee, ultimately approved by the Board, along with a self-assessment of how each Board Committee discharged their duties during the year. The composition of each Board Committee can be found at the beginning of each Committee's individual report. Any changes to Board Committee memberships are based on the recommendation of the Nomination Committee to the Board.

Effectiveness

A clear record of the time commitments of each NED is maintained and reviewed annually by the Nomination Committee and the Board is satisfied that the Chair and each of the NEDs are able to devote sufficient time to the Company's business. Each Director has committed to dedicate as much time as is necessary to the Company and the NEDs' letters of appointment set out that they should be prepared to dedicate at least 25 to 30 days per year to the Company, with increased time required for additional duties such as Board Committees. Directors are expected to attend all meetings of the Board, and the Board Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties. If Directors are unable to attend a meeting, their comments on matters being considered at the meeting are discussed in advance with the Chair or Company Secretary, so that their contribution can be included in the wider discussion.

Board skills

As part of how the Board plans for succession, it maintains and reviews a clear record of the skillset that each Director provides. The Directors' skills and experience span a wide range of sectors and specialisms. The experience and knowledge of each Director gives them the ability to constructively challenge strategy and scrutinise performance.

Independence of Directors

The Board is satisfied that, as at 31 December 2022, seven NEDs and the Chair were independent.

Directors' continuing professional development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations. In 2022, the Board and Board Committees received internal training sessions on regulatory developments on corporate governance and audit reform, remuneration, Consumer Duty and the cost of living crisis, as well as a number of treasury-related matters including recovery and resolvability in line with regulatory requirements. NEDs attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Board Committees on which they sit.

Induction of new Directors

New Directors undergo a formal, robust and tailored induction programme upon appointment, which is agreed with the Chair and coordinated by the Company Secretary and her team. NEDs meet the Chair and the CEO as part of the Nomination Committee's selection process and again on appointment for a thorough briefing on all relevant aspects of the Company. They also meet other Directors, the Company Secretary, senior management and our advisors for briefings on their responsibilities as Directors and on our business, finances, risks, strategy, procedures and the markets where we operate.

Directors receive an electronic induction pack upon appointment, which includes relevant Bank policies and corporate and financial information. New Directors also receive listed company director responsibilities training from our legal advisors.

External appointments

In appropriate circumstances, the Board may authorise Executive Directors to take non-executive positions in other companies and organisations. Such appointments should broaden their experience, provided the time commitment does not conflict with their fiduciary duties to the Company. Any appointment is subject to the prior approval of the Board. During the year ended 31 December 2022, none of the Bank's Executive Directors held directorships in any other quoted company.

The Board reviews the external appointments of new NEDs before appointing them to the Board. The Board also authorises additional external appointments that NEDs may wish to take up, following due consideration of conflicts, regulatory requirements, other guidance, and assurances provided that the individual won't be over-boarded. External time commitments of our NEDs is reviewed on an annual basis by the Nomination Committee.

Board roles and responsibilities

Role	Name	Responsibilities
Chair	**Robert Sharpe**	The Chair leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Bank, including overseeing the development of culture and standards in relation to the conduct of business and the behaviour of colleagues. He is responsible for ensuring that there are strong links between the Board and management and between the Board and shareholders. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He reports to the Board and is responsible for the leadership and overall effectiveness of the Board, including responsibility for fostering a positive Board culture that reflects the values of the business.
CEO	**Daniel Frumkin**	The CEO is responsible for the day-to-day management of our operations, for recommending our strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported by the ExCo. The CEO reports to the Chair and to the Board directly and is responsible for all executive management matters of the Bank.
CFO	**James Hopkinson** (appointed 5 September 2022)	The CFO has responsibility for planning, implementing, managing and controlling all financial-related activities of the Bank, both day-to-day and for the long term. He is responsible for managing the Bank's financial position, including allocation and maintenance of capital, funding and liquidity. He is responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. The CFO also has oversight of the Treasury, Strategy and Investor Relations functions.
Company Secretary	**Stephanie Wallace** (appointed 31 December 2022)	The Company Secretary is responsible for advising and supporting the Chair and the Board on good corporate governance and best boardroom practice. She leads the Company Secretarial function.
Senior Independent Director	**Monique Melis**	The Senior Independent Director's (SID) role is to act as a sounding board for the Chair and to serve as an intermediary for Directors when necessary. She is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chair, CEO or CFO. She will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns, if contact with the Chair, CEO or CFO is inappropriate. She also acts as the conduit, as required, for the views of other NEDs on the performance of the Chair and conducts the Chair's annual performance evaluation.

Role	Name	Responsibilities
DNED	**Nicholas Winsor** (appointed 30 June 2022)	The DNED is responsible for bringing the views and experiences of colleagues into the boardroom. Working with the Board, as a whole, and particularly the Executive Directors, he takes reasonable steps to evaluate the impacts of Board proposals and developments on colleagues. He engages with the ExCo regarding colleague engagement and steps taken to address colleague concerns arising out of business-as-usual activities. He provides feedback to colleagues on steps taken in response to their feedback. He engages with colleagues on remuneration concerns, including colleague views on executive remuneration as appropriate. He reports regularly to the Board on activities undertaken and feedback, as well as presenting the annual update for the inclusion in the Annual Report and Accounts.
Consumer Duty Champion	**Catherine Brown** (appointed 18 October 2022)	The Consumer Duty Champion supports the Chair and CEO in ensuring that Consumer Duty is raised regularly in all relevant discussions, and the Board is challenging management on how it is embedding the Duty and focusing on consumer outcomes. She will consider and challenge management on the quality of product reviews, the effectiveness of fair value assessments, communication standards and testing, the ability to meet customer needs (including those considered vulnerable) through the support the Bank provides, the prioritisation of delivering customer outcomes when considering this alongside other internal and external challenges, and how effectively management embeds the Duty into our culture and governance.
Independent NEDs	**Catherine Brown** **Anne Grim** **Ian Henderson** **Paul Thandi** **Michael Torpey** **Nicholas Winsor**	The role of the NED is to constructively challenge the ExCo on matters such as strategic direction. Each NED brings specific experience and knowledge to the Board and its Committees. The NEDs as a whole have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. A skills matrix for the Board can be found on page 122. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture. Independent NEDs were previously appointed for an initial two-year term, subject to annual shareholder re-election, however this has changed to three-year terms following a review of terms of appointment during 2022.
Shareholder-nominated NED	**Dorita Gilinski** (appointed 26 September 2022)	Over and above the requirements set out above, the shareholder-nominated NED is to assist the Board in continuing to ensure that shareholder views are considered in Board decision-making and that there is a shareholder voice in the Boardroom.

The composition of the Board Committees can be found at the beginning of each of their individual reports.

Board effectiveness

2022 Board and Board Committee effectiveness evaluation

The Board carried out an internal effectiveness evaluation in 2022. The purpose of the evaluation was so the Board and Board Committees could reflect on the previous 12 months, including identifying matters relating to how we operate as a cohesive team, the discussions with, and challenges put to management and external advisors, the information and support we receive, and a horizon scan of matters we will deal with in the next 12 months and beyond.

The last external effectiveness evaluation was carried out in 2021 and all areas of feedback were addressed ahead of the publication of the 2022 Annual Report. In line with the requirements of the Code, our next external evaluation will be in 2023.

The feedback provided during the evaluation was consistent with feedback received by the Company Secretary at meetings held throughout the year with the Chair, NEDs, and the Senior Independent Director.

The Chair and NEDs met without the Executive Directors and management to discuss executive performance. The Senior Independent Director met with the Board without the Chair to discuss his performance during the year.

Overall, the collective view is that the Board continues to work productively following a number of Board changes during the year. The Chair continues to manage meetings effectively and seeks contribution and insights from every Director. There is productive discussion and challenge on the key topics of importance including strategy. Directors feel they are able to effectively contribute to discussions at meetings. There were no matters that NEDs had needed to raise with the Senior Independent Director during the year, and they continue feel able to raise matters via this route if needed. NEDs continue to have confidence in the CEO's ability to lead the organisation, and they agree that the new CFO is making strong contributions as a Board member and is effectively leading the finance function and the wider organisation.

A summary of the progress made on the key actions identified during the 2021 evaluation:

Board

Agreed actions	Progress
Board and Board Committee packs to be circulated earlier	The Company Secretariat, working closely with Management have issued papers as early as possible.
Review the frequency of Board and ROC meetings	The number of standard Board and ROC meetings reduced in 2022. However, given the Bank's position a number of short notice meetings were held.
Training on specific areas as identified by the Board and Board Committees to be provided to Directors	Sessions held during the year included, technology, regulation, cost of living, MREL and the requirements to introduce a holding company. Additional training sessions were also held for each committee, including audit reform, Consumer Duty and remuneration specific regulatory changes and developments.

Internal evaluation process

Step 1:

- Questionnaires for the Board and Board Committees were developed by the Company Secretary in consultation with the Board and Board Committee Chairs.
- Questions considered the recommendations and actions from the previous Board evaluation, best practice guidance and the Code. Questions also factored in areas of specific interest for each Board Committee.

Step 2:

- Questionnaires were issued to all Board and Board Committee members electronically.
- Responses were collated by the Company Secretary and the findings analysed.
- Detailed feedback was discussed with the Board Chair and each Board Committee Chair.
- Individual meetings were held between the Chair and each NED and the Senior Independent Director and the Chair to discuss feedback on:
  - how the Board operated in 2022 and any improvements that could be made in 2023;
  - each NED's contribution during 2022;
  - feedback on Executive performance during 2022; and
  - anything the Chair could do to maximise functionality of the Board.

Step 3:

- The Company Secretary presented the findings to the Board and Board Committees in late 2022/early 2023.
- Actions agreed with the Board and Board Committees as appropriate, and full findings made available to all Directors.

Board effectiveness Continued

2022 internal evaluation feedback and responses/actions

The feedback on Board effectiveness was mostly positive but, as expected when undertaking a balanced assessment, there were opportunities for continuous improvement.

Feedback	Response/Action
Board agenda and meetings The Board welcomed the return of face-to-face meetings, which enhance effective debate. Hybrid meetings can work well for short notice meetings. The Board agenda is well balanced and appropriate for the Bank's current position. Looking forwards, members feel that the Board could benefit from further focus on the below topics as the Bank enters its next growth phase: • Marketing and consumer strategy. • Product and store performance. • The investment programme underpinning the strategy. • Culture. The Board is in agreement as to the value provided from the Strategy Away Day and the opportunity this brings to have free form, forward-looking strategic discussions.	These items have been factored in the 2023 forward plan as appropriate.
Board composition and skills The current composition of the Board is strong in terms of the mix of skills, experience, diversity and independence, there are strong levels of banking and regulatory experience amongst members, which is appropriate. In the longer term and as the Bank continues to grow and harness sustained profitability, the Board could benefit from some broader business perspectives including technology.	No changes are expected to the current make-up of the Board in the short term. To be considered as part of broader succession planning via the Nomination Committee in the medium to longer term.
Board papers Although the quality of papers is strong, the Board asked Management look for opportunities to refine papers to ensure focus concentrated on the most pertinent topics.	Some committee report templates have already been updated and Management will continue to look for ways to refine papers as we go through the 2023 Board cycle.

Systems of internal control and risk management

The Board believes that effective risk management is crucial to the Bank's strategic objectives and long-term success. The Board has overall responsibility for ensuring risk is effectively managed.

Our approach to risk is further detailed on pages 54 to 97. The Risk Oversight Committee (ROC) reviews the effectiveness of the risk management process on the Board's behalf, and its approach can be found in the ROC Report on pages 130 to 133. The Board confirms that there is an ongoing process for identifying, evaluating and managing the emerging and principal risks faced by the Company.

The Board has delegated responsibility to the Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Audit Committee Report on pages 124 to 129.

The Board is ultimately responsible for the Bank's internal control and risk management systems, and in discharging this duty they regularly receive updates from the Chairs of both Board Committees as well as updates from the Chief Risk Officer (CRO). The Board also approves the Internal Audit Plan on the recommendation of the Audit Committee. The Board is satisfied that the internal control and risk management systems are operating effectively and that they have been in place for the year under review and up to the date of approval of the Annual Report.

Conflicts of interest

At each meeting, the Board considers Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

Prior to a new Director being appointed, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent the incoming Director from taking the appointment and, during their tenure, Directors are asked to consult with the Company Secretary and the Board Chair before taking up any external appointment or responsibilities. Conflicts are considered by the Nomination Committee annually and additional training was provided to our new shareholder nominated NED before joining.

Independent professional advice

Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary, who is responsible for advice on corporate governance matters to the Board.

Board effectiveness Continued

Indemnities and insurance

We provide Directors and Officers of the Bank with appropriate insurance during the course of their appointment, which is reviewed annually. In addition, Directors receive an indemnity from the Bank against: (a) any liability incurred by or attaching to the Director in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Bank or any associated company; and (b) any other liability incurred by or attaching to the Director in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office other than certain excluded liabilities, including to the extent that such an indemnity is not permitted by law.

Appointment and retirement of Directors

The Board may appoint Directors to the Board. Newly appointed Directors must stand for election by shareholders at the AGM following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2023 AGM. Under the Articles of Association, shareholders may remove a Director before the end of their term by passing an ordinary resolution at a general meeting.

Colleague engagement

For information on how the Directors have engaged with colleagues, had regard for colleague interests and what the effect of this has been, including on the principal decisions taken by the Company during the financial year, see pages 108 to 112.

Other stakeholder engagement

For further information on how the Directors had regard to the need to foster the Company's business relationships with suppliers, customers and others, and what the effect of this consideration has been, including on the principal decisions taken by the Company during the financial year, see pages 108 to 114.

Relations with investors

The Board continues to place great importance on regular two-way engagement with investors. We welcome engagement and dialogue throughout the year as part of an ongoing process. We connect with our investors on an ongoing basis through a variety of channels including face-to-face meetings, telephone calls, presentations, webcasts and online content.

Investor meetings are undertaken by the Chair, CEO and CFO, supported by the Director of Investor Relations. Institutional investors have the opportunity to meet with the Chair, Senior Independent Director and other NEDs to discuss any areas of concern. In addition, the Board Committee Chairs seek engagement with shareholders on significant matters related to the areas of their responsibility.

During 2022 the Bank appointed a shareholder-nominated NED. This reflects the strong relationships the Bank has with its shareholder base and assists the Board in continuing to ensure that shareholder views are reflected in decision-making.

The Investor Relations function reports to the Board on a regular basis on matters including share price performance, changes in the shareholder register, analyst and investor feedback and significant market updates, with the assistance of the Bank's corporate brokers. The Investor Relations team is responsible for ongoing communication with shareholders, analysts and investors. All financial and regulatory announcements, as well as other important business announcements, are published in the Investor Relations section of our website and stakeholders can subscribe to receive news updates by email by registering online on the website at: metrobankonline.co.uk/investor-relations/. Contact details for the Investor Relations and Company Secretary are available on the website for any shareholders, analysts or investors who wish to ask a question.

Audit Committee report

Committee composition and attendance for 2022

Members	Meetings attended	Meetings held during Director's tenure
Michael Torpey (Chair)	8	8
Ian Henderson	8	8
Monique Melis[1]	6	8
Sally Clark[2]	5	5

1. Monique Melis did not attend the Committee meetings on 21 February 2022 and 10 March 2022 due to personal reasons.
2. Sally Clark stepped down from the Committee on 30 June 2022.

In addition to the Committee Chair, Michael Torpey, there are two members of the Audit Committee: Ian Henderson and Monique Melis. Both are independent NEDs with a range of relevant business experience. Michael has recent and relevant financial experience and the Committee as a whole has competence in the banking sector. For further details of their skills and experience, please refer to their biographies on pages 102.

The Committee meets at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required.

Regular attendees at the Audit Committee include the Chief Internal Auditor, CRO, CFO, CEO, Board Chair and senior members of the Finance team, and the Assistant Company Secretary who is the Committee Secretary. The Committee Chair also sits on the ROC and works closely with Ian Henderson, its Chair.

Michael Torpey
Audit Committee Chair

2022 highlights

- Assessed going concern and viability.
- Reviewed key accounting judgements in respect of legal and regulatory matters, and impairments of non-current assets.
- Challenged management's accounting judgements, particularly in respect of measurement of the ECL allowance.
- Reviewed the Bank's published financial information.
- Reviewed internal audit reports and regular updates from the Chief Internal Auditor.

Dear shareholders

I am pleased to present the Audit Committee (the 'Committee') report for the year ended 31 December 2022. This report aims to provide a comprehensive picture of the work we have undertaken as a Committee during the year.

Sally Clark stepped down from the Committee on her departure from the Board on 30 June 2022. On behalf of the Committee, I would like to thank Sally for her valued contributions during her tenure.

During the year, the Committee's core duty remained unchanged; reviewing the integrity and quality of the Group's published financial information; supporting the Bank's governance framework; and maintaining focus on evaluating the effectiveness of the Bank's control environment.

The Committee continued to challenge and scrutinise financial reporting throughout the year, fulfilling our role of assisting the Board in determining the appropriateness of financial reporting.

One of the Committee's main responsibilities is to inform the Board whether we believe the 2022 annual report and accounts are fair, balanced, and understandable, and that it contains all of the information essential for shareholders to evaluate the Group's position, performance, business model and strategy.

To form our opinion we scrutinise the work undertaken by the Financial and Regulatory Reporting Assurance team, who provide details on the process undertaken to ensure a balanced disclosure of developments throughout the year. We make sure that management's disclosures reflect the supporting facts, we urge them to explain and justify their interpretation and, if required, re-present the data. The External Auditor, PricewaterhouseCoopers LLP (PwC), assist this process by examining the Group's accounting records against approved accounting practices, relevant laws and regulations as part of the statutory audit. The audit report by PwC can be read on pages 171 to 180.

Audit Committee report Continued

During the year, the Committee continued its oversight of the areas of judgement and estimation in the Group's results. This included scrutiny of portfolio level credit impairments to ensure they were adequate given the UK's transition away from COVID-19 pandemic measures and the ongoing effects of inflation and interest rate increases on consumers and businesses. The Committee received papers on this at half-year and full-year and will continue to keep this under close review.

In addition, the Committee continued to provide close oversight on key regulatory reporting matters including oversight of the Bank's committees for regulatory reporting and interpretation, and the Bank's progress towards advanced IRB accreditation for calculating credit risk for residential mortgages.

We continue to ensure that the Committee is kept abreast of UK audit and corporate governance reforms that will affect the Bank in the future, including considering the statements made in 2022 by the Department of Business, Energy and Industrial Strategy (BEIS) and the Financial Reporting Council (FRC) following the BEIS consultation in 2021 on 'Restoring Trust in Audit and Corporate Governance'. We will be keeping a watching brief on this to ensure we are implementing any necessary or desirable changes to our audit and governance frameworks.

Committee evaluation

During the year the Committee has continually reflected on our effectiveness, considered how we discharged our duties as set out in our Terms of Reference, and reviewed and recommended changes to this document to the Board for approval. The Committee was satisfied that it addressed all of its duties during 2022 and is well placed to deliver on the same in 2023. There is a continuing close collaboration with ROC, and both Board Committees' Terms of References were reviewed to ensure that each had distinct responsibilities, and where we collaborate, responsibilities are clearly articulated.

At the end of 2022, the Committee performed an internal effectiveness evaluation to assess our performance, how we are supported and a horizon scan of future matters that we may need to consider. In line with feedback from the evaluation, management will work to refine the drafting of papers and will include more horizon scanning into the forward plan.

Outlook for 2023

As the Bank continues into 2023 the Committee will continue to focus on management's approach to key accounting estimates and judgements, enhancements to the Group's risk and control framework, remaining abreast of any updates to corporate governance reforms and continued oversight of financial reporting.

Michael Torpey
Audit Committee Chair
15 March 2023

Throughout the year the Chief Internal Auditor, Chit Ghee Yeoh updates the Audit Committee Chair Michael Torpey on the outcomes of key audits.

Audit Committee report Continued

The Audit Committee in brief

The Audit Committee is accountable to the Board and will assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the financial reporting process, the system of internal control, the internal and external audit processes, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct.

Significant financial reporting areas considered by the Audit Committee

A key role of the Audit Committee is to review the integrity of the financial reporting for the Bank. This includes:

- Monitoring the integrity of the financial statements and formal announcements relating to the Bank's financial performance.
- Reviewing and reporting to the Board on significant financial issues and material judgements.
- Reviewing and challenging accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure.
- Overseeing the regulatory reporting framework to ensure it is strong and effective.
- Advising whether the Annual Report and Accounts are fair, balanced and understandable.

The Committee considered a number of significant reporting areas which are set out in the table to the right.

Significant financial reporting areas	Review, challenge and conclusion by the Committee
Going concern and viability	The Committee considered management's approach to assessing and concluding on both going concern and viability. The assessment undertaken by management focused on operational risks, liquidity and capital, with a particular emphasis on the latter. The Committee also considered the Group's strategy and Long Term Plan with a review of potential downside scenarios to management's central view and any mitigating actions that could be taken. After consideration, the Committee supported the approach adopted by management, which is set out in the viability statement on pages 96 to 97.
Legal and regulatory matters	The Committee regularly examined the accounting assessment made in respect of the Group's legal and regulatory matters, including specifically whether a need for any provision in the financial statements was required. This included approving the decision at the half year to no longer consider this area a critical accounting judgement following the conclusion of key legacy legal and regulatory matters.
Measurement of the ECL allowance	The Committee regularly reviewed management's assessment of the adequacy of the allowance for ECL. The review included governance arrangements over provisioning and models, the use of post-model adjustment and overlays, a benchmark of the Group's ECL against its peers as well as reviewing the components of the calculation (including SICR, definition of default, macroeconomic scenarios and scenario weightings). The Committee agreed with management's assessment that the measurement of the ECL allowance remain both a critical accounting estimate and judgement. Further details are set out on pages 217 to 219.
Deferred tax assets	During the year the Committee considered the need to reassess whether a deferred tax asset should be recognised in relation to the Group's unused tax losses (which were written off in 2019), following the improved financial outlook. Whilst the Committee were encouraged by the short and near-term profitability projections for the Group, they agreed with management's assessment that the criteria for re-recognising these had not been met. The Committee concluded that the Group should be able to demonstrate at least a full year of statutory profitability before these should considered being recognised.
Impairment review	The Committee has kept impairment indicators in relation to the Group's property, plant, equipment and intangible assets under review during the year. Management ran an impairment assessment as required by IAS 36 'Impairment of Assets' and the Committee considered the results of this including associated sensitivities. The Committee concurred with management's view that no impairment was necessary in relation to these assets.
Alternative performance measures	The Group continues to use alternative performance measures as it believes this provides readers with a greater understanding of underlying trends in the business. The Committee reviewed whether management's basis for underlying results remained appropriate, including reviewing assets classified as non-underlying. Details on the Group's alternative performance measures can be found on pages 241 to 245.

Audit Committee report Continued

Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2022 annual report and accounts are 'fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy'. The Committee is satisfied that the 2022 annual report and accounts meet this requirement and, in particular, that there are appropriate disclosures for relevant developments in the year. The process supporting this goal included:

- The compilation of the 2022 annual report and accounts was undertaken on a cross-functional basis including input from senior managers in Finance, Risk, People, Legal, Investor Relations and business lines. A review was undertaken by the Financial and Regulatory Reporting Assurance team and outcomes reported to the Committee.
- A formal review and challenge by the Committee of the draft 2022 annual report and accounts, along with a review of any issues raised in the External Auditor's report, in advance of final sign off.
- A final review, performed by the Board of Directors.
- The preparation of a going concern and viability statement that highlighted the profitability, capital and liquidity position of the Bank over the planning period to 2026.

Internal Audit

Internal Audit is a critical component of the Group's governance, risk management and control functions, providing independent assurance over key controls.
The Committee:

- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources and skills and were satisfied that Internal Audit had adequate resources available during the year.
- Assessed the effectiveness of the Internal Audit function throughout the year, including an internal evaluation process that involved a range of stakeholders.
- Monitored the delivery of the 2022 Internal Audit Plan, through reports provided by the Chief Internal Auditor, and discussed areas of significance. identified in audits with management.
- Recommended the 2023 Internal Audit Plan to the Board for approval.
- Approved changes to the Internal Audit Charter.

The Committee Chair also met regularly with the Chief Internal Auditor and ensured she had access to the Board if needed.

The 2023 Internal Audit Plan focuses on areas that present the greatest risk to the Bank, are most impacted by further growth, and are of regulatory importance. The Committee will monitor the resources available to Internal Audit to make sure they can effectively deliver the 2023 Internal Audit Plan. Following the recommendation of the Committee, the Board approved the 2023 Internal Audit Plan, as well as the level of risk assurance contained within it.

In line with best practice, the Committee reviewed the Chief Internal Auditor succession plan during the year.

Systems of internal control and risk management

Details of the Bank's risk management framework are provided on pages 54 to 97. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor. In addition, management were invited to discuss significant issues raised by Internal Audit. Management action plans to resolve the issues raised were monitored by the Committee. The Committee also challenged management where appropriate on the timeframe of the delivery of these actions. In conjunction with ROC, the Committee reviewed and approved the statements in the Annual Report concerning internal controls and risk management.

Financial risk management processes and controls are in place and there are assessments of the effectiveness of our internal controls on an ongoing basis. The internal controls framework encompasses all key controls, including those relating to: financial reporting processes; preparation of consolidated Group accounts; formulation of the Group's strategic plans, budgets and forecasts; accounting policies and levels of delegated authority.

Assurance work within Finance is carried out by the Financial and Regulatory Reporting Assurance team. The team's remit is to ensure that processes are supported by robust systems and controls, and to ensure high quality output with risks and issues being identified, highlighted and rectified appropriately. Assurance provided during 2022 included business as usual assurance, such as review of core deliverables and external reporting, as well as performing deep dive reviews into processes where risks or issues have been observed, and focusing on providing an appropriate level of input into key projects being undertaken within finance and regulatory reporting. The team has provided regular written updates to the Audit Committee throughout 2022.

Audit Committee report Continued

"The Committee continued to challenge and scrutinise financial reporting throughout the year, fulfilling our role of assisting the Board in determining the appropriateness of financial reporting

The Finance function adopts a continuous improvement approach to internal controls. During the year, there was a project to undertake an end-to-end review of the risk and control processes within Finance. This included working toward ensuring the Group is prepared for any changes resulting from the proposed BEIS reforms in relation to corporate governance. There were a number of deliverables and alongside the project, a cloud based portal has been created as an efficient way to monitor the controls environment during the year.

Regulatory reporting framework

The Committee has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Group. We focused on the oversight of the new regulatory reporting system that went live in 2022 and oversight of the Group's IRB application for residential mortgages.

The Committee has established a Regulatory Reporting Committee and a Regulatory Interpretation Committee to further enhance the Bank's governance and control of regulatory reporting.

External audit

The Committee reviews and makes recommendations to the Board with regard to the appointment of the External Auditor, their remuneration and terms of engagement.

The Committee is also responsible for the oversight of the relationship with the External Auditor and the effectiveness of the audit process. During the year we:

- Reviewed and approved the scope of the 2022 External Audit Plan in advance of the annual audit.
- Reviewed and approved the audit engagement terms and proposed audit fee.
- Reviewed and approved in advance non-audit services provided by the External Auditor.
- Considered the continued independence and objectivity of the External Auditor.
- Reviewed and discussed the reports provided by the External Auditor and the quality of work undertaken.
- Met regularly with the External Auditor without management present.

The Committee is satisfied that the External Auditors demonstrated appropriate professional scepticism and challenged the key focus of the financial statements, including material and judgemental areas. The External Auditors have effectively provided advice in relation to the financial assessment of the business throughout the year and their insights have been appropriately investigative and valuable, and their expertise welcomed.

The Committee confirms that PwC continues to be effective. The Committee has recommended the reappointment of PwC as the Bank's External Auditors to the Board, and the Board has recommended the reappointment to shareholders for the next financial year at the 2023 AGM.

The Bank confirms that for the purposes of compliance with Article 7.1 of the CMA Order, it has complied with Articles 3, 4 and 5 of the CMA Order for the financial year under review.

Independence

External Auditor independence is a key principle and contributing factor to audit quality. Independence is reviewed as part of the audit scope, as part of reports PwC presented to the Committee, and is further scrutinised prior to the accounts being approved and signed by the Board.

Audit Committee report Continued

PwC has been appointed as the Bank's External Auditor since 2009. The Bank is required under law to put its audit out to tender at least every 10 years and to change its External Auditor at least every 20 years. Our last formal competitive tender exercise took place during 2018. In relation to the audit for the year ended 31 December 2022, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2022 AGM to reappoint PwC, which shareholders approved.

In line with the FRC's Revised Ethical Standard 2019, the lead audit partner for the Bank rotates every five years. Jon Holloway has led the Bank's external audit since the start of the 2021 financial year. The Committee maintained a good rapport with Jon and the PwC team throughout 2022.

Non-audit services

The Committee carefully monitors the level of non-audit services provided by PwC and considered and approved the Bank's Non-Audit Services Policy during the year. During 2022, in instances where PwC were engaged for non-audit services, they were chosen due to their unique position and knowledge of areas within the Bank and the services were in respect of audit or assurance-related matters consistent with the principles of independent assurance provision. All non-audit services provided to the Bank by the External Auditor must be approved in advance by the Committee subject to the guidelines and thresholds detailed in the policy.

Details of services provided and the fees paid to the External Auditor during the year can be found in note 8 to the financial statements on page 190.

The FRC's Ethical Standard sets out a specific list of permitted non-audit services for UK incorporated public interest entities and the Committee was satisfied that the Non-Audit Services Policy aligns to the ethical standard concerning auditor independence, and that the Bank complied with its policy during 2022.

Modern slavery

The Bank has a Modern Slavery Policy that is accessible to all colleagues via the Bank's intranet. The policy outlines the Bank's zero tolerance approach to modern slavery. The Chair of the Committee is the Bank's Modern Slavery Champion and reports to the Board at least annually on the effectiveness and integrity of the systems and controls in place to ensure compliance with the Modern Slavery Policy. In 2022, we continued to follow and progress our processes to support our policy. We continue to publish our Modern Slavery Statement yearly and the General Counsel provides regular updates to the Committee on progress against our statement and action plan.

Whistleblowing

The Committee is responsible for the review of the adequacy and security of whistleblowing systems and controls and reviews these at least annually. The Bank has a Whistleblowing Policy that is accessible to all colleagues via the Bank's intranet and there is regular e-learning training for colleagues. The Chair of the Committee is the Bank's Whistleblowing Champion. The policy outlines the Bank's whistleblowing process which enables colleagues of the Bank to raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the workplace.

Risk Oversight Committee report

Committee composition and attendance for 2022

Members	Meetings attended	Meetings held during Director's tenure
Ian Henderson (Chair)	8	8
Catherine Brown	8	8
Michael Torpey	8	8
Nicholas Winsor	8	8

The Committee met regularly throughout the year. It also had additional shorter meetings and briefing sessions to discuss topics such as the ILAAP, ICAAP, Recovery Plan, Resolvability Assessment Framework and Market Risk Assessment Process.

In addition to the Committee Chair, Ian Henderson, there are three members of the Risk Oversight Committee (ROC): Catherine Brown, Michael Torpey and Nicholas Winsor. NEDs who are not ROC members were also permitted to attend meetings. The CEO, CFO and CRO had standing invitations to attend as guests, unless the Chair of the Committee asked them to excuse themselves from a particular meeting or discussion.

Other Directors and colleagues attended as guests by invitation of the Chair to present and report on relevant topics. The Company Secretary and her team acted as Secretary to the Committee.

Ian Henderson
Risk Oversight
Committee Chair

2022 highlights

- Ongoing review of the changing macroeconomic environment and the effect of this on credit risk.
- Reviewed results from the Bank's Vulnerable Customer Programme.
- Reviewed and endorsed the ICAAP, ILAAP, Recovery Plan and Market Risk Assessment Process.
- Reviewed and endorsed the Bank's Resolvability Assessment Framework.
- Gave consideration to and endorsed the Operational Resilience Self-Assessment.

Dear shareholders

It has been another busy year for the Bank and in addition to the Committee's oversight of the Bank's risk governance and management, the Committee has been focused on the changing macroeconomic environment and the effect of this on credit risk. The Committee had regular updates on arrears management and customer outcomes in this area and will keep this under close review as the Bank supports its stakeholders through 2023.

In line with our ongoing commitment to support our customers, the Committee asked for regular updates during the year on customer outcomes, in particular those for vulnerable customers. I was heartened to see the results from the Bank's Vulnerable Customer Programme and the Committee will continue to have oversight of this area as the Bank seeks to help support customers who may face difficulty in managing the increasing cost of living.

The Committee continued to focus on capital and liquidity and during the year took part in tailored deep-dive sessions before endorsing the ICAAP, ILAAP, Recovery Plan and Market Risk Assessment Process to the Board for approval. Alongside the Board and Audit Committee, ROC has also continued to have oversight of progress on the Bank's IRB application. As in previous years, regulatory capital management has been a constraint for the Bank and this has been kept under very close review.

The Committee also received regular updates on the progress to implement a Resolvability Assessment Framework and following a thorough review endorsed the Framework for Board approval.

Oversight of financial crime risk continued to be a priority during 2022 and following significant additional sanctions requirements related to the conflict in Ukraine, the Committee kept the monitoring of the increase to sanctions risk exposure under close review with regular updates from the business.

Risk Oversight Committee report Continued

The Committee had two deep dive sessions on Cyber, Information Security and IT resilience and was pleased to see the initiatives being put in place to further strengthen the Bank's defences in these areas.

The Committee considered and endorsed the Operational Resilience Self-Assessment at the start of 2022 and had oversight of progress against delivery of the Bank's operational resilience strategic priorities. The Committee was pleased to see the progress made so far and will keep this under review in 2023.

Evaluation

The Committee conducted an internal evaluation in 2022. The results of the evaluation showed that the Committee continues to work well. Management agreed to continue to send papers out as early as possible and more time will be devoted to horizon scanning in 2023. In line with best practice there will be an external evaluation in 2023.

"The Committee has been focused on the changing macroeconomic environment and the effect of this on credit risk

Outlook for 2023

The Committee will continue to have oversight of the Bank's risk governance and management in a changing macroeconomic environment with a focus on:

- Capital.
- IRB.
- Customer outcomes, including Consumer Duty requirements.
- Credit risk.
- Operational resilience.
- Technology and cyber risk.
- Fraud risk.
- Climate risk.
- Financial crime.

The following sections explain the role of the Committee and summarise the main areas of oversight for each of the Bank's key risks.

Ian Henderson
Risk Oversight Committee Chair
15 March 2023

As Chair of the Risk Oversight Committee, Ian Henderson receives regular updates on the Bank's key risks from the Chief Risk Officer, Kirsten McLeod.

Risk Oversight Committee report Continued

Oversight of the Bank's key risks

Bank risk report

This includes a summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics. The report also includes a summary of top risks, summary of issues under management, performance against risk appetite, regulatory engagement, operational incidents overview and credit portfolio insights.

Credit risk

Execution of strategy requires prudent and controlled management of credit risk. To support this, one of the roles of ROC is to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a particular customer or loan has deteriorated. This ensures that lending remains within risk appetite and policy exceptions are monitored. The Committee regularly review the performance of the loan portfolio including assessing the impacts of a changing macroeconomic environment. The Committee also oversee the performance of the suite of government financial support measures.

Treasury and prudential risk

The Treasurer's commentary is presented at each ROC meeting and the Treasurer provides a summary of relevant Treasury matters, including balance sheet performance and each of the principal treasury risks i.e. liquidity and funding, capital and market risks. The Treasurer also submits relevant Treasury policies for approval and notes the minutes of the Assets and Liability Committee, which is the primary venue for in-depth discussion on Treasury matters. The report to the Committee includes high-level MI on liquidity, funding, capital and market risks. In addition, the Treasurer's report includes updates on relevant regulatory matters.

The Committee also receives a regular update from the second line Risk team on treasury risk, treasury risk appetite performance and model risk.

During the year, ROC also reviewed and recommended to the Board for approval the ICAAP, ILAAP, Recovery Plan, Resolvability Assessment Framework, and Market Risk Assessment Process and relevant policies.

Operational risk

The Committee receives reports concerning risk appetite and risk assessment for a number of key operational risks including information security and systems availability, operational resilience, fraud, and the execution risk of change. Summaries of the material incidents which occur during the year and the related root cause analysis are presented to demonstrate how the Bank captures learnings and takes action to prevent or mitigate any potential recurrences.

The Committee also receives reports from management on emerging non-financial risks and how these risks are monitored and, where appropriate, mitigated.

Financial crime risk

Given the level of risk posed by financial crime to all banks, the Committee reviews management information and performance against the Bank's financial crime key risk indicators.

Compliance and conduct risk

The Committee is updated regularly on regulatory developments and changes that could impact the Bank and measures taken to monitor and mitigate regulatory risk. The Committee receives updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and feedback from 'Voice of the Customer' surveys. The Committee is also updated on how the Bank manages expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line of defence.

Deep dives and In-depth reviews

The Committee received in-depth reviews on areas of emerging risk and regulatory interest throughout the year and the key areas looked at in 2022 were:

- Data Governance.
- Resolvability Assessment Framework.
- Outsourcing and Third Party Risk.
- Cyber, Information security and IT resilience.
- Vulnerable Customer Outcomes.
- Outcomes for Customers in Arrears.
- People and Culture.
- Sanctions.

Risk Oversight Committee report Continued

Risk Oversight Committee in brief

The ROC is a sub-committee of the Board. Its specific responsibilities are set out in its Terms of Reference which are reviewed annually and available on the Bank's website.

The ROC provides oversight of risk and advises the Board, as appropriate, on the risks posed to the Bank from its continuing business activities and future strategy.

Accountable to the Board, the ROC provides leadership, oversight and direction regarding the Bank's risk governance and management. It is charged with helping the Board create an appropriate risk culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. The ROC is responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP document, ILAAP document, Recovery Plan and major risk policies. The ROC oversees risk management procedures and reviews risk reports on key business areas.

As a key part of the Bank's governance framework, the ROC ensures that the CRO has unfettered access to the Committee and its Chair.

The ROC receives regular management information and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. Regular updates are received on regulatory developments, and consideration is given to how these will affect plans, processes, systems and controls.

Key policy documents considered by the Risk Oversight Committee in 2022

- Pillar 3 Disclosure Policy.
- Operational Risk Management Framework.
- Conduct Risk Framework.
- Credit Risk Framework.
- Policy Governance Framework.
- Regulatory Risk Framework.
- Model Risk Management Framework.
- Legal Risk Framework.

Policies reviewed and recommended to the Board:

- Anti-Bribery and Corruption Policy.
- Anti-Tax Evasion Policy.
- Capital Management Policy.
- Liquidity Policy.
- Sanctions Policy.
- Anti-Money Laundering and Combating Terrorist Financing Policy.
- Market Risk Policy.
- Resolvability Assessment Framework.

Nomination Committee report

Committee composition and attendance for 2022

Members	Meetings attended	Meetings held during Director's tenure
Robert Sharpe (Chair)	3	3
Catherine Brown[1]	2	3
Monique Melis[2]	2	3
Paul Thandi	3	3

1. Catherine Brown did not attend the Committee meeting on 22 February 2022 due to personal reasons.
2. Monique Melis did not attend the Committee meeting on 22 February 2022 due to personal reasons.

In addition to the Committee Chair, Robert Sharpe, the Committee consists of three other members, Catherine Brown, Monique Melis and Paul Thandi. The CEO and the Chief People Officer attend meetings by invitation. The Chief People Officer provides support to the Committee Chair and Committee as needed and the Company Secretary or their delegate acts as Secretary to the Committee. Following each meeting the Chair provides an update to the Board. The Committee minutes are also included in future Board papers, as well as papers that require a Board decision or are of particular interest to the Board such as the Board Diversity Policy and succession plans.

Robert Sharpe
Nomination Committee Chair

2022 highlights

- The Committee had oversight of the external search process for the CFO/Executive Director position and recommended James Hopkinson to the Board for approval.
- The Committee considered the appointment of a shareholder-nominated NED, including the process for managing any conflicts of interest and recommended the appointment of Dorita Gilinski to the Board for approval.
- The Committee discussed non-executive succession planning to ensure the Board has the appropriate mix of skills, knowledge, experience, independence and diversity, having given due consideration to length of service of Board members.
- Reviewed the Board skills matrix and updated this to include ESG related skills.
- The Committee reviewed the Board's diversity against targets in the Board Diversity Policy and assessed the objectives against the market to ensure they remain appropriate.

Dear shareholders

I am pleased to present the Nomination Committee Report. During 2022, the Bank has continued to make progress against its objectives. There were several changes to the membership of the Board in 2022 following recommendations from the Committee. David Arden stepped down from the Board as Executive Director on 15 February 2022. James Hopkinson joined the Bank as CFO and as an Executive Director on 5 September and has extensive experience within the banking industry. Sally Clark stepped down as an independent NED from the Board on 30 June 2022. Following the recommendation of a candidate by a shareholder and consideration by the Committee and the Board, Dorita Gilinski was appointed to the Board as a shareholder-nominated NED on 26 September 2022.

In line with the ever evolving landscape in which we operate, the Committee has continued to focus on diversity at all levels of the Bank, including our Board, Board Committees and the ExCo.

The FCA introduced a new listing rule that will require the Bank to provide a statement on new diversity targets in our next financial reporting period, so the Committee continues to consider how this impacts the succession planning for the Bank and our broader D&I initiatives. Inclusion at all levels of the organisation underpins our ambition to be the number one community bank and the Committee remains committed to ensuring the Bank comprises a diverse and thriving colleague base. The Committee will also assess non-executive and executive succession plans and the Board Diversity Policy against the FCA's new diversity targets.

Nomination Committee report Continued

Inclusion at all levels of the organisation underpins our ambition to be the number one community bank

The Committee regularly reviewed the membership and composition of our Board Committees, in light of changes to the Board during 2022 and the medium and long-term plans, to ensure the Board continues to have the right mix of skills and experience. The Committee also reflected on the time commitment of each NED to carry out their respective responsibilities, and increased their expected time commitments to a minimum of 25-30 days per year. This reflects the amount of time the Board spends meeting to ensure the Bank is delivering upon its strategic objectives and the milestones set out in the turnaround plan.

The Committee discussed long-term succession planning during the year. Reflecting on Board membership changes during 2022, the Committee and I consider the current makeup of the Board to be well balanced and has the appropriate skills, knowledge and experience to continue to lead the Bank as we grow. We will continue to keep Board membership under review, noting the importance of diversity in effective decision-making, the benefits of retained knowledge and relationships of current Board members, and the value of fresh skills and opinions.

The Committee acknowledges the self-identified gap in technology skills and this is something that we will continue to monitor and prioritise in any future NEDs searches. However, at present no changes to the Board are expected, as the current Board continues to embed and build strong working relationships following the appointment of both James Hopkinson and Dorita Gilinski in late 2022. One future consideration for the Committee, is the length of tenure of NEDs and progressively refreshing the Board, as some of our longer standing NEDs move towards nine years of tenure.

During the year, the Committee enhanced its review of executive succession planning by looking in further detail at the pipeline for senior roles within the organisation and assessing the development plans of these individuals. It is important for the Committee to understand how our talented colleagues are developing in their careers and where the Bank would need to look externally for any recruitment needs that the business may require in the future.

Outlook for 2023

During 2023 the Committee will review the terms of appointment for Board members, including expected time commitments for NEDs, to ensure these reflect current Board priorities and workloads, including the creation of a new holding company for Metro Bank.

The Committee will also review the long-term succession planning for the Board to ensure there is the right balance of skills, knowledge, experience and independence to support the Bank's growth.

The Committee will also focus on reviewing the Board Diversity Policy in light of the FCA Listing Rule changes to ensure the Bank is prepared for the new targets.

I look forward to overseeing the work of the Committee in 2023 and in particular ensuring this supports the next steps of the Bank during a transitional year.

Robert Sharpe
Nomination Committee Chair
15 March 2023

Nomination Committee report Continued

The Nomination Committee in brief

The Nomination Committee leads the process for identifying and making recommendations to the Board for new Board appointments and Board Committee memberships. Its duties include:

- Reviewing the structure, size and composition (including the balance of skills, knowledge, experience, independence, diversity and critical skills) of the Board as a whole and making recommendations to the Board as required.
- Considering succession planning for members of the Board, including the length of service of members and the need to regularly refresh Board membership, taking into account the Bank's strategic priorities, market trends, regulatory requirements, and factors affecting the long-term success and future viability of the Bank and the skills and expertise needed on the Board in the future.
- Reviewing and assessing the Board skills matrix against the skills required by the Bank as part of its strategy.
- Reviewing the terms of appointment for Board members, including expected time commitments for NEDs to ensure these reflect current Board priorities and workloads, and to ensure that NEDs can dedicate sufficient time to their role taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board.
- Reviewing the Board Diversity Policy and recommending any changes to the Board.
- Considering Board candidates on merit, against objective criteria, with due regard for the benefits of diversity and taking care that appointees have time available to devote to the position.
- Reviewing the results of the Board performance evaluation process relating to Board composition and succession planning.
- Reviewing the talent and progression of colleagues for succession to ExCo.

Committee performance evaluation

The Committee conducted an internal evaluation in 2022. The Committee members considered that the Committee is working effectively and the members understand the skills required of Board members to oversee the delivery of the Bank's strategic objectives.

Board composition

The Committee's role in the Bank's strategy is to ensure that the Directors appointed have the skills, knowledge and experience required by the Bank to provide effective challenge and oversight of the delivery of the strategic objectives and to ensure there is a strong pipeline for ExCo and senior management positions. The Committee assessed the composition of the Board in 2022 as part of the changes made to its membership and concluded that the Board has the skills, leadership and each NED has the time to provide the necessary oversight and proper challenge to the ExCo and senior management. The Committee discussed the Board skills that may need to be strengthened as the Bank's strategy progresses, as well as keeping the tenure of NEDs under review, to ensure orderly succession. The Board Chair conducts individual appraisals of performance and time commitments with each NED on an annual basis.

The evaluations of each Board Committee show that they are working effectively in carrying out their duties and a summary of each evaluation is included in each of the Board Committees' reports. The Committee will continually review the memberships of our Board Committees to ensure that the members appointed have the skills, knowledge and experience required.

The process for appointments to the Board is contained within the Committee's Terms of Reference. The Committee recognises the importance of conducting a transparent and fair process for interviewing, assessing and appointing candidates to the Board. There is a requirement for the list of candidates to be diverse and the Committee is fully committed to improving the diversity of the Board and Board Committees over the long term. For the CFO search in 2022, the Bank engaged with executive search firm Egon Zehnder who have no other connection with the Bank or any of the directors.

Nomination Committee report Continued

Diversity

The Committee understands and recognises the importance of diversity in assisting decision-making and avoiding groupthink within our Board and Board Committees. The Committee is committed to using search firms that source a diverse longlist of candidates for consideration for the Board. The gender balance on our Board, and of those in senior leadership and their direct reports, can be found on page 38.

Board Diversity Policy

The Committee continued to track diversity against our Board Diversity Policy. We will update the policy in 2023 to ensure it is in line with best practice recommendations and meets the expectations of our stakeholders. A summary of the objectives of the Board Diversity Policy and the progress made against these is listed in the following table.

Objective	Status
Considering candidates for appointment as NEDs from a wide and diverse pool, which include a combination of skills, experience, ethnicity, age, gender, social, educational and professional background and other relevant personal attributes such as cognitive and personal strengths to provide a range of perspectives.	The Board appointed one NED in 2022 and gave due consideration to her skills, diversity and personal attributes. The Committee is therefore meeting this objective.
Ensuring the female representation on the Board meets and remains at a minimum of 33% as per the Hampton-Alexander objective.	As at the date of publication of this report, there were four female Directors appointed to the Board, which correlates to 36% of the total Board membership. We are therefore meeting this objective. The Committee will review the Diversity Policy in 2023, to ensure that this is compliant with the most recent updates to the UK Listing Rules.
Ensuring the Board's ethnic diversity meets and maintains a minimum one Director from an ethnic minority background by 2024.	As at the date of publication of this report, we have two Directors from an ethnic minority background appointed to the Board. We are therefore meeting this objective.
Only engaging executive search firms who are committed to sourcing diverse candidates and who have signed up to the voluntary Code of Conduct on gender diversity and best practice.	We engaged executive search firm Egon Zehnder for the CFO recruitment in 2022. They signed up to the voluntary Code of Conduct on gender diversity and best practice. A key focus of the recruitment process had been to source a diverse longlist of candidates.
Reporting annually against our objectives and other initiatives taking place within the Bank which promote diversity.	More information on Diversity initiatives can be found on pages 35 to 38 in the ESG report.
Reporting annually on the outcome of the Board evaluation including the composition, structure and diversity of the Board.	We have included a disclosure on our internal evaluation that the Board carried out in 2022 on pages 121 and 122.

People and Remuneration Committee report

Committee composition and attendance for 2022

Members	Meetings attended	Meetings held during directors' tenure
Catherine Brown (Chair)	5	5
Sally Clark[1]	3	3
Paul Thandi[2]	4	5
Anne Grim	5	5

1. Sally Clark stepped down from the Committee on 30 June 2022.
2. Paul Thandi did not attend the Committee meeting on 1 March 2022 due to a prior arrangement.

In addition to the Committee Chair, Catherine Brown, the Committee consists of two other members, Anne Grim and Paul Thandi. The Board Chair, the CEO and the Chief People Officer attend meetings by invitation.

The Chief People Officer provides support to the Committee Chair and Committee as needed and the Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides an update to the Board. The Committee minutes are also included in future Board papers, as well as papers that require a Board decision such as the Remuneration Policy and NED fees.

Catherine Brown
People and Remuneration Committee Chair

2022 highlights

- Increased the remit of the Committee to have oversight of the succession of colleagues under the Senior Managers and Certification Regime.
- Approved increase to colleague salaries to address the rising cost of living.
- Reviewed progress made by the Bank on the D&I strategy.

Dear shareholders

I am pleased to present the People and Remuneration Committee Report. We have continued to make improvements to the effectiveness of the Committee this year, most notably extending the remit of the Committee to include oversight of people-related matters, which was approved by the Board in October 2022. The expanded remit has added additional duties that assist the Committee with gaining greater understanding of the working environment experienced by the Bank's colleagues and provide greater challenge to the decisions made by the executives that impact our colleagues.

The additional duties include having oversight of the Bank's D&I strategy to ensure the Bank continues to move in the right direction towards a more diverse and inclusive organisation; reviewing the talent development and succession plans of Material Risk Takers and Certified Roles in scope of Senior Managers Certification Regime, which is an increase in scope beyond what the Nomination Committee already reviews; and seeking feedback from the Bank's DNED regarding their engagement with colleagues on all aspects of the Committee's responsibilities, including remuneration. The Committee will review how these new duties improve its effectiveness during 2023.

Our approach to Executive Directors' and Executive Committee members' remuneration

ExCo (including Executive Directors) remuneration comprises a salary, reasonable benefits, pension provisions and variable reward which is delivered through an annual bonus with deferral and an LTIP.

Full details of our Remuneration Policy can be found on our website at: metrobankonline.co.uk/globalassets/documents/investor_documents/remuneration-policy.pdf

People and Remuneration Committee report
Continued

Appropriateness of Executive Remuneration

The Committee believes it is right to reward strong performance by the Bank's executive team, balanced with the interests of all of our stakeholders. This includes considering investor expectations, so that the interests of the executives are aligned to the interests of our shareholders, and our continued compliance with the regulatory requirements including CRD V, which the Bank must observe as a proportionality level 2 firm.

Board changes and implications for remuneration

A number of Board changes are mentioned elsewhere in the Annual Report and Accounts; I will summarise them here in the context of reporting on the implications for remuneration.

David Arden stepped down as CFO on 15 February 2022. Details of the termination arrangements were outlined initially in last year's directors' remuneration report and more fully in the remuneration statement posted on the Bank's website on 7 March 2022. The Committee determined that these termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements.

On 5 September 2022, James Hopkinson was appointed CFO (and became an Executive Director). His remuneration is in accordance with the Remuneration Policy approved by the shareholders and was set out in an announcement to the London Stock Exchange on 15 July 2022. James was appointed with a salary of £500,000, with maximum annual variable reward and LTIP opportunity each of 100% of salary. He receives a pension entitlement of 8% of salary, which is aligned with the pension benefit provided to other Bank colleagues.

Review of RWA issue

The FCA concluded its RWA investigation in December 2022. The Committee has now had the opportunity to consider, in light of the FCA's conclusions and those of the PRA, the implications in respect of deferred variable remuneration awards, which had been frozen pending the outcome of the relevant regulatory investigations. The Committee determined that awards for some colleagues not implicated in the regulators' conclusions no longer needed to be frozen. However, awards for one former executive director remain frozen for the time being pending the completion of other proceedings. In respect of another former executive director, David Arden, his awards which had been frozen have now lapsed as part of his leaving arrangements (as set out on page 159).

Looking back on 2022

During 2022, we had a change to the Committee's membership with the departure of Sally Clark who left the Bank halfway through the year. Sally contributed to the performance of the Committee and the formulation of the Policy approved by shareholders in 2021, particularly with her insights from being the Board's DNED. To ensure that the Committee does not lose the benefit of these insights, Nick Winsor, as the new DNED, attends the Committee annually, with Nick presenting to the Committee on his engagement with the Bank's Colleagues in November 2022.

Supporting junior colleagues

During the year the Bank acted quickly to assist colleagues affected by the cost of living crisis. The Bank increased colleagues' salaries during the remuneration review in Q1 2022. The Committee was also pleased that most colleagues (excluding the leadership population) received an additional increase of 2.75% in December 2022. The increase in December was partly funded by passing on the saving as an employer from the Government's 1.25% National Insurance reduction. Colleagues were appreciative of the Bank making this increase at a challenging time for them with the rising energy costs. My Committee colleagues and I were particularly supportive of this being a permanent increase to the remuneration of the Bank's lowest paid colleagues.

2022 Variable remuneration

The formulaic outcome under the balanced scorecard for 2022 was 97%. However, management asked the Committee to exercise its discretion to reduce this outcome to 67%, believing that a lower pay-out was appropriate as the Bank focused on returning to profitability and maintaining its capital position. The Committee accepted this recommendation, notwithstanding the broader achievements by the Bank and its colleagues in 2022.

The Committee noted that, following our announcement of 23 January 2019 regarding the RWA adjustment, it had reduced individual variable awards for 2018 and had frozen unvested executive share awards. Having finalised the treatment of frozen awards following the conclusion of FCA proceedings in December 2022, the Committee decided that there was no rationale for a further adjustment to variable remuneration relating to the FCA fine in respect of 2022.

The CEO and CFO were awarded annual variable reward of £451,000 and £54,500 respectively, of which 60% is deferred for up to seven years. More information on the balanced scorecard outcomes and assessment of individual performance is set out on pages 149 to 151.

Looking forward to 2023

Shareholder engagement and review of the Directors' Remuneration Policy

We were very pleased that the Remuneration Report was strongly supported in May 2022, with over 91% voting in favour. We look forward to continuing our discussions with investors in the coming months in the run up to this year's AGM. The Committee will need to determine a new Directors' Remuneration Policy during 2023 for shareholder approval at the 2024 AGM. Therefore, we anticipate engaging with shareholders about any changes to our remuneration approach in late 2023 and early 2024.

People and Remuneration Committee report
Continued

2023 Annual variable remuneration and our scorecard measures
Our simplified approach to variable reward, applied across the organisation, focuses on all colleagues, on growth, and the long-term sustainable success of the business.

The Committee has agreed an appropriate Bank-wide balanced scorecard to inform our variable reward outcomes for 2023, based on financial, risk, customer and people objectives. Our scorecard for 2023 continues to have a 60% weighting on financial measures, with the balance of 40% reflecting social and governance measures which underpin our ESG commitments.

Our aim is to build a sustainably profitable business to support our customers and communities. With this in mind, the 60% financial measures in the scorecard will reflect the Bank's progress in delivering the financial outcomes of its strategy. Within the remaining 40%, managing our risk levels within our risk appetite and maintaining positive relationships with our regulators remain important aspects, weighted at 20%. Customer satisfaction remains central to the success of the Bank and remains weighted at 10%. Our colleagues and communities matter to us and we wanted to reflect this in our scorecard. We have enhanced our measures for colleague satisfaction, diversity and the reach of our financial literacy Money Zone programme into the community, with a combined weighting of 10%.

The Committee is aware of investor sentiment for ESG measures to be relevant to strategy, measurable and quantifiable. In the coming year, the Committee will consider whether to amend the Bank's incentive plans to incorporate further ESG measures. This review will form part of the broader review of the Bank's Remuneration Policy scheduled for renewal next year.

We will disclose the specific targets and measures contained in the scorecard in the Directors' Remuneration Report of next year's annual report.

2023 Executive Directors' variable remuneration
Variable reward for Executive Directors for 2023 will be awarded through an annual bonus – consisting of a cash bonus, retained shares and deferred shares under the Deferred Variable Reward Plan (DVRP) and the LTIP.

Executive Directors' variable reward will be based on the 2023 scorecard outcome balanced with the personal behaviours and performance of the individual. This approach is consistent with the approach we apply to all colleagues.

Salaries from 1 April 2023

All colleagues
The increase in our budget for salaries this year has been used to support the cost of living challenges experience by colleagues, maintaining the increase in real living wage while continuing our fair pay approach across the Bank, and salary progression.

In response ExCo has approved a budget that results in an average pay rise across the organisation of 5% effective April 2023, prioritised for customer facing and junior colleagues. This, together with a one-off salary increase of 2.75% in December 2022 for 98% of our colleagues results in an overall average increase of 7.5%.

Executive Directors
Since his appointment in 2020, Daniel Frumkin has received one salary increase. External benchmarking showed that his remuneration is increasingly out of line with others in the market. Daniel has performed strongly during the year in delivering the strategic repositioning of the Bank, despite significant and unprecedented external challenges, and put the Bank on a path towards sustainable profitability.

Under his leadership, the Bank has made positive, measurable progress against its five strategic priorities. This context provided the Committee with a strong rationale to give a salary increase to Daniel this year, and it decided to increase his salary from £769,600 to £925,000. This brings him in line with the market, acknowledges the criticality of his role in delivering the next phase of the Bank's strategic plan and retains his talent and expertise for the organisation.

Given the continuing external pressures facing the Bank, the Chair and CEO have agreed that he would waive the increase for the forthcoming financial year, and the salary increase would take effect from 1 January 2024.

Delaying the implementation of the increase, in effect, saves £130,000 in salary and pension, and up to an additional £155,000 in annual bonus opportunity for 2023. Any LTIP in 2024 would be based on the higher salary.

The Committee acknowledges that the salary adjustment, once implemented in 2024, will increase the variable reward opportunity for which the CEO is eligible. This was something that the Committee considered as part of its deliberations and will bear in mind when determining future variable rewards.

There is no planned increase to the salary of James Hopkinson, the CFO, given that he has been in the organisation for less than a year, and his role was externally benchmarked within the last 12 months.

Chair and Non-Executive Director fees
The annual fee for the Chair and NED fees are unchanged.

I very much hope that you will support the resolution to approve the Remuneration report at the forthcoming AGM.
On behalf of the Committee,
thank you for your support.

Catherine Brown
People and Remuneration Committee Chair
15 March 2023

People and Remuneration Committee report
Continued

Committee performance evaluation

The Committee conducted an internal evaluation in 2022 and concluded that the Committee continues to work effectively. There was one area highlighted for improvement that concerned the Bank's peer group that is used as benchmarking data for the Committee. The Committee has considered changes to update the Bank's peer group so that it better reflects the increasing size and complexity of the Bank. In 2023, the Committee will conduct an external evaluation alongside the Board evaluation.

Advisors to the Committee

The Committee has had Aon McLagan acting as its independent advisors on executive remuneration since October 2021. Aon McLagan have no other connection to the Bank of any of its Directors. The Committee conducted an annual review of the performance of Aon McLagan in October 2022 and determined that the Committee was broadly happy with the support provided. The fees paid for services provided to the Committee in 2022 were £51,410 (2021: £81,673) and were determined on a time and expenses basis. The Committee is satisfied that the advice it receives is objective and independent, and that there are no conflicts of interest resulting from Aon's appointment. As the Committee will be determining a new Policy during 2023 for shareholder approval in 2024, it is the right time to conduct a market review of independent advisors to ensure that the Committee is receiving the best value from its advisors over this period.

The People and Remuneration Committee in brief

The People and Remuneration Committee leads the process for reviewing the remuneration practices of the Bank and approving the executive remuneration structure and outcomes. It also has oversight of other activities of the Bank's People function, such as the Bank's D&I strategy and talent development. Its duties include to:

- determine the Directors' Remuneration Policy (the 'Policy') and recommend its approval to the Bank's Board and then the Bank's shareholders;
- review and have regard to the pay and employment conditions across the Company and the alignment of incentives and rewards with the Bank's culture;
- engage with the Bank's Colleagues on remuneration matters through the Board's DNED;
- approve the design of, and determine the targets for, any performance-related reward schemes operated by the Bank and approve the total annual payments under such schemes;
- oversee the Bank's D&I strategy;
- exercise independent judgement and discretion when authorising any remuneration outcomes;
- oversee the Bank's Senior Managers Certification Regime, including appropriate competencies and Material Risk Takers and Certified Roles;
- seek advice from the CRO and Chair of the Risk Oversight Committee on risk adjustment as it applies to executive remuneration; and
- engagement with the Bank's shareholders, and other stakeholders, on the Bank's remuneration decisions.

2023 priorities

- Review of the Directors' Remuneration Policy ahead of its renewal at the AGM in 2024.
- Retain a focus on lower paid Colleagues in the context of ongoing cost of living challenges.
- Oversee remuneration related implications (such as share plans) as a consequence of the creation of a new holding company.
- Review of the ongoing alignment between the Bank's incentives and any changes in strategic priorities including considering the future types of ESG related measures in incentive plans.
- Review of Remuneration Committee advisors.

Remuneration at a glance

Executive director pay at Metro Bank

The remuneration of Executive Directors at Metro Bank consists of the following elements.

Fixed

Salary
Reflects the value of the individual's skills, expertise and experience and ability to grow with the role and organisation.

+

Benefits
Supports the health, wellbeing and security of our Executive Directors. Offering is aligned with all colleagues.

+

Pension
Supports Executive Directors in building long term savings for their retirement. Offering is aligned with all colleagues.

+

Variable

Annual bonus
Incentivises the delivery of the annual financial and strategic objectives which contribute towards the delivery of longer term strategy. Aligns interests with shareholders by delivering a portion in shares.

+

LTIP
Motivates key individuals and rewards the creation of long term shareholder value thereby creating shareholder alignment.

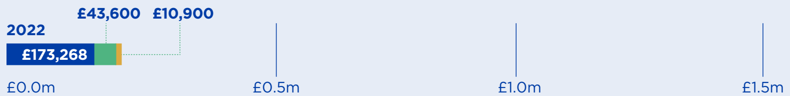
=

Total remuneration
Sum of the fixed and variable elements of remuneration.

2022 remuneration outcomes for Executive Directors

Daniel Frumkin, Chief Executive Officer (£'000)

James Hopkinson, Chief Financial Officer (£'000)



● Fixed remuneration ● Retained Share Award ● Deferred Share Award

No cash bonuses were awarded for the 2022 performance year. There were no long-term incentive plan vestings for either executive director. All share awards are subject to a minimum 12 month holding period.

Pay for performance at a glance

The following table shows the 2022 balanced scorecard outcomes used to inform annual variable reward. Although the formulaic outcome was 95.35%, the Committee accepted the Management's recommendation that discretion be applied to adjust the outcome to 67%.

		Threshold	Target	Maximum	2022 weighted outcome
Financial	Underlying loss before tax (£'million)				60.00%
	Statutory cost: income ratio (%)				5.50%
	Capital including MREL				0.00%
Risk & Regulatory	Cost of risk and relationship with regulator				10.00%
Customer	Net promoter score and expressions of dissatisfaction				8.25%
People	Diversity and colleague engagement				11.60%

● Actual performance ● Range from threshold to maximum

People and Remuneration Committee governance

How does our Directors' Remuneration Policy address the key features set out in the UK Corporate Governance Code ('the Code')

The following table summarises how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee is committed to providing open and transparent disclosures to shareholders and colleagues with regard to Executive Director remuneration arrangements. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our DNED.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our approach to remuneration for Executive Directors is simple and transparent. It is consistent with structures used widely across the financial services industry.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	In line with regulatory requirements, our remuneration practices promote sound and effective risk management while supporting our business objectives. For 2023, 20% of our balanced scorecard which informs variable reward will be based on risk and regulatory measures, and variable reward is also subject to a risk adjustment process and input from the CRO and the Chief People Officer. The deferred portion of any bonus awards granted to Executive Directors vest between years three and seven, during which our malus policy can be applied. Awards made under the separate LTIP also vest over a seven year period, assuming performance conditions (of which one is a risk-based measure) have been met. Our malus policy can be applied to the LTIP throughout the vesting. All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing).
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Variable reward is delivered primarily through share based awards. The value of awards are therefore closely aligned to share price movements and the shareholder experience. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided later in the report.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Variable reward payments require robust performance against challenging measures and targets. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the individual's AMAZEING review. The Committee has discretion to override formulaic scorecard outcomes to ensure that they are appropriate and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The primary objective of our remuneration framework is to support growth and our long-term success while reinforcing our unique culture. The variable reward pool for any year is based on the overall performance of the Bank in terms of culture and delivery in line with the balanced scorecard. All colleagues are able to participate in our HMRC approved share incentive plan, which supports our ethos of colleague buy-in and ownership.

People and Remuneration Committee governance
Continued

In accordance with Code Provision 41, the Directors' Remuneration Report describes the work of the Committee, including those areas mentioned in that Provision. The table below highlights some of those areas:

Provision	Approach
Operation of policy	The Committee believes that the Remuneration Policy operates as intended in terms of Company performance and the quantum of remuneration delivered.
Shareholder engagement	We undertook substantial engagement with our shareholders as part of the development of a new remuneration policy in the run up to the 2021 AGM. We are grateful for this feedback and subsequent input received that has shaped our thinking and decision-making. We also engaged leading investors in the run up to the 2022 AGM on our remuneration approach.
Workforce engagement	An outline of our approach to workforce engagement in set out on page 146.

The Directors' Remuneration Policy – summary

This section of the report summarises the remuneration policy for our Directors, how it was implemented in 2022 and how it is intended to operate in 2023. The policy was approved by shareholders at the AGM on 18 May 2021 and took effect from that date, in accordance with section 439A of the Companies Act 2006. It is intended that approval of the Remuneration Policy will be sought at three-year intervals, unless amendments to the policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2023. The approved Remuneration Policy can be found in the Governance section on our website.

Key elements of remuneration	Key features of the Policy	Implementation for 2022	Planned for 2023
Salary	• Reviewed annually and increases will be in line with increases awarded to other colleagues. • There may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, for example where the size scope of a particular role is increasing organisation grows.	• Daniel Frumkin (CEO): £769,600. • James Hopkinson (CFO): £500,000 (appointment salary).	• No change. An increase to £925,000 has been approved and will be deferred until January 2024 (see page 140 for more detail). • No change for the CFO.
Benefits	Core benefits include: • Life assurance of 4x salary. • Private medical insurance for the Exec their partner and children. • Additional benefits may be provided in circumstances such as on relocation.	Benefits are provided in line with the approved Policy.	Core benefits will be unchanged from previous year.
Pension	• Executive Directors are automatically enrolled to the Group Personal Pension Plan when they join. If they have exceeded the lifetime allowance or annual pension tax-free contribution amount they can elect to take cash in lieu of pension for the benefit. • We do not operate any discretionary pension benefits.	Company contributions: • Daniel Frumkin (CEO): 8% of salary. • James Hopkinson (CFO): 8% of salary.	Unchanged for the CEO and CFO.

People and Remuneration Committee governance
Continued

Key elements of remuneration	Key features of the Policy	Implementation for 2022	Planned for 2023
Annual Bonus	• Variable reward will be limited to 200% in a financial year. Within this overall limit, the annual bonus will be limited to 100% of salary for a financial year. • Deferral of all variable reward (annual bonus will be in line with regulatory requirements). • Subject to malus and clawback. • Executive Directors must undertake no personal hedging strategies or take out insurance to undermine the risk alignment in their remuneration.	Scorecard measures for 2022 outlined on pages 149 to 150.	The maximum award levels remain unchanged for 2023. The balanced scorecard measures are outlined on page 165, and reflect strategic priorities.
LTIP	• Variable remuneration will be limited to 200% of salary for a financial year. Within this an overall limit of 100% for LTIP within a financial year. • Performance to be measured ordinarily over a three-year period, with vesting between three and seven years. LTIP shares will be subject to a post-vesting retention period. • The performance conditions have been aligned to the strategic plan and the performance targets will be set to be stretching. • Subject to malus and clawback. • Executive Directors must not undertake personal hedging strategies or take out insurance to undermine the risk alignment to their remuneration.	• Daniel Frumkin (CEO): 100%. • James Hopkinson (CFO): n/a.	Details of the approach set out on page 164. Proposed awards to be granted in 2023 in respect of 2022 performance are as follows: • Daniel Frumkin (CEO): 100%. • James Hopkinson (CFO): 100%.
All employee Share Incentive Plan	• Tax-efficient all employee plan to encourage employee share ownership. • Executive Directors are eligible to participate in the all-employee Share Incentive Plan.	The lower of £1,800 or 10% of salary per tax-year can be used to purchase Metro Bank shares.	No change in policy approach in 2023.
Shareholding guidelines	• Executive Directors are subject to a minimum shareholding requirement equivalent to 200% of salary. • Executive Directors are expected to retain all share vesting under the Deferred Plan and LTIP (net of tax) until such time as this shareholding has been met. Build up is expected over five years commencing with the later commencement date or the date the Director joins the Company. • Executive Directors are expected to maintain the shareholding requirement (or their actual shareholding at date of leaving, if lower) for at least two years post-employment. For awards granted from the commencement of this policy, the Company will enforce this by way of a contractual requirement.	Current shareholdings and progress toward shareholding requirement set out on page 161.	No change in policy approach in 2023.
NEDs	• All NEDs receive a fee for fulfilling their duties as a Board. • Additional fees are paid for added responsibilities such as chairship and membership of a committee of or acting as the Senior Independent Director. • The basic and additional fees are review periodically, drawing on external mark for comparable financial services group companies.	Our NEDs are paid in line with the approved Policy. The basic annual fee paid to all NEDs changed to £65,500, with an increase in fees for additional responsibilities. The annual fee for the Chair remained unchanged at £350,000.	No change in policy approach in 2023. Fees remains unchanged going into 2023.

People and Remuneration Committee governance
Continued

Remuneration for colleagues below Board level
Metro Bank is committed to ensuring our workforce has the diversity of talent and expertise that it needs for the business to continue to grow and innovate. Our people are critical to us achieving our strategy and the Remuneration Committee is committed to ensuring our people are rewarded fairly and competitively for their contribution to our success.

Our approach to remuneration for colleagues below Board and ExCo level is similar for all colleagues. Whilst remuneration for the ExCo is structured differently to that of the wider colleague population, it is consistent across this small group of colleagues. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business whilst discouraging unnecessary risk taking.

Summary of the Remuneration Structure for colleagues below Board level

Salary	Benefits	Pension	Variable Remuneration
• The quantum of salary increases are primarily driven by the external market and capability. • We also review salaries for roles that we deem are growing rapidly in scale and/or complexity and are critical to the business and for those colleagues which market data suggests are falling behind the market rates for their roles.	• All colleagues are eligible for private medical insurance funded at different rates of cover depending on their level. • All colleagues, including the ExCo, receive life assurance cover of four times their base annual salary.	• All colleagues can participate in our Group Personal Pension Plan when they join the Bank. If they have exceeded the lifetime allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit. • Employer pension contributions payable by Metro Bank are up to 10%.	• We apply the same Company performance adjustment factor to all colleagues. • For all colleagues whose personal behaviours and delivery are as expected or better, we apply an adjustment factor up to a maximum of 200%. • Where appropriate and required by regulations, variable remuneration is deferred and delivered in share.

Consideration of employment conditions elsewhere in the Bank
We offer a simple approach to reward for all colleagues which supports our unique culture and strategy as well as being aligned to shareholder needs. Our approach to remuneration is consistent for all colleagues including our Executive Directors. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, focusing on long-term growth and discouraging unnecessary risk-taking.

During the year, the Remuneration Committee received updates on overall pay and conditions for colleagues across the Bank and this was taken into account when setting pay for Directors. In particular, the base salary for Executive Directors is limited by reference to colleague pay, and ahead of our annual reward review process, the Remuneration Committee opines on the quantum to be made available for salary increases, annual bonus awards, awards under the DVRP and the LTIP. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our DNED.

Workforce engagement
Metro Bank runs annual employee engagement surveys, as well as more regular ‘pulse’ surveys which provides colleagues with the opportunity to give feedback and express their views on a variety of topics including their own remuneration, working environment and workforce policies and practices. Any comments relating to Executive Directors’ remuneration are fed back to the Remuneration Committee. Nick Winsor, as the new DNED, attends the Committee annually, with Nick presenting to the Committee on his engagement with the Bank’s Colleagues once per annum. People diversity in all its forms is a core element of our talent strategy and succession planning.

Approach to recruitment remuneration for Executive Directors
The Remuneration Committee’s overarching principle for recruitment remuneration is to pay reasonably to attract an Executive Director of the calibre required to shape and deliver the business strategy, from a diverse talent pool. The Committee will seek to align any remuneration package with our remuneration policy as laid out above but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise.

People and Remuneration Committee governance
Continued

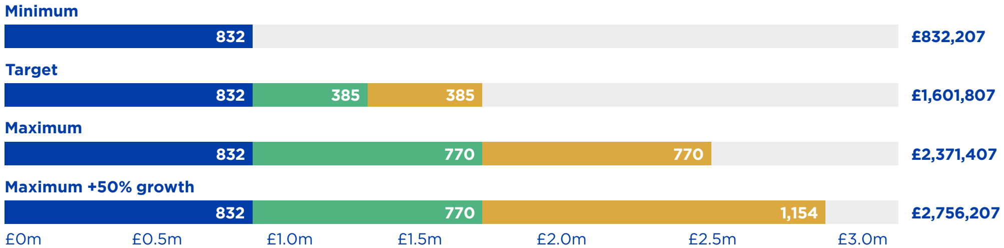
Loss of office policy

The Bank's policy is that Executive Directors' contracts can be terminated by either party on giving no more than 12 months' notice. Additional payments can be made by way of damages for breach of any legal obligation or by way of settlement or compromise of any claim raised by the Executive Director. The Executive Directors' service contracts and letters of appointment are available for inspection on request at our registered office.

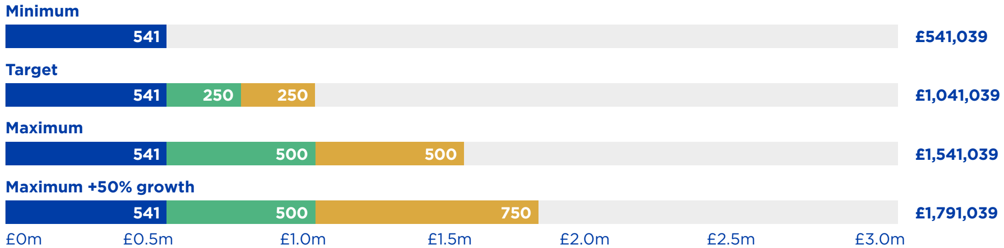
Projected total remuneration scenarios[1]

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance: minimum, target, maximum, and maximum including assumed share price appreciation of 50% (in accordance with the Corporate Governance Code). The impact of potential share price movements is excluded from the other three scenarios. These charts reflect projected remuneration for the financial year ending 31 December 2023.

Daniel Frumkin Chief Executive Officer (£'000)



James Hopkinson Chief Financial Officer (£'000)



● Fixed pay ● Annual bonus ● Long-term incentives

Note
1. These illustrations are based on salaries as at 1 April 2023 and consider the cash amount of annual variable remuneration before conversion into share awards. No account is taken of the effect of share price changes (other than under the "Maximum +50% growth" scenario) or dividends on the value received from share awards or shares received under them.

Annual report on remuneration

Annual report on remuneration

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2022. This section will, together with the annual statement by the Chair of the Remuneration Committee on pages 138 to 140, be put to shareholders for an advisory vote at the 2023 AGM.

Single total figure of remuneration – Executive Directors (audited)

Annual remuneration (£)

The following sets out the remuneration for the individuals who served as Executive Directors in the year. Daniel Frumkin was the highest paid director in 2022.

	Daniel Frumkin		James Hopkinson		David Arden[3]	
	2022	2021	2022	2021	2022	2021
Salary	£762,200	£740,000	£162,879	n/a	£52,313	£405,000
Taxable benefits[1]	£1,039	£1,001	£173	n/a	£52	£400
Pension benefits[1]	£60,975	£59,200	£10,000	n/a	£5,231	£40,500
Other[1]	£947	£875	£216	n/a	£107	£787
Total fixed remuneration	£825,161	£801,076	£173,268	n/a	£57,703	£446,687
Annual variable pay awarded in retained shares	£360,800	£547,600	£43,600	n/a	n/a	£103,275
Annual variable pay awarded in deferred shares	£90,200	£81,400	£10,900	n/a	n/a	£154,913
Total variable remuneration	£451,000	£629,000	£54,500	n/a	n/a	£258,188
Total remuneration	£1,276,161	£1,430,076	£227,768	n/a	£57,703	£704,875

Details of the single figure salary (audited)

	Salary as at 1 January 2022	Salary as at 1 April 2022	Total salary paid in 2022
Daniel Frumkin	£740,000	£769,600	£762,200
James Hopkinson[2]	n/a	£500,000	£162,879
David Arden[3]	£405,000	£405,000	£52,313

1. Taxable benefits includes the cost of private medical cover. Pension benefits is the amount of cash in lieu of participating in a pension plan. Other includes the premium for life assurance cover.
2. In the case of James Hopkinson, salary as at date of appointment to the Board.
3. David Arden's remuneration in the above table reflects his period as a director to 15 February 2022. He remained in employment up to 1 April 2022.

2022 variable reward outcomes (audited)

Variable reward outcomes across all colleagues is determined as follows:

Salary	x	On target variable remuneration	x	Bank-wide balanced scorecard outcome 'Company performance adjustment factor' (0%–120%)	x	Individual AMAZEING Review rating multiplier 'Individual adjustment factor' (0%–200%)	=	Proposed variable remuneration

The annual bonus in relation to performance during 2022, for all colleagues including Executive Directors was based on a balanced scorecard of performance measures and objectives, weighted between financial (60%), risk and regulatory (20%), customer (10%) and people (10%). At its February 2023 meeting, the Committee approved a balanced scorecard outcome of 67%.

Annual report on remuneration Continued

The tables below illustrate performance against each of the balanced scorecard measures. This approach and adjustment factor are consistent with that applied for all colleagues across the Bank. The performance adjustment factor can range from 0% to 120%.

Amounts shown reflect the total annual bonus paid in 2023, based on performance in the financial year ending 31 December 2022, including the value of any retained shares and deferred shares under the DVRP.

Financial performance

Performance measure	Weighting	Threshold performance	Target performance	Maximum performance	Actual performance outcome	Adjustment factor	Weighted performance outcome
Underlying loss before tax (£'million)	50%	(71.0)	(65.0)	(58.0)	(50.6)	1.2x	60.0%
Statutory cost: income ratio (%)	5%	124.3%	113.0%	101.7%	105.9%	1.1x	5.5%
Capital including MREL	5%	Qualitative assessment			See below	n/a	0.0%
Total for financial measures	60%						65.5%

While capital remains above regulatory minima, the Committee accepted a recommendation from Management that no pay-out was afforded to this item. The minimum requirement for own funds and eligible liabilities (MREL) remained close to the regulatory minima (as at the end of 2022).

Non-financial performance

	Objectives	Key achievements in 2022	Weighting	Adjustment factor	Weighted performance outcome
Risk and regulatory	Cost of risk (Impairment)	Cost of risk exceeded the target range. However, the overall risk profile and quality of lending has remained strong.	10.0%	0.00x	0.00%
	Relationship with regulator	Regulatory risk has remained broadly stable throughout 2022 with the Bank operating within its appetite limits. The relationship with the regulators was assessed as supportive and collaborative, while remaining robust. There were no new regulatory enforcement actions on conduct in the year.	10.0%	1.00x	10.00%
Customer	Net promoter score account opening	Account openings received high performing scores ending above the target for the year end.	5.0%	1.05x	5.25%
	Net promoter score relationship	Scores were below expectations, and missed the year-end target.	2.5%	0.00x	0.00%
	Expressions of dissatisfaction	H1 2022 saw an improvement but overall performance deteriorated during H2 2022 mainly due to incidents impacting digital platforms.	2.5%	1.20x	3.00%
People	Measures relating to diversity and colleague engagement	Colleague engagement scores were well above threshold with notable achievements compared to the global benchmarks and in the number of colleague comments.	4.0%	1.1x	4.40%
		The Bank remained broadly stable in its target for ethnic minority representation at a leadership level notwithstanding changes in the colleague population as the business reorganised. Significant increase in ethnic minority internal promotions into the leadership group with further progress being made at the middle management level.	6.0%	1.2x	7.20%

Note: 80% of weighting is applied for threshold performance with a step progression of 5% in the adjustment factor of the weighted performance outcome from 80% to 120% (maximum performance).

Annual report on remuneration Continued

Overall Balanced Scorecard Outcome prior to the exercise of Committee discretion.

	Weighting	Weighted performance outcome
Financial	60%	65.50%
Risk and regulatory	20%	10.00%
Customer	10%	8.25%
People	10%	11.60%
Total	100%	95.35%
Adjusted outcome (after discretion)		67.00%

Management asked the Committee to exercise its discretion to reduce this formulaic outcome to 67%, believing that a lower pay-out was appropriate as the Bank focussed on returning to profitability and maintaining its capital position. The Committee accepted this recommendation, notwithstanding the broader achievements by the Bank and its colleagues in 2022. As such the adjusted balanced scorecard outcome was 67%.

Annual report on remuneration Continued

Individual behaviours and performance adjustment factor

A discretionary adjustment factor was applied to variable reward for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Set out below are details of the individual adjustment factor in respect of the Executive Directors as determined by the Remuneration Committee.

Key objectives in 2022	Key achievements in 2022	Individual behaviours and performance adjustment factor
Daniel Frumkin – Financial – Customer – People – Risk and regulatory	Daniel has continued his strong performance in 2022. He has led the business to deliver, and in some areas exceed, expectations on all elements of the strategic plan he set out three years ago. Despite the continued headwinds of the prevailing economic climate, performance across the scorecard has been strong. The Bank has remained true to its ethos, focusing on customers and colleagues providing help and support through the cost of living crisis. He has orchestrated the Bank's turnaround and put the organisation back on the path of sustainable profitability. A summary of his performance is set out below: **Financial:** Underlying loss before tax was £50.6 million favourable to target and an improvement on last year. There was also a year on year improvement in total income to £522.1 million (on an underlying basis), and continued demonstrably improved focus on cost efficiency and discipline. **Customer:** Maintained again our number one high street bank ranking for customer service in the recent CMA results, which provides evidence the Bank's customer focused culture has remained strong. Visited all of our store locations to better understand the customer and colleague experience. **People:** Continued strong colleague engagement scores from the Voice of the Colleague survey which are aligned with the external global benchmark. Metro Bank recognised as one of the UK's top 10 most Loved Workplaces (by Newsweek). **Risk and regulatory:** Resolution of outstanding historical regulatory matters. Continued improvement in the Bank's risk and control environment creating a stronger foundation to build upon. Growing confidence in the Bank's risk and regulatory maturity demonstrated by successful achievement of Pillar 2A and Tier 2 MREL relief. Relationships with regulators remained strong.	175%
James Hopkinson – Financial – Customer – People – Risk and regulatory	James has made a good start to his role. His leadership ensured that the Bank could record its first full quarter of underlying profit since Q2 2019. In a short space of time he: – Reorganised the finance function into more sustainable organisational structure without the need for a deputy CFO role. – Identified and then delivered a number of improvements to the regulatory reporting system without disrupting delivery of key activities. – Successfully delivered a critical budgeting process, gaining swift Board support for his proposed approach.	100%

Annual report on remuneration Continued

Determination of variable reward for the Executive Directors

In recognition of the corporate balanced scorecard outcome and a holistic review of personal performance and contribution for 2022, the Remuneration Committee agreed the following annual bonus outcomes for the CEO and CFO.

Executive Director	Salary for variable reward	Company performance adjustment factor	Individual behaviours and performance adjustment factor	Company and individual performance adjustment outcome	Outcome after any discretionary adjustment	Target opportunity (as % of salary)	Annual variable Reward[1]
Daniel Frumkin	£769,600	67%	175%	117%	117%	50%	£451,000
James Hopkinson[2]	£162,879	67%	100%	67%	67%	50%	£54,500

Notes
1. Annual variable reward amounts are rounded to the nearest £500.
2. James Hopkinson was eligible for a pro rata annual variable reward reflecting his start date of 5 September 2022.

In addition, each Executive Director is eligible to receive an LTIP award of 100% of their salary. Awards are expected to be granted in late March 2023. Under the LTIP, the Committee has full discretion to ensure that the final outcomes are warranted based on the performance of the Bank in light of all relevant factors and that there have not been any windfall gains. The factors considered in making this assessment will be described at the time of vesting.

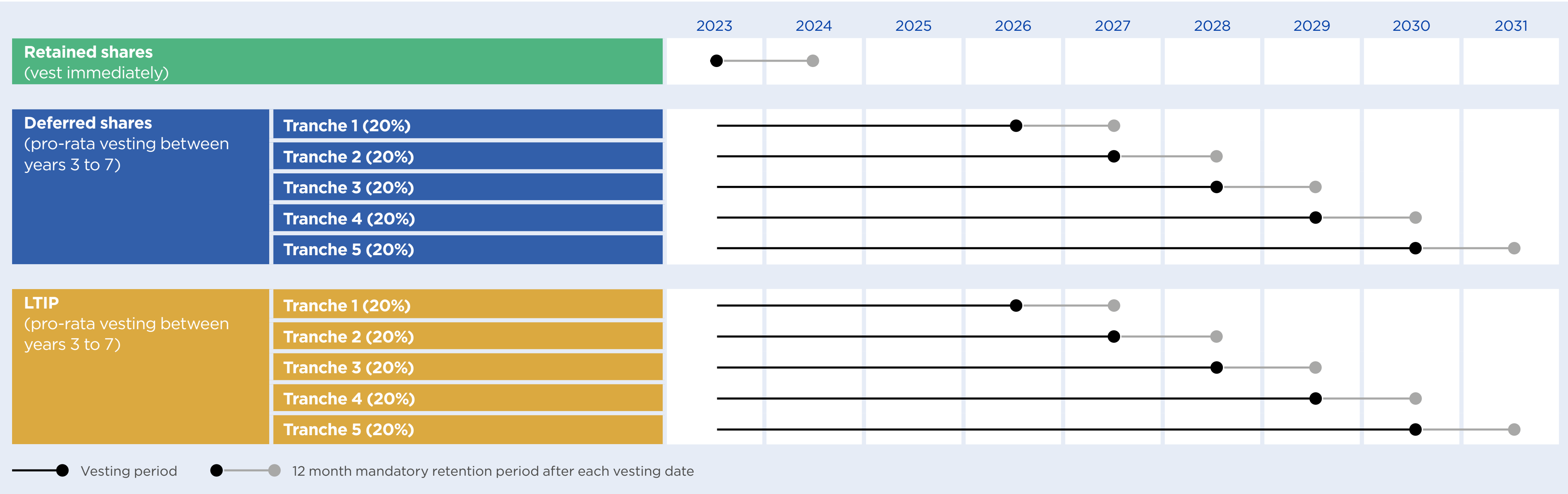
These awards contribute to the Executive Directors building up their shareholding requirement. All share awards are subject to malus and clawback provisions.

Annual report on remuneration Continued

How variable reward is paid

Executive Director	Total 2022 variable reward	Element of variable reward	Value	Method of delivery
Daniel Frumkin	£1,220,600	Cash	£0	– Paid immediately in cash.
		Retained share award	£360,800	– Shares that are granted immediately and subject to a mandatory 12-month retention period.
		Deferred share award	£90,200	– Shares that vest over a seven-year period, pro-rata. – No vesting is permitted before the third anniversary with pro-rata vesting from year three to year seven. Vesting is subject to continued service. – Each vest is subject to a mandatory 12-month retention period. – No performance conditions attached. – The sum of the deferred share award and the LTIP award equals 60% to satisfy regulatory requirements.
		LTIP award	£769,600	– Shares that are subject to the satisfaction of performance conditions over a 3 year performance period. – Pro-rata vesting from year three to year seven. – Each vest is subject to a mandatory 12-month retention period. – The sum of the deferred share award and the LTIP award equals 60% to satisfy regulatory requirements.
James Hopkinson	£554,500	Cash	£0	– Paid immediately in cash.
		Retained share award	£43,600	– Shares that are granted immediately and subject to a mandatory 12-month retention period.
		Deferred share award	£10,900	– Shares that vest over a seven-year period, pro-rata. – No vesting is permitted before the third anniversary with pro-rata vesting from year three to year seven. Vesting is subject to continued service. – Each vest is subject to a mandatory 12-month retention period. – No performance conditions attached. – The sum of the deferred share award and the LTIP award equals 60% to satisfy regulatory requirements.
		LTIP award	£500,000	– Shares that are subject to the satisfaction of performance conditions over a 3 year performance period. – Pro-rata vesting from year three to year seven. – Each vest is subject to a mandatory 12-month retention period. – The sum of the deferred share award and the LTIP award equals 60% to satisfy regulatory requirements.

Annual report on remuneration Continued



The UK Corporate Governance Code (paragraph 36) provides that LTIPs should be subject to a total vesting and holding period of five year or more. The LTIP vests in five equal instalments over five years (years three to year seven), with a 12-month holding period then applying post each vesting. This means that, in aggregate, the combined vesting/holding period is on average six years.

Change in Directors' remuneration compared with colleagues

We monitor year-on-year changes between the movement in remuneration for executives between performance years compared with the wider colleague population.

The table on page 155 sets out the year-on-year percentage change in different elements of remuneration for individual Directors, ExCo members and the wider colleague population.

Annual report on remuneration Continued

Annual percentage change in remuneration

The percentage increases or decreases in the table below reflect changes in populations year-on-year or, in the case of Directors, changes in responsibilities, e.g. Committee memberships, or that the individual was not a Director for the whole year. Percentage for Directors are calculated using the respective figures in the single total figure for the remuneration.

	Salary/Fees % change			Taxable benefits % change			Annual variable reward		
	2022 vs 2021	2021 vs 2020	2020 vs 2019	2022 vs 2021	2021 vs 2020	2020 vs 2019	2022 vs 2021	2021 vs 2020	2020 vs 2019
All colleagues	3.7%	5.6%	4.7%	(4.10%)	4.4%	23.9%	12.9%	23.8%	41.1%
Daniel Frumkin[1]	3.0%	3.5%	(4.7%)	3.8%	0.0%	12.5%	(28.3%)	20.2%	100.0%
David Arden[2]	(74.6%)	2.6%	(2.2%)	(73.8%)	0.0%	12.5%	n/a	(10.7%)	150.4%
James Hopkinson[3]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Executive Committee	8.4%	3.8%	3.0%	(3.1%)	(11.5%)	8.5%	(45.5%)	33.8%	266.5%
Robert Sharpe[4]	0.0%	500.0%	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a
Catherine Brown	10.7%	7.9%	13.8%	0.0%	0.0%	n/a	n/a	n/a	n/a
Sally Clark[5]	(50.0%)	16.9%	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a
Dorita Gilinski[6]	n/a	n/a	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a
Anne Grim[7]	(17.4%)	104.6%	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a
Ian Henderson	2.03%	65.2%	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a
Monique Melis[8]	27.6%	(20.7%)	40.6%	0.0%	0.0%	n/a	n/a	n/a	n/a
Paul Thandi	6.4%	0.0%	6.6%	0.0%	0.0%	n/a	n/a	n/a	n/a
Michael Torpey	2.0%	3.0%	246.6%	100.0%	0.0%	n/a	n/a	n/a	n/a
Nicholas Winsor	35.0%	56.3%	n/a	0.0%	0.0%	n/a	n/a	n/a	n/a

1. Daniel Frumkin volunteered salary reductions in May, June and July 2020 in light of the COVID-19 pandemic. Daniel's percentage change in salary also reflects his time as Interim CEO between 1 January and 18 February 2020. Executive Directors did not receive a salary increase in 2021.
2. David Arden volunteered salary reductions in May, June and July 2020 in light of the COVID-19 pandemic. David stepped down from the Board on 15 February 2022, hence why his remuneration between 2021 and 2022 fell.
3. James Hopkinson was appointed to his role on 5 September 2022.
4. Robert Sharpe became Chair of the Board on 1 November 2020, hence why his remuneration is recorded as increasingly by 500% between 2020 and 2021.
5. Sally Clark stepped down from the Board on 30 June 2022.
6. Dorita Gilinski was appointed to the Board on 26 September 2022.
7. The year-on-year movement for Anne Grim is largely a function of changes in responsibilities and her appointment to the Board in 2020.
8. Monique Melis was interim Senior Independent Director in 2020.
9. The data for 'all colleagues' and 'Exco' is based on the population employed as at the relevant December year end. Average is calculated on a mean basis. Provisional 2022 annual variable awards figures have been used as the year end performance management process for colleagues remains ongoing as at the date of this report.

Annual report on remuneration Continued

CEO to colleague pay ratio disclosure

Year	Calculation methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	CEO salary	25th percentile salary	Median salary	75th percentile salary	CEO total pay	25th percentile total pay	Median total pay	75th percentile total pay
2022	A	49:1	35:1	19:1	£762,200	£23,860	£32,570	£56,520	£1,276,161	£26,282	£36,929	£65,938
2021	A	55:1	40:1	22:1	£740,000	£23,000	£30,400	£55,000	£1,430,100	£25,800	£36,100	£64,700
2020	A	55:1	40:1	23:1	£714,800	£21,100	£27,400	£47,000	£1,297,000	£23,800	£32,200	£57,000
2019	A	36:1	27:1	16:1	£750,000	£20,700	£26,700	£43,400	£828,600	£22,900	£30,300	£51,200

Notes:
Salary and total pay figures have been rounded to the nearest £100.
We have not diverged from the single total figure methodology when calculating employee pay and benefits.
The 2021 quartile salary and total pay figures have been restated after an error was identified in the calculation of the quartile colleague remuneration figures. The 2021 pay ratio figures was unaffected.

The respective quartiles were calculated using the Option A methodology which the Committee considers the most straight forward approach. Colleagues are included in the 2022 data set if employed as at 31 December 2022. Three colleagues were identified whose full-time equivalent total remuneration places them at the 25th, 50th and 75th percentiles. Colleague total remuneration includes salary, allowances, employer pension contributions, Company-funded health and risk benefits and incentives in respect of the relevant performance year. For 2022 provisional annual variable awards figures have been used as the year end performance management process for colleagues remains ongoing as at the date of this report. We are confident that the colleagues identified at the lower, median and upper quartiles are remunerated in line with our wider policies on colleague pay, reward and progression.

There has been a small percentage point reduction in the pay ratio between 2021 and 2022. The primary reason for this is the lower variable reward outcome for the CEO in 2022. The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our approach to colleague reward. It is important to note that a high proportion of the CEO remuneration is based on performance against the short- and long-term incentive plans, and that payouts can vary significantly year-on-year, affecting the ratio going forward.

Relative importance of spend on pay

The table below shows total remuneration of all colleagues for 2022 compared to 2021.

	2022 £'million	2021 £'million	% change
Employee costs	196.8	201.2	(2%)

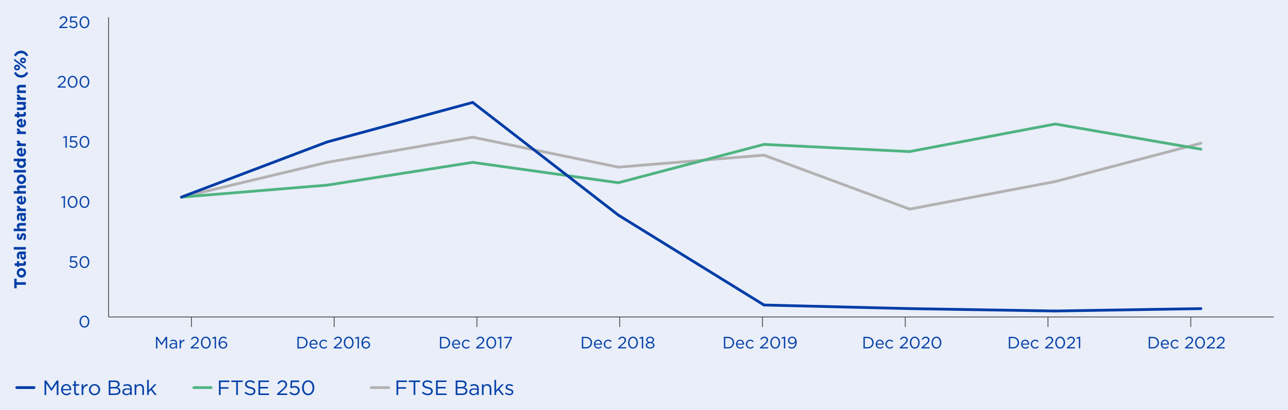
The costs above are wages and salaries, and exclude social security, pension costs, equity-settled share-based payments and costs capitalised or offset against the C&I grant. The year-on-year reduction reflects a small reduction in the average headcount during 2022.

We did not make any distributions by way of dividend or share buy-back during the year, or any other significant distributions. We therefore consider that at this time there is no information or data which would assist shareholders in understanding the relative importance of spend on pay.

Annual report on remuneration Continued

Total shareholder return

The chart shows our total shareholder return relative to the FTSE 250 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250) since our listing on the London Stock Exchange in March 2016. These indices have been chosen as they represent a cross-section of UK companies and banks.



CEO historic remuneration

	Daniel Frumkin			Craig Donaldson			
CEO historic remuneration	2022	2021	2020	2019	2018	2017	2016
Total remuneration (including any Listing awards)	£1,276,161	£1,430,076	£1,297,176	£828,565	£800,944	£1,518,893	£1,304,919
Variable reward outcome as a percentage of the maximum that could have been paid	59%	85%	35.7%	0%	0%	62%	52%

Annual report on remuneration Continued

Non-Executive Directors' remuneration

Chair's fees

The fees for the Chair remain unchanged at £350,000.

Non-Executive Directors' fees

The NEDs are paid a basic fee, with further fees payable to reflect Board Committee memberships and chairships and/or additional responsibilities such as Senior Independent Director.

Role	Annual fee as at 31 December 2022 (£'000)
Non-Executive Director – basic fee	65
Senior Independent Director	30
Designated NED for Colleague Engagement	10

	Chair	Member
Audit Committee	20	5
Nomination Committee	n/a	5
People and Remuneration Committee	15	5
Risk Committee	25	10

Non-Executive Directors' fees and taxable benefits (audited)

The table below shows the actual fees paid to our Chair and NEDs in 2022 and 2021.

	Robert Sharpe (Chair)		Catherine Brown[1]		Sally Clark		Dorita Gilinski[1,2]		Anne Grim	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Fees	£350,000	£350,000	£96,875	£87,500	£46,250	£92,500	£–	n/a	£68,125	£82,500
Taxable benefits	£–	£–	£–	£–	£–	£–	£–	n/a	£–	£–
Total	£350,000	£350,000	£96,875	£87,500	£46,250	£92,500	£–	n/a	£68,125	£82,500

	Ian Henderson		Anna (Monique) Melis		Paul Thandi		Michael Torpey[2]		Nicholas Winsor	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Fees	£94,375	£92,500	£103,125	£80,833	£73,125	£68,750	£94,375	£92,500	£84,441	£62,500
Taxable benefits	£–	£–	£–	£–	£–	£–	£4,677	£–	£–	£–
Total	£94,375	£92,500	£103,125	£80,833	£73,125	£68,750	£99,052	£92,500	£84,441	£62,500

1. Effective 1 April 2022 Catherine Brown and Nicholas Winsor received an additional annual fee of £5,000 for their role of chair of internal steering committees. This is included in the fees shown above.
2. Dorita Gilinski has waived her entitlement to fee.
3. Michael Torpey was reimbursed expenses in respect of his NED duties including travelling from overseas to attend Board and committee meetings, which are included in the benefits section above. Although these expenses are necessary and reasonable, under HMRC rules these are deemed taxable in the UK. The Bank therefore paid the tax on the above expenses, which amounted to £3,455.

Annual report on remuneration Continued

Service contracts and letters of appointment

Both Executive Directors have service contracts. Our NEDs do not have service contracts but are bound by letters of appointment which are available for inspection on request at our registered office.

NEDs are appointed for fixed terms not exceeding two years, which may be renewed subject to their re-election by shareholders at AGMs.

The effective dates of the current Directors' appointments disclosed in their service contracts are shown in the table below.

Executive Director	Notice period	Date of service contract
Daniel Frumkin	12 months	18 February 2020
James Hopkinson	12 months	5 September 2022

Executive Director fees from external positions (unaudited)

The Executive Directors are entitled to receive fees from external appointments. Daniel Frumkin and James Hopkinson did not hold any external appointments at other listed companies for the last reported financial year during the period they were appointed to the Board.

Payments to past Directors and payments for loss of office (audited)

David Arden stepped down from the Board and the role of CFO on 15 February 2022. Details about his remuneration arrangements relating to his termination were published on our website on 7 March 2022.

The Committee determined that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements. He received his normal salary and contractual benefits up until his cessation of employment on 1 April 2022. Following his cessation and in line with the Bank's approved Directors' Remuneration Policy, he received £405,000 (in monthly instalments) in lieu of his 12-month notice period.

Historical share awards granted to David in 2018, 2019, 2020 and the 2021 LTIP lapsed in full.

As disclosed in last year's remuneration report, David received a variable reward of £258,188 in respect of the 2021 performance year, part of which was deferred in shares. The Committee determined that he would treated as a good leaver for the purposes of both this deferred share award (granted in 2022) and a deferred share award granted to him in 2021 (in respect of 2020). These awards will continue to vest over the original vesting period i.e. there is no acceleration of vesting and the awards remain subject to malus. The Committee decided this was appropriate as the awards related to prior performance years and has already been earned.

David received his reasonable legal fees in relation to his termination arrangements.

Annual report on remuneration Continued

Dilution limits

The rules of the Metro Bank DVRP and LTIP contain limits on the dilution of capital. These limits are monitored to ensure that we do not exceed 5% or 10% (where applicable) of the issued share capital in any rolling 10-year period. For awards granted since the AGM in 2021, discretionary awards under the DVRP and the LTIP must also not exceed 5% of the issued share capital in any rolling 10-year period, in line with guidance.

Shareholder voting and consideration of shareholder views

At the 2022 AGM on 13 May 2022, shareholders approved the 2021 Directors' Remuneration Report, receiving a strong vote in favour. The most recent vote on the Remuneration Policy, which was effective from the date of the 2021 AGM for up to three years, also received shareholder support in excess of 90%.

Item	For no.	For %	Against no.	Against %	Votes withheld
2022 Directors' Remuneration Report	69,619,984	91.23	6,692,221	8.77	2,780
2021 Directors' Remuneration Policy	62,150,543	95.11	3,193,940	4.89	22,200

The Committee greatly values the continued dialogue with our shareholders and regularly engages with shareholders and representative bodies to take their views into account when setting and implementing our remuneration policies. The Directors have regular open discussions with investors and are available for feedback on reward matters. The Committee looks forward to engaging with shareholders in the run up to our policy's renewal in 2024. In the meantime, the Committee Chair and Chair of the Board will continue to maintain contact as required with the Company's key shareholders about relevant remuneration issues.

Annual report on remuneration Continued

Shareholding levels (audited)

Directors' shareholding

These are the total shareholdings as at 31 December 2022 for each Director and any related connected persons.

Director	No. of shares[1,2,4]	Percentage of share capital
Robert Sharpe	46,000	0.03%
Daniel Frumkin	2,350,000	1.36%
David Arden	18,400	0.01%
James Hopkinson[3]	168,152	0.10%
Catherine Brown	100	0.00%
Sally Clark	0	0.00%
Dorita Gilinski	0	0.00%
Anne Grim	22,500	0.01%
Ian Henderson	15,000	0.01%
Monique Melis	1,690	0.00%
Paul Thandi	30,000	0.02%
Michael Torpey	20,000	0.01%
Nicholas Winsor	150,000	0.09%

1. This table includes vested shares where the Director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.
2. For Directors who have stepped down from the Board during the year, the number of shares owned is shown as at the date they stepped down.
3. For James Hopkinson, the total of beneficially owned shares includes shares acquired through our ShareBuy share plan, an HMRC regulated staff share incentive plan. Between the end of the financial year and 2 March 2023, James acquired a further 346 shares through the ShareBuy arrangement.
4. Except as stated above, there has been no change in the Directors' shareholding interests between the end of the financial year and 15 March 2023.

Annual report on remuneration Continued

Shareholding guidelines

Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary. With the DVRP and introduction of an LTIP, a five year timeframe was formalised as part of the new Remuneration Policy for the build-up of the Executive Director Shareholding Requirement. Until this level is achieved, there is a requirement to retain 50% of net shares in the DVRP and those which vest under the LTIP.

Executive Directors are required to retain 100% of their shareholding requirement (or actual shareholding if lower) for two years post-cessation of employment.

	Base Salary	Requirement as a % of base salary	Wholly owned shares	Value[1]	Shareholding requirement met?
Daniel Frumkin	£769,600	200%	2,350,000	£2,843,500	Yes
James Hopkinson	£500,000	200%	168,152	£203,464	No

1. Value of beneficial shareholding based on 30 December closing share price (121 pence). The value includes vested shares which remain subject to a retention period.

Outstanding Share Awards (audited)

Options have an exercise price that is equal to market value at the date of grant; share options awarded under the Company Share Option Plan (CSOP) from CSOP 2016 onwards are based on the Volume Weighted Average Share Price for Metro Bank on a date determined by the Remuneration Committee.

We have not awarded share options to NEDs since 2015 (relating to the 2014 performance year). No dividends or dividend equivalents are payable on any share options or on any unvested share awards held.

The tables below show for each Executive Director any outstanding share awards as at 31 December 2022 (or if earlier the date they stepped down from the Board).

Daniel Frumkin

Share Plan Name	Shares and share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options lapsed	Share options still subject to conditions	Exercised in year
DVRP 2022 – deferred shares[1]	91,153	31/03/2022	£0.00	£81,400	31/03/2025	31/03/2029	–	–	91,153	–
DVRP 2022 – retained shares[1]	613,214	31/03/2022	£0.00	£547,600	31/03/2022	31/03/2022	613,214	–	–	–
DVRP 2021 – deferred shares[1, 3]	477,821	01/06/2021	£0.00	£523,214	01/06/2024	01/06/2028	–	–	477,821	–
LTIP 2022[1, 2, 3]	828,667	31/03/2022	£0.00	£740,000	31/03/2025	31/03/2029	–		828,667	–
LTIP 2021[1, 2, 3]	675,799	01/06/2021	£0.00	£740,000	01/06/2025	01/06/2028	–	–	675,799	–
CSOP 2020 – Hiring Agreement[1]	100,000	31/03/2020	£0.93	£93,000	30/04/2023	30/04/2027	–	–	100,000	–
Total	2,786,654						613,214	–	2,173,440	–

1. Awards are normally subject to continued employment.
2. 100% of salary was awarded under the 2021 LTIP and 2022 LTIP respectively as nominal cost options that are subject to performance conditions.
3. The number of shares was determined using the relevant closing price prior to the grant date. For 2021 and 2022 awards the price was 109.5p and 89.3p respectively.

Annual report on remuneration Continued

David Arden

Share Plan Name	Shares and share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options lapsed	Share options still subject to conditions	Exercised in year
DVRP 2022 – deferred shares[1, 3]	173,475	31/03/2022	£0.00	£154,913	31/03/2025	31/03/2029	–	–	173,475	–
DVRP 2022 – retained shares[1]	115,649	31/03/2022	£0.00	£103,275	31/03/2022	31/03/2022	115,649	–	–	–
DVRP 2021 – deferred shares[1, 3]	263,897	01/06/2021	£0.00	£288,968	01/06/2024	01/06/2028	–	–	263,897	–
LTIP 2021[1, 2, 3]	369,893	01/06/2021	£0.00	£405,000	01/06/2025	01/06/2028	–	369,893	–	–
CSOP 2020[1]	76,947	31/03/2020	£0.93	£71,561	30/04/2023	30/04/2027	–	76,947	–	–
CSOP 2019 Deferred Cash 1 Year[1]	9,600	02/04/2019	£7.94	£76,224	30/04/2020	30/04/2020	–	9,600	–	–
CSOP 2019[1]	19,200	02/04/2019	£7.94	£152,448	30/04/2020	30/04/2024	–	19,200	–	–
CSOP 2018[1]	30,000	31/03/2018	£35.36	£1,060,800	30/04/2019	30/04/2023	–	30,000	–	–
Total	1,058,661						115,649	505,640	437,372	–

1. Awards are normally subject to continued employment.
2. 100% of salary was awarded under the 2021 LTIP as nominal cost options that are subject to performance conditions.
3. The number of shares was determined using the relevant closing price prior to the grant date. For 2021 and 2022 awards the price was 109.5p and 89.3p respectively.

LTIP performance conditions and targets

Performance conditions and targets together with corresponding weightings for LTIP awards. Unless otherwise stated, performance is measured over the relevant three-year performance period. The threshold for LTIP vesting is set at 25% of the award with maximum vesting at 100% of the award and straight-line vesting between threshold and maximum

Measure	Weighting	Threshold[3]	Maximum[3]
2021 LTIP (granted on 1 June 2021)			
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity[1] for FY 2024	40%	Threshold: 4% Maximum 7%	
Risk and regulatory[2]	20%	See notes below	
2022 LTIP (granted on 31 March 2022)		See notes below	
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity[1] for FY 2024	40%	Threshold: 4% Maximum 7%	
Risk and regulatory[2]	20%	See notes below	

1. The tangible equity performance target is being disclosed following the Bank resuming provision of medium-term guidance to the market. To date the Bank has not been providing medium-term guidance to the market, so disclosing the LTIP targets was deemed commercially sensitive.
2. The Committee shall determine the extent to which 20% of the award may vest by reference to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factor.

Annual report on remuneration Continued

Executive Director proposed Share-Based Awards

The following share-based awards will be made in respect of the 2022 performance year. The DVRP values have already included in the single figure table for 2022.

Daniel Frumkin

Share Option Plan Name[1]	Face Value of award	First vesting date	Last vesting date
DVRP 2023 – Retained Shares	£360,800	Immediately	n/a
DVRP 2023 – Deferred Shares	£90,200	Three years post grant	Seven years post grant
LTIP 2023[2]	£769,600	Three years post grant	Seven years post grant
Total	£1.220,600		

James Hopkinson

Share Option Plan Name[1]	Face Value of award	First vesting date	Last vesting date
DVRP 2023 – Retained Shares	£43,600	Immediately	n/a
DVRP 2023 – Deferred Shares	£10,900	Three years post grant	Seven years post grant
LTIP 2023[2]	£500,000	Three years post grant	Seven years post grant
Total	£554,500		

Notes:
1. All awards are subject to a 12-month retention period.
2. Awards under the LTIP are subject to performance conditions as outlined below.
3. The number of shares will be determined using the closing price on the date before the grant date.

Performance conditions and targets in relation to the 2023 LTIP awards

Performance conditions and targets together with corresponding weightings for LTIP awards to be granted in 2023 are set out below. The measures are aligned to our strategy, incentivising the creation of long-term value for our stakeholders. Incentive targets are set annually by the Committee considering the medium-term financial plans, and priorities for the next few years within the context of the economic environment.

	Weighting	Threshold[3]	Maximum[3]
Total shareholder return (TSR) relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity[1]	40%	Threshold 5% Maximum 8%	
Risk and regulatory[2]	20%	See notes below	

1. Return on tangible equity is in respect of Financial Year 2025.
2. The Committee shall determine the extent to which 20% of the award may vest by reference to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factors.
3. The threshold for LTIP vesting is set at 25% of the award with maximum vesting at 100% of the award and straight-line vesting between threshold and maximum.
4. In addition to the above formal performance conditions, the Committee has full discretion to adjust the outcomes at vest to ensure the outcomes reflect the broader Bank's performance and that there have not been any windfall gains.
5. A formal underpin will also apply to these awards. It will provide that, if the awards are being satisfied by the purchase of shares in the market, awards are scaled back by the Committee on vesting to the extent to which there is, at that time, insufficient available distributable reserves and/or net assets.

Annual report on remuneration Continued

2023 Balanced Scorecard: measures and weightings

The 2023 scorecard reflects our strategic priorities. The targets are set annually by the Committee considering the Bank's annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers financial and operational targets to be commercially sensitive and that it would be detrimental to the Bank's interests to disclose them before the end of the financial year.

Financial measures make up 60% of the scorecard. Social and Governance related measures are assessed by the Committee using a combination of quantitative and qualitative assessment. The Committee will, prior to reviewing scorecard performance, assess whether specific capital and liquidity gateways have been met and that the payment of annual variable awards is affordable.

Measure	Weighting	Measure type	Target
Underlying earnings	50%	Financial	Disclosed retrospectively
Deposit growth	5%	Financial	Disclosed retrospectively
Organic MREL accretion	5%	Financial	Disclosed retrospectively
Sub-total	60%		
Risk and regulatory – Relationship with regulators (qualitative) – breaches of red limits for tier 1 appetite metrics	20%	ESG	Disclosed retrospectively
Customer including – Net promoter score – EODs per 1000 accounts	10%	ESG	Disclosed retrospectively
Colleague and Community including – Colleague engagement – Diversity in leadership positions – Reach of Money Zone financial literacy programme	10%	ESG	Disclosed retrospectively
Total	100%		

Directors' report

The Directors have the pleasure of presenting their Annual Report and Accounts for the year ended 31 December 2022. As set out fully in the summary of significant accounting policies within note 1 to the financial statements, this report for the consolidated Group has been prepared in accordance with IFRS and includes the Corporate Governance Report set out on pages 99 to 165.

The Directors consider the Annual Report for the year ended 31 December 2022, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Principal activities

Our principal activities during 2022 were the provision of banking and related services. We are a deposit-taking and lending institution with a focus on retail, private, SME and commercial customers, offering consistent fair pricing and excellent customer service. We are authorised to accept deposits under the Financial Services and Markets Act 2000, have a Consumer Credit Act licence and are members of the Financial Services Compensation Scheme.

Results and dividend

The results for the year are set out in the consolidated statement of comprehensive income on page 162.

No dividend was declared or paid during 2022 (2021: £nil). The Directors do not anticipate declaring a dividend in the near future.

Significant event

In December 2022, the FCA published the findings of its investigation into the RWA legacy issues that took place in 2018.

Articles of Association

The Articles of Association can be found on our website at: metrobankonline.co.uk.

Share capital

As at 31 December 2022, our issued share capital was £172.54 comprising 172,537,631 ordinary shares of 0.0001p each. Further details of our called-up share capital, together with details of shares allotted during the year, are shown in note 26 to the financial statements on page 209.

There are no restrictions on the transfer of our share capital and there are no shares or stock which carry specific rights with regards to control of the Group.

The Directors seek annual authority from shareholders to allot new ordinary shares and to disapply pre-emption rights of existing shareholders in accordance with the Investment Association Share Capital Management Guidelines.

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Group's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

2023 Annual General Meeting

We expect to hold the 2023 AGM in person. More information will be published in the Notice of Meeting.

Directors

Details of the Directors who served during the year and continue to serve at the date of approval of the Directors' Report are set out on pages 103 to 104. David Arden resigned as an Executive Director, effective 15 February 2022. Sally Clark resigned as an independent NED, effective 30 June 2022. James Hopkinson was appointed as an Executive Director on 5 September 2022. Dorita Gilinski was appointed as a shareholder nominated NED on 26 September 2022.

Directors are appointed and replaced in accordance with the Company's Articles, the Companies Act 2006 and the UK Corporate Governance Code. The powers of the Directors are set out in the Company's Articles and the Companies Act 2006.

Directors who served on the Board during the year ended 31 December 2022

	Appointment date	Resignation date
Robert Sharpe (Chair)	1 November 2020	
Daniel Frumkin (CEO)	1 January 2020	
James Hopkinson (CFO)	5 September 2022	
David Arden (CFO)	29 March 2018	15 February 2022
Catherine Brown (Independent NED)	1 October 2018	
Sally Clark (Independent NED)	1 January 2020	30 June 2022
Dorita Gilinski (Shareholder Nominated NED)	26 September 2022	
Anne Grim (Independent NED)	20 April 2020	
Ian Henderson (Independent NED)	20 April 2020	
Anna (Monique) Melis (Senior Independent Director)	20 June 2017	
Paul Thandi (Independent NED)	1 January 2019	
Michael Torpey (Independent NED)	1 September 2019	
Nicholas Winsor (Independent NED)	20 April 2020	

Directors' report Continued

Directors' interests

Details of the Directors' beneficial interests are set out in the Annual Report on Remuneration on page 161.

Directors' indemnities and Directors' and Officers' liability insurance

Details regarding deeds of indemnity and Directors' and Officers' liability insurance are set out in the Corporate Governance Report on page 123.

The Company's existing share plans contain provisions relating to a change of control. Outstanding options and awards may vest and become exercisable on a change of control subject to the People and Remuneration Committee's discretion. As at 31 December 2022, save in respect of provisions of the Company's share plans, there are no other agreements between the Company and its Directors or colleagues providing for compensation for loss of office or employment that occur following a takeover. Certain of the Company's third party supplier agreements may become terminable upon a change of control of the Company.

Major interests in shares

Information provided to the Group by substantial shareholders pursuant to the Disclosure Guidance and Transparency Rules (DTR) is published via a Regulatory Information Service.

As at 10 March 2023, being the last practical date before publication of this report, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings. The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Group was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Shareholder	Ordinary shares held	% of total ordinary shares	Direct/ indirect interest
Spaldy Investments Limited	15,549,496	9.02%	Direct
Spruce House Partnership	15,500,000	8.99%	Direct
Davis Selected Advisers	9,191,516	5.33%	Indirect
683 Capital Management	8,977,587	5.21%	Indirect
Ruane, Cunniff and Goldfarb	5,020,755	5.15%	Direct
Kernow Asset Management Limited	5,522,224	3.20%	Direct

Greenhouse gas emissions

Our energy consumption and associated GHG emissions during 2022 are set out in the Strategic report on page 52.

Colleague involvement

We encourage colleague involvement in the Bank. Increasing colleague awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. More information on our colleagues and how we engaged with them can be found in the Corporate governance report on pages 108 to 112.

Engagement with stakeholders

The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic in our decision making. More information on our stakeholders, how we engaged with them and how the Board took them into consideration when making decisions are set out in the Corporate governance report on pages 112 to 114.

Diversity

Our D&I Policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is not only a key part of a responsible business strategy, but also supports a strong customer experience. We give full and fair consideration to all applications for employment.

Our Board Diversity Policy, which sets out our commitment to D&I for the Board can be found on our website at: metrobankonline.co.uk/investor-relations.

We believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, is a more effective and responsible Board.

More information on our performance against our objectives within the policy can be found in the Nomination Committee report on page 137.

Disabled employees

For all colleagues and candidates we always look to make reasonable adjustments to ensure equality. In the event of colleagues identifying as disabled, we make every effort to ensure that their employment continues and to provide appropriate training and support. Our policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

Directors' report Continued

Modern slavery

We are committed to supporting the communities in which we operate in order to enable them to develop both socially and economically. Our policy is to conduct all business in an appropriate manner and we have zero tolerance for modern slavery. We continue to be committed to acting professionally and fairly in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

The initiatives and how we have developed them during 2022 can be found on page 40. We have also appointed a member of the Board as our Modern Slavery Champion, who with the CEO monitors ongoing compliance with the Modern Slavery Policy.

Our Modern Slavery Statement is available at: metrobankonline.co.uk.

Internal control and risk management systems

The Directors confirm that they have undertaken a robust assessment of the emerging and principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems, and details of risk management objectives and policies, are shown in the Risk Report on pages 54 to 97. Details around the processes in place in relation to financial reporting can be found in the Audit Committee Report on pages 124 to 129. As a result of normal business activities, we are exposed to a variety of risks. The principal risks and uncertainties that we face are shown in the Risk Report.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and Parent Company have the resources to continue in business for a period of at least 15 months from the financial statements authorisation date. Further details can be found in note 1 to the financial statements on page 185 and in the Viability statement (details of which can be found below).

Viability statement

Our Viability statement is set out on pages 96 to 97.

Hedge accounting

The policy for hedging transactions is detailed in note 21.

Auditors

Our Auditors, PwC, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the 2023 AGM.

Political donations

We made no political donations in the year ending 31 December 2022 (2021: £nil).

As part of our community engagement during 2022 we met with more than 30 Members of Parliament (MPs), including Government and opposition party figures as well as MPs visiting local Metro Bank stores in their constituencies. During the year, we also became an associate member of the All Party Parliamentary Group on Challenger Banks and Building Societies. As part of this we paid £6,000 in sponsorship towards the research, writing and publication of a report on how challenger banks and building societies can support the levelling-up agenda (2021: n/a).

Research and development

During the year, we spent £24 million on intangible assets and a further £48 million on research and development costs which were not capitalised.

Post balance sheet events

Our post balance sheet events are set out in note 39 to the financial statements.

Future developments

Our business and future plans are set out in the Strategic Report.

Financial instruments and financial risk management

Information relating to financial instruments and financial risk management can be found on pages 54 to 97 and in note 10 to the financial statements.

Listing Rules disclosures

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found in the following sections of the Annual Report:

Item	Location
Detail of long-term incentive schemes	Annual Report on Remuneration and in note 29 to the financial statements
Contracts of significance	Any contracts of significance or related party transactions can be found in note 36 to the financial statements
Waived emoluments	Annual Report on Remuneration

Corporate Governance Statement

Our Corporate governance report is set out on pages 99 to 169 in accordance with Rule 7.2 of the DTR and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

Directors' report Continued

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's financial statements published on its website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors page in the Governance section confirm that, to the best of their knowledge:

- The Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the loss of the Group and Company.
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's Auditors are unaware.
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's Auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors' report comprising pages 166 to 169 has been approved by the Board of Directors.

By Order of the Board

Stephanie Wallace
General Counsel and Company Secretary
15 March 2023

Financial statements

In this section

Independent auditors' report to the members of Metro Bank PLC

Report on the audit of the financial statements

Opinion

In our opinion, Metro Bank PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2022 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2022; the Consolidated statement of comprehensive income; the Consolidated and Company cash flow statements; the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of reporting units and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). The company is the only financially significant component. We performed other procedures including testing information technology general controls, analytical procedures and tests of detail of loans and advances to mitigate the risk of material misstatement in the non-financially significant components.

Key audit matters

- Determination of allowance for Expected Credit Losses on loans and advances to customers (group and parent)
- Carrying values of non-financial assets (excluding goodwill) (group and parent)
- Going concern (group and parent)

Materiality

- Overall group materiality: £9.6m (2021: £11.3m) based on 1% of Total Equity (2021: 5% of the average consolidated loss before tax of the last 3 years).
- Overall company materiality: £9.1m (2021: £10.7m) based on 1% of Total Equity (2021: 5% of the average consolidated loss before tax of the last 3 years).
- Performance materiality: £7.2m (2021: £8.48m) (group) and £6.8m (2021: £8m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Independent auditors' report to the members of Metro Bank PLC Continued

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The Impact of the COVID-19 pandemic, which was a key audit matter last year, is no longer included because that specific issue has abated. In that key audit matter, we referenced the impact of COVID-19 on impairment of non-financial assets, expected credit losses and going concern. Separate key audit matters are included in this opinion on these areas. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Determination of allowance for Expected Credit Losses on loans and advances to customers (group and parent)

Refer to page 124 (Audit Committee report), page 196 (Note 12: Loans and advances to customers) and page 212 (Note 30: Expected credit losses).

In 2022, the group increased gross loans and advances by £830 million to £13,289 million as well as the proportion of unsecured loans in the portfolio. The charge for expected credit losses (ECL) in the consolidated statement of comprehensive income increased from £22.4 million to £39.9 million.

The calculation of the allowance for ECL requires management to make a number of significant judgements, assumptions and estimates. In 2022, the UK experienced a heightened level of inflation. The Bank of England increased base rates significantly and the economy is expected to enter a recession in the first half of 2023. The deteriorating economic environment increased the amount of judgement required in determining the ECL.

Management determines the amount of ECL using a number of complex models. In addition, a number of post model overlays are required where the models fail to capture all the risks. The overlays included adjustments in relation to the impact of inflation on customer affordability and commercial borrowers which was determined either not to be fully reflected in the economic forecasts or where the modelled output did not fully reflect the impact on credit risk.

We identified a significant audit risk in determining the ECL for the following portfolios: Retail Mortgages, Consumer (specifically for RateSetter unsecured loans) and Commercial (excluding the small asset finance and invoice finance portfolios, and government backed loans).

Specifically, the significant risk relates to the following key assumptions and judgements:
- Forward-looking economic assumptions used in the models, and the weighting selected by management. Management uses a third party expert to determine the economic assumptions;
- Judgements involved in creating post model overlays to change modelled outputs and the application of those adjustments in response to heightened economic uncertainty and the impact of inflation;
- Judgements exercised in determining whether a significant increase in credit risk ('SICR') should be recognised for Commercial loans where staging is based on a qualitative assessment of credit risk; and
- Judgements applied by management in estimating stage 3 individual impairment allowances such as the valuation of collateral, forecast cash flows and the reasonableness of the probability weighting of expected likely outcomes.

Independent auditors' report to the members of Metro Bank PLC Continued

How our audit addressed the key audit matter

We evaluated the design and implementation of key controls. Where we planned to rely on them, we tested their operating effectiveness and concluded that we could place reliance on the controls for the purposes of our audit. This involved the testing of controls over Commercial loans in relation to:

- the recording of collateral into the lending system; and
- the performance of periodic credit reviews.

We evaluated the level of arrears as at 31 December 2022 by portfolio, in particular for the Ratesetter, Retail Mortgage and Commercial loans (excluding government backed), and confirmed that there has been no notable change in arrears during the year.

We engaged the support of our credit modelling specialists and performed the following substantive audit procedures in order to assess the performance, methodology, and accuracy of the ECL models. We also assessed the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience.

Forward looking information and multiple economic scenarios
We used our economic analysis software, utilising data from the Bank of England, HM Treasury, and Consensus Economics, to assess the reasonableness of management's economic scenarios and associated weightings, giving specific consideration to current economic uncertainties.

Where economic inputs fell outside of a reasonable range, we ensured that a suitable post model overlay was recorded.

Management made updates to their scenario weightings in response to the deteriorating base case scenario for the UK economic outlook observed over the second half of 2022. We evaluated whether the change to scenario weights appropriately captured the economic uncertainty created by the Russia-Ukraine conflict, high inflation and the possibility of the UK economy entering a recession.

Model methodology & post model overlays
We critically assessed the methodology used in the impairment models and evaluated compliance with IFRS 9 requirements. We also tested the key assumptions and judgements. These included those made by management in determining PDs/LGDs/EADs used in the calculation of provisions.

Our credit modelling specialists independently rebuilt the commercial loans, retail mortgages and the RateSetter ECL models. This was performed using management's methodology and we compared the output to management's modelled ECL output. For some products we did not independently rebuild all model components. Where this was the case, our modelling specialists performed an independent code review to validate that the models were implemented in line with the group's methodology.

We critically assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs. We evaluated and challenged the methodologies, the accuracy of application and the completeness of overlays. The only individually material overlay related to a Commercial post-model overlay which addressed the impact of inflation.

Significant increase in credit risk (SICR) – Commercial
To test the judgements in determining whether SICR events have occurred, we selected samples of loans across the Commercial stage 1 and 2 populations and independently assessed the stage allocation against SICR criteria.

Individually assessed stage 3 loans
For a sample of stage 3 credit impaired loans, we critically evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management. We also independently challenged whether the key assumptions used, such as the recovery strategies, expected cash flows, collateral rights and valuations, and ranges of potential outcomes, were appropriate given the borrowers' circumstances.

Based on the evidence obtained, we found the estimates and judgements in determining the ECL to be reasonable and in compliance with the requirements of IFRS 9.

Independent auditors' report to the members of Metro Bank PLC Continued

Key audit matter	How our audit addressed the key audit matter
Carrying values of non-financial assets (excluding goodwill) (group and parent)	
Refer to page 124 (Audit Committee report), page 198 (Note 14: Property, Plant and Equipment) and page 200 (Note 15: Intangible assets). The group's tangible fixed assets amounted to £748 million at 31 December 2022 and mainly comprised leasehold improvements and Right of Use assets. The group also capitalised as intangible assets certain expenditure in the development of software to support its business strategy. The intangible asset balance was £216 million at 31 December 2022. The continuing losses incurred in 2022, the uncertain economic environment, together with the capital constraints under which the group is operating, are potential indicators of impairment. The Directors have evaluated the above non-financial assets for impairment, and where relevant estimated the recoverable amounts of those assets. Where the assets do not generate largely independent cash inflows, they have been incorporated into a relevant cash generating unit (CGU) and the recoverable amount of that CGU has been determined. The CGU relevant to the vast majority of assets is the 'retail bank CGU' within the company. The determination of the recoverable amount requires management to estimate the higher of value in use and fair value less costs to sell of the retail bank CGU. This assessment is complex and involves subjective judgements. The recoverable amount is estimated using forecast cash flows included in management's 5 year Long Term Plan, a decreasing growth rate from years 6 to 10, a terminal growth rate and a discount rate. There are also methodology judgements required in determining a value in use in compliance with IAS 36 'Impairment of assets'. The Long Term Plan is also supported by various assumptions relating to compliance with regulatory capital requirements. Management concluded that no impairment existed as at 31 December 2022. The forecast cash flows in the medium to longer term, the determination of the discount rate and the assumptions relating to compliance with regulatory capital requirements are key judgements. Due to the magnitude of the balance and the judgements involved in respect of the retail bank CGU, the impairment assessment represents a key audit matter.	To address the risk of impairment of the non-financial assets, we performed a number of audit procedures over the assessment performed by management. We challenged and tested the reasonableness of management's methodology and key assumptions. Our work included the following substantive tests: • Tested the mathematical integrity of the impairment model and agreed the cash flows to the Board approved Long Term Plan; • Performed a comparison of the financial performance of the group in 2022 to the budget to assess the reliability of the budgeting and forecasting process; • Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements, including management's determination of the relevant CGU and the carrying amount, using our accounting specialists; • Reviewed the forecasts in the Long Term Plan and evaluated these for reasonableness. We made inquiries of management, inspected business plans and critically assessed management's growth assumptions using third party evidence where relevant; • Evaluated compliance with regulatory capital requirements and the underlying assumptions during the period of the plan using our regulatory experts. We tested forecast capital ratios, reviewed regulatory correspondence and held discussions with the PRA; • Engaged our valuation specialists in assessing the reasonableness of the discount rate and terminal growth rate; and • Performed sensitivity analyses to test the impact of changing various assumptions, including lower profits during the Long Term Plan period, a higher discount rate and a delay in the return to profitability and capital raising. Based on the procedures performed, we found the judgements used in determining the carrying value of the retail bank CGU to be reasonable and supportable. We assessed the disclosures made in the financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements.

Independent auditors' report to the members of Metro Bank PLC Continued

Key audit matter	How our audit addressed the key audit matter
Going concern (group and parent)	
Refer to page 97 (Assessment of going concern) and page 185 (Basis of presentation and significant accounting policies) The bank has incurred significant operating losses in recent years and invested in the transformation of the business. This has eroded capital levels which continued in 2022. Management has calculated that the bank's MREL capital resources are currently below the sum of the bank's combined MREL requirement and buffers, but above minimum requirements. The directors have concluded that the group will have sufficient resources (including capital and liquidity) for a period of at least 15 months from the date of these financial statements. In assisting the Directors reach their conclusion, management has modelled both a base case and a severe but plausible downside scenario to assess whether the group has sufficient capital. The assessment of going concern is dependent on management's future profit forecasts and regulatory capital projections. While the bank's operating performance significantly improved in 2022, the prevailing economic uncertainty and competitive pressures introduce risks as to the achievability of the 2023 and 2024 plan. There is judgement involved in determining the forecasts and in concluding whether or not there is a material uncertainty. Going concern was not considered a significant audit risk although due to the importance of maintaining MREL above the minimum requirement, we performed extensive procedures and discussed the judgements with the Audit Committee throughout the audit and hence this constitutes a key audit matter.	Our procedures and conclusions in respect of going concern are set out below in the 'Conclusions relating to going concern' section on page 177.

Independent auditors' report to the members of Metro Bank PLC Continued

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We performed a risk assessment, giving consideration to relevant external and internal factors, including climate change, economic risks, relevant accounting and regulatory developments, as well as the group's strategy. We also considered our knowledge and experience obtained in prior year audits. We continually assessed the risks and changed the scope of our audit where necessary. As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out on page 45, including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances to customers, the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the Climate Biennial Exploratory Scenario climate stress testing performed in 2021. As a result of their assessment, an immaterial model overlay was recognised in the prior year, and continues to be held as at 31 December 2022.

The group comprises five components. Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components that represent more than or equal to 15% of the loss before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances and the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our group audit, we identified one financially significant component, which is the company. All significant risks relate to the company and the group.

We then considered the components in the group that had either financially significant or unusual account balances which were required to be brought into scope. In relation to SME Asset Finance Limited, we performed audit procedures over loans and advances. The remaining balances and components, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate and were eliminated from further consideration for specific audit procedures. We performed other procedures such as tests of information technology controls and group level analytical review procedures.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£9.6m (2021: £11.3m).	£9.1m (2021: £10.7m).
How we determined it	1% of Total Equity (2021: 5% of the average consolidated loss before tax of the last 3 years)	1% of Total Equity (2021: 5% of the average consolidated loss before tax of the last 3 years)
Rationale for benchmark applied	The group's total equity is the most appropriate benchmark as it is correlated with the level of regulatory capital which is a key metric for management and users of the financial statements. In the past, a benchmark of average losses was used. The absolute value of losses has reduced significantly and an equity based measure provides a more stable and relevant basis for determining materiality.	The company's total equity is the most appropriate benchmark as it is correlated with the level of regulatory capital which is a key metric for management and users of the financial statements. In the past, a benchmark of average losses was used. The absolute value of losses has reduced significantly and an equity based measure provides a more stable and relevant basis for determining materiality.

Independent auditors' report to the members of Metro Bank PLC Continued

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. Loans and advances to customers within SME Asset Finance Limited was audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £7.2m (2021: £8.48m) for the group financial statements and £6.8m (2021: £8m) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m (group audit) (2021: £0.6m) and £0.5m (company audit) (2021: £0.5m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Confirmation of our understanding of the Directors' going concern assessment process, including the preparation and approval of the budget. We obtained management's Board approved forecast covering the period of the going concern assessment to 30 June 2024. We evaluated the forecasting method adopted by the Directors in assessing going concern, including considering severe but plausible downside scenarios;
- Evaluation of management's financial and regulatory capital forecasts. We checked the mathematical accuracy of the model and evaluated the key assumptions using our understanding of the bank and external evidence where appropriate. We used our Prudential Regulatory experts to review the bank's risk weighted assets and forecast capital requirement assumptions. We also performed a comparison of the 2022 budget and the actual results to assess the accuracy of the budgeting process;
- Evaluation of the reasonableness of management's downside assumptions using our firm's economics experts and our understanding of the bank and the external environment. We evaluated management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario would result in a breach of minimum regulatory requirements;
- Considering the mitigating actions that management identified, including the reduction of costs and slowing down the origination of new loans and advances, and assessing whether these were in the control of management and possible in the going concern period of assessment;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England. We also reconciled the bank's liquidity position to its regulatory liquidity reporting returns;
- Reviewing correspondence between the bank and its regulators to evidence the current regulatory capital position and also to provide evidence to support forecast changes in the bank's capital requirement in the period to 30 June 2024. We met with the PRA during the audit and understood the PRA's perspectives on the bank's risks and its capital position; and
- Assessing the adequacy of disclosures in the Going Concern statement in note 1 of the Consolidated and Company Financial Statements and within the Assessment of going concern section of the Viability statement on page 97 and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Independent auditors' report to the members of Metro Bank PLC Continued

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Annual Report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent auditors' report to the members of Metro Bank PLC Continued

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the financial statements through the imposition of fines or the loss of the group's licence to operate. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of the Audit Committee, management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence and holding discussions with regulators, such as the FCA and the PRA, in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;

Independent auditors' report to the members of Metro Bank PLC Continued

- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, the assessment of the carrying value of non-financial assets and the ability of the group to continue as a going concern (see related key audit matters and the Conclusions relating to going concern section); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Annual report on remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 July 2009 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2010 to 31 December 2022.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Jonathan Holloway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2023

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	Years ended 31 December 2022 £'million	2021 £'million
Interest income	2	563.7	405.7
Interest expense	2	(159.6)	(110.4)
Net interest income		404.1	295.3
Fee and commission income	3	84.4	71.2
Fee and commission expense	3	(2.6)	(1.6)
Net fee and commission income		81.8	69.6
Net gains on sale of assets	4	–	9.4
Other income	5	37.6	44.2
Total income		523.5	418.5
General operating expenses	6	(467.6)	(536.1)
Depreciation and amortisation	14, 15	(77.0)	(80.2)
Impairment and write-offs of property, plant, equipment and intangible assets	14, 15	(9.7)	(24.9)
Total operating expenses		(554.3)	(641.2)
Expected credit loss expense	30	(39.9)	(22.4)
Loss before tax		(70.7)	(245.1)
Taxation	9	(2.0)	(3.1)
Loss for the year		(72.7)	(248.2)
Other comprehensive expense for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
– changes in fair value	28	(7.6)	(8.1)
– fair value changes transferred to the income statement on disposal	28	–	(0.3)
Total other comprehensive expense		(7.6)	(8.4)
Total comprehensive loss for the year		(80.3)	(256.6)
Loss per share			
Basic (pence)	36	(42.2)	(144.0)
Diluted (pence)	36	(42.2)	(144.0)

The accompanying notes form an integral part of these financial statements.

Consolidated and company balance sheets

As at 31 December 2022

		Group		Company	
		Years ended 31 December		Years ended 31 December	
	Notes	2022 £'million	2021 £'million	2022 £'million	2021 £'million
Cash and balances with the Bank of England	11	1,956	3,568	1,953	3,547
Loans and advances to customers	12	13,102	12,290	12,698	11,976
Investment securities held at fair value through other comprehensive income	13	571	798	571	798
Investment securities held at amortised cost	13	5,343	4,776	5,343	4,776
Financial assets held at fair value through profit and loss		1	3	1	3
Derivative financial assets	21	23	1	23	1
Property, plant and equipment	14	748	765	748	765
Investment in subsidiaries	37	–	–	31	31
Intangible assets	15	216	243	204	231
Prepayments and accrued income	16	85	68	80	64
Assets classified as held for sale	14	1	–	1	–
Other assets	17	73	76	473	392
Total assets		22,119	22,588	22,126	22,584
Deposits from customers	18	16,014	16,448	16,014	16,448
Deposits from central banks	19	3,800	3,800	3,800	3,800
Debt securities	20	571	588	571	588
Repurchase agreements	10	238	169	238	169
Derivative financial liabilities	21	26	11	26	11
Lease liabilities	22	248	269	248	269
Deferred grants	23	17	19	17	19
Provisions	24	7	15	7	15
Deferred tax liability	9	12	12	12	12
Other liabilities	25	230	222	236	217
Total liabilities		21,163	21,553	21,169	21,548
Called-up share capital	26	–	–	–	–
Share premium	26	1,964	1,964	1,964	1,964
Retained losses[1]	27	(1,015)	(942)	(1,014)	(941)
Other reserves	28	7	13	7	13
Total equity		956	1,035	957	1,036
Total equity and liabilities		22,119	22,588	22,126	22,584

1. The Company loss for the year was £73.1 million (2021: loss of £252.2 million).

The accompanying notes form an integral part of these financial statements. They were approved by the Board of Directors on 15 March 2023 and signed on its behalf by:

Robert Sharpe
Chair

Daniel Frumkin
Chief Executive Officer

James Hopkinson
Chief Financial Officer

Consolidated and company statements of changes in equity

For the year ended 31 December 2022

	Group						Company					
	Called-up share capital £'million	Share premium £'million	Retained losses £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million	Called-up share capital £'million	Share premium £'million	Retained losses £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2022	–	1,964	(942)	(5)	18	1,035	–	1,964	(941)	(5)	18	1,036
Loss for the year	–	–	(73)	–	–	(73)	–	–	(73)	–	–	(73)
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	–	–	–	(8)	–	(8)	–	–	–	(8)	–	(8)
Total comprehensive loss	–	–	(73)	(8)	–	(81)	–	–	(73)	(8)	–	(81)
Net share option movements	–	–	–	–	2	2	–	–	–	–	2	2
Balance as at 31 December 2022	–	1,964	(1,015)	(13)	20	956	–	1,964	(1,014)	(13)	20	957
Balance as at 1 January 2021	–	1,964	(694)	3	16	1,289	–	1,964	(689)	3	16	1,294
Loss for the year	–	–	(248)	–	–	(248)	–	–	(252)	–	–	(252)
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	–	–	–	(8)	–	(8)	–	–	–	(8)	–	(8)
Total comprehensive loss	–	–	(248)	(8)	–	(256)	–	–	(252)	(8)	–	(260)
Net share option movements	–	–	–	–	2	2	–	–	–	–	2	2
Balance as at 31 December 2021	–	1,964	(942)	(5)	18	1,035	–	1,964	(941)	(5)	18	1,036
Notes	26	26	27	28	28		26	26	27	28	28	

The accompanying notes form an integral part of these financial statements.

Consolidated and company cash flow statements

For the year ended 31 December 2022

		Group		Company	
		Years ended 31 December		Years ended 31 December	
	Notes	2022 £'million	2021 £'million	2022 £'million	2021 £'million
Reconciliation of loss before tax to net cash flows from operating activities:					
Loss before tax		(71)	(245)	(71)	(245)
Adjustments for non-cash items	38	(273)	(182)	(259)	(132)
Interest received		553	409	538	394
Interest paid		(124)	(126)	(124)	(126)
Changes in other operating assets		(852)	2,649	(842)	2,613
Changes in other operating liabilities		(418)	349	(409)	370
Net cash (outflows)/inflows from operating activities		(1,185)	2,854	(1,167)	2,874
Cash flows from investing activities					
Sales, redemptions and paydowns of investment securities		857	1,269	857	1,269
Purchase of investment securities		(1,206)	(3,438)	(1,206)	(3,438)
Purchase of property, plant and equipment	14	(29)	(42)	(29)	(41)
Purchase and development of intangible assets	15	(24)	(39)	(24)	(64)
Net cash outflows from investing activities		(402)	(2,250)	(402)	(2,274)
Cash flows from financing activities					
Repayment of capital element of leases	22	(25)	(29)	(25)	(27)
Net cash outflows from financing activities		(25)	(29)	(25)	(27)
Net (decrease)/increase in cash and cash equivalents		(1,612)	575	(1,594)	573
Cash and cash equivalents at start of year	11	3,568	2,993	3,547	2,974
Cash and cash equivalents at end of year	11	1,956	3,568	1,953	3,547

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

1. Basis of preparation and significant accounting policies

This section sets out the Group's ('our' or 'we') accounting policies which relate to the financial statements as a whole. Where an accounting policy relates specifically to a note then the related accounting policy is set out within that note. All policies have been consistently applied to all the years presented unless stated otherwise.

1.1 General information

Metro Bank PLC (the 'Company') together with its subsidiaries (the 'Group') provides retail and commercial banking services in the UK and is a public limited company limited by shares incorporated and domiciled in the UK under the Companies Act 2006 (Company number 06419578), with registered offices at One Southampton Row, London WC1B 5HA.

1.2 Basis of preparation

The consolidated financial statements of the Group and Company have been prepared in accordance with UK-adopted International Accounting Standards and the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards.

The consolidated financial statements of the Group and Company were authorised by the Board for issue on 15 March 2023.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss and other comprehensive income. Fair value is defined as the price that would be received or paid in an orderly transaction between market participants at the measurement date.

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the Risk report on pages 54 to 97. Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditor's report.

Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position as well as other principal risks. As part of this process the Directors have considered and approved the Group's most recent Long Term Plan including associated downside scenarios. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that would be available if required. Under all scenarios considered, the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources (including liquidity and capital) to be able to continue to operate for the foreseeable future (considered to be at least 15 months from the date of these financial statements). The Directors did not deem there to be any material uncertainties with regards to the assessment on going concern. Further details on the assessment undertaken by the Directors is set out in the Viability statement on pages 96 to 97.

Basis of consolidation

Our consolidated financial statements include the results for all entities which we control (details of our subsidiaries can be found in note 37). Controlled entities are all entities to which we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over it. An assessment of control is performed on an ongoing basis.

Our controlled entities are consolidated from the date on which we establish control until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control.

Post-acquisition, income and expenses are included in the consolidated income statement on a line-by-line basis in accordance with the accounting policies set out herein, adjusting for any intra-group transactions which are eliminated in full upon consolidation.

In publishing the Company financial statements here together with the Group financial statements, we have adopted the exemption in section 408(3) of the Companies Act 2006 not to present a Company statement of comprehensive income and related notes that form a part of these financial statements.

Notes to the financial statements Continued

1. Basis of preparation and significant accounting policies Continued

1.3 Functional and presentation currency

These financial statements are presented in pounds sterling (£), which is our functional currency. All amounts have been rounded to the nearest £1 million and £0.1 million for balance sheet and income statement line items respectively, except where otherwise indicated.

1.4 Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Under that method, loss before tax is adjusted for non-cash items and changes in other assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

1.5 Changes in accounting policy and disclosures

During the period there have not been any changes in accounting policy or disclosures that have had a material impact on our financial statements.

1.6 Future accounting developments

At the year-end there are no standards that were in issue but not yet effective, that would have a material impact on the Group. We have not adopted any standards early within these financial statements.

1.7 Segmental reporting

IFRS 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is our Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of the Group and allocating resources, owing to our simple structure. Accordingly, the Group has a single operating segment. We operate solely within the UK and, as such, no geographical analysis is required. We are not reliant on any single customer.

1.8 Foreign currency translation

Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

1.9 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires us to make both material judgements as well as estimates which, although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2022 are appropriate and that these consolidated financial statements therefore present the financial position and results of the Group and Company fairly. The areas involving a higher degree of complexity, judgement or where estimates have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year are:

Area	Estimates	Judgements	Further details
Measurement of ECL	Multiple forward-looking scenarios	Significant increase in credit risk Use of PMOs and PMAs	Note 30

Notes to the financial statements Continued

2. Net interest income

Accounting policy

We recognise interest income and expense for all interest–bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for POCI assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For loans that are credit impaired, interest income is calculated on the carrying amount of the loan net of credit impairment.

Interest income

Group	2022 £'million	2021 £'million
Cash and balances held with the Bank of England	33.0	4.4
Loans and advances to customers	462.2	382.3
Investment securities held at amortised cost	62.9	20.6
Investment securities held at FVOCI	4.7	2.6
Interest income calculated using the effective interest rate method	562.8	409.9
Derivatives in hedge relationships	0.9	(4.2)
Total interest income	563.7	405.7

Interest expense

Group	2022 £'million	2021 £'million
Deposits from customers	32.9	40.1
Deposits from central banks	55.5	4.0
Debt securities	48.7	48.7
Lease liabilities	14.4	16.7
Repurchase agreements	3.4	2.2
Interest expense calculated using the effective interest rate method	154.9	111.7
Derivatives in hedge relationships	4.7	(1.3)
Total interest expense	159.6	110.4

3. Net fee and commission income

Accounting policy

Fee and commission income is earned from a wide range of services we provide to our customers. We account for fees and commissions as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Service charges and other fee income	We levy a range of standard charges and fees for account maintenance or specific account services. Where the fee is earned upon the execution of a significant act at a point in time, for example CHAPS payment charges, these are recognised as revenue when the act is completed for the customer. Where the income is earned from the provision of services, for example an account maintenance fee, this is recognised as revenue over time when the service is delivered.
Safe deposit box	Revenue is recognised over the period the customer has access to the box from the date possession is taken. Safe deposit box fees are billed on either a monthly or annual basis with a standard set price payable dependent on the size of box.
ATM and interchange fees	Where we earn fees from our ATMs or from interchange this is recognised at the point the service is delivered.

Expenses that are directly related and incremental to the generation of fee and commission income are presented within fee and commission expense.

As disclosed in note 1, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount and timing of our revenue and cash flows are affected by economic factors.

Group	2022 £'million	2021 £'million
Service charges and other fee income	30.9	25.5
Safe deposit box income	16.5	15.1
ATM and interchange fees	37.0	30.6
Fee and commission income	84.4	71.2
Fee and commission expense	(2.6)	(1.6)
Total net fee and commission income	81.8	69.6

Notes to the financial statements Continued

4. Net gains on sale of assets

Group	2022 £'million	2021 £'million
Investment securities held at amortised costs	–	0.4
Investment securities held at fair value through other comprehensive income	–	0.3
Loan portfolios	–	8.7
Total net gains on sale of assets	–	9.4

Disposal of investment securities

During the year ended 2021 some of our investment securities held at amortised cost were called early by the issuers resulting in a gain being recognised on these assets.

Disposal of loan portfolios

The £8.7 million gain on loan portfolio sales recognised in 2021 relates to the sale of a portfolio of £3.1 billion of loans to NatWest in December 2020. The portfolio of mortgages sold was subject to a 10% carve out, which related to a group of specifically identified loans on which NatWest undertook further due diligence prior to completion in February 2021.

5. Other income

Accounting policy

Other income is accounted for as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Foreign currency transactions	Gains on foreign currency transactions is the spread earned on foreign currency transactions performed for our customers along with any associated fees. It is recognised at the point in time that the exchange is executed.
Rental income	Rental income is primarily earned from the letting out of surplus space in some of our properties. The revenue is recognised on a straight-line basis over the life of the lease.
Deferred grant income	Deferred grant income relates to amounts recognised in relation to the amounts drawn down against the Capability and Innovation Fund (C&I) award (further details of which can be found in note 23). Income is recognised in line with the delivery of the commitments we agreed to as part of the bid.
Other income	Other income primarily consists of hedge ineffectivenesss, foreign currency differences arising on translation and movements in financial assets and liabilities held at fair value through profit and loss.

Group	2022 £'million	2021 £'million
Foreign currency transactions	34.1	27.7
Rental income	0.7	0.9
Deferred grant income	1.5	10.5
Other	1.3	5.1
Total other income	37.6	44.2

Notes to the financial statements Continued

6. General operating expenses

Group	2022 £'million	2021 £'million
People costs (note 7)	236.6	239.0
Information technology costs	62.2	57.2
Occupancy costs	30.8	32.9
Money transmission and other banking-related costs	48.7	50.6
Transformation costs	3.3	8.9
Remediation costs	5.3	45.9
Capability and Innovation Fund costs[1]	1.3	8.1
Legal and regulatory fees	7.0	6.6
Professional fees[2]	38.4	52.2
Printing, postage and stationery costs	6.2	5.6
Travel costs	1.6	1.1
Marketing costs	5.0	4.7
Business acquisition and integration costs	–	2.4
Holding company insertion costs	1.8	–
Other	19.4	20.9
Total general operating expenses	467.6	536.1

1. C&I costs represent the non-capitalisable costs of delivering the C&I digital commitments. It includes £0.9 million (2021: £2.5 million) of people costs. These are included within C&I costs rather than people costs to better reflect their nature. In addition to these costs the grant income recognised in note 5 is also used to offset property costs relating to the store commitments delivered.
2. Professional fees are shown net of both amounts capitalised and amounts included within the transformation costs, remediation costs and C&I costs lines.

Information technology costs
Information technology costs include costs expensed in relation to software licenses, support from third party providers, back up costs and cloud computing costs.

Occupancy costs
Occupancy costs consist of the non-IFRS 16 property costs of occupying our stores and offices, including rates, utilities and property maintenance costs as well as irrecoverable VAT on lease payments.

Money transmission and other banking-related costs
Money transmission and other banking-related costs are made up of the overheads relating to servicing our deposits and lending that do not constitute either part of the effective interest rate, or fee and commission expense.

Professional fees
Professional costs includes £15.0 million (2021: £29.4 million) of research and development costs not capitalised. This does not include any costs of colleagues working on these projects that are included in the people costs line. Including these costs we spent £47.5 million (2021: £53.5 million) on research and development costs not capitalised.

Included within legal, regulatory and professional fees is £0.1 million (2021: £nil) in respect of the Financial Services Compensation Scheme levy.

Transformation, remediation, Capability and Innovation Fund, business acquisition and integration and holding company insertion costs
Further details on transformation, remediation, Capability and Innovation Fund, business acquisition and integration and holding company insertion costs can be found on page 244.

Notes to the financial statements Continued

7. People costs

Group	2022 £'million	2021 £'million
Wages and salaries[1]	196.8	201.2
Social security costs[1]	23.7	22.0
Pension costs[1]	13.7	13.4
Equity-settled share-based payments	2.4	2.4
Total people costs	236.6	239.0

1. Amounts are net of people costs which are capitalised as well as those relating to C&I (see note 6) as these costs will be offset against the deferred grant income in note 5.

During the year £5.3 million (2021: £6.9 million) of people costs were capitalised as part of our intangibles assets (further details can be found in note 15).

The average monthly number of persons employed during the year was 4,040 (2021: 4,184).

Group	2022	2021
Customer-facing	1,886	2,062
Non-customer-facing	2,154	2,122
Total number of persons employed	4,040	4,184

Pension costs

We operate a defined contribution pension scheme for our colleagues. Contributions to colleagues' individual personal pension plans are made on a contractual basis, with no further payment obligations once the contributions have been paid. These contributions are recognised as an expense when they fall due.

Payments were made amounting to £14.0 million (2021: £14.0 million) to colleagues' individual personal pension plans during the year. This includes pension contributions that were capitalised as well as those relating to colleagues working on C&I which are not included in the figures above.

8. Fees payable to our auditors

During the year, the Group (including its subsidiaries) obtained the following services from our auditors, PricewaterhouseCoopers LLP:

Group	2022 £'000	2021 £'000
Audit of the Consolidated and Company financial statements[1]	2,553	2,342
Audit of the financial statements of the Company's subsidiaries	73	143
Audit-related assurance services	203	232
Other assurance services	115	–
Total fees payable to our auditors	2,944	2,717

1. Includes £160,000 related to the prior year (2021: £300,000).

Notes to the financial statements Continued

9. Taxation

Accounting policy

Current tax

Our current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where we have tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

Deferred tax

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

We recognise a deferred tax asset to the extent that it is probable that future taxable profits will be available against which they can be used and deferred tax liabilities are provided on taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised or the deferred tax liability settled.

We offset deferred tax assets and liabilities where we have a legally enforceable right to offset and where the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Tax expense

The components of the tax expense for the year are:

Group	2022 £'million	2021 £'million
Current tax		
Current tax	–	(0.5)
Adjustment in respect of prior years	–	0.6
Total current tax credit	–	0.1
Deferred tax		
Origination and reversal of temporary differences	(1.5)	3.4
Effect of changes in tax rates	(0.7)	(5.4)
Adjustment in respect of prior years	0.2	(1.2)
Total deferred tax expense	(2.0)	(3.2)
Total tax expense	**(2.0)**	**(3.1)**

Notes to the financial statements Continued

9. Taxation Continued

Reconciliation of the total tax expense

The tax expense shown in the income statement differs from the tax expense that would apply if all accounting losses had been taxed at the UK corporation tax rate.

A reconciliation between the expense and the accounting loss multiplied by the UK corporation tax rate is as follows:

Group	2022 £'million	Effective tax rate %	2021 £'million	Effective tax rate %
Accounting loss before tax	(70.7)		(245.1)	
Tax expense at statutory tax rate of 19% (2021: 19%)	13.4	19.0%	46.6	19.0%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	(2.5)	(3.5%)	(2.7)	(1.1%)
Non-deductible expenses – investment property impairment	(0.1)	(0.1%)	(1.8)	(0.8%)
Non-deductible expenses – remediation	(0.6)	(0.8%)	(7.1)	(2.9%)
Non-deductible expenses – other	(0.4)	(0.6%)	(0.1)	–
Impact of intangible asset write-off on research and development deferred tax liability	0.3	0.4%	3.0	1.2%
Share-based payments	0.1	0.1%	(0.3)	(0.1%)
Adjustment in respect of prior years	0.2	0.2%	(0.6)	(0.3%)
Current year losses for which no deferred tax asset has been recognised	(11.7)	(16.5%)	(34.7)	(14.1%)
Effect of changes in tax rates	(0.7)	(1.0%)	(5.4)	(2.2%)
Tax expense reported in the consolidated income statement	(2.0)	(2.8%)	(3.1)	(1.3%)

The effective tax rate for this year is 2.8% (2021: 1.3%). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

Impact of intangible asset write-off on research and development tax relief

During the year we fully wrote-off intangible assets relating to discontinued products resulting in a net deferred tax credit.

Share based payments

During the period our share price increased from £1.04 to £1.21. This had the impact of increasing the deferred tax asset held resulting in a deferred tax credit. In 2021 our share price fell from £1.40 to £1.04. This had the impact of reducing the deferred tax asset held resulting in a deferred tax charge.

Adjustment in respect of prior years

Following the filing of our 2021 corporation tax return we reduced our research and development deferred tax liability following a decrease in qualifying research and development expenditure. This was partly offset by an increase in our property, plant and equipment deferred tax liability resulting from an increase in qualifying additions.

Losses for which no deferred tax asset has been recognised

The tax effected value of losses for which no deferred tax asset has been recognised is £11.7 million (2021: £34.7 million).

Effect of changes in tax rates

This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate. An increase in the UK corporation rate from 19% to 25% for taxable profits over £250,000 (effective 1 April 2023) was substantively enacted on 24 May 2021. This continues to impact our deferred tax rates until 2023.

Notes to the financial statements Continued

9. Taxation Continued

Deferred tax assets

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted.

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the tax expense:

	31 December 2022						31 December 2021					
Group	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
Deferred tax assets	12	3	1	–	–	16	13	3	–	–	–	16
Deferred tax liabilities	–	4	–	(26)	(6)	(28)	–	2	–	(23)	(7)	(28)
Deferred tax liabilities (net)	12	7	1	(26)	(6)	(12)	13	5	–	(23)	(7)	(12)
1 January	13	5	–	(23)	(7)	(12)	12	2	–	(16)	(10)	(12)
Income statement	(1)	–	1	(3)	1	(2)	1	–	–	(7)	3	(3)
Other comprehensive income	–	2	–	–	–	2	–	3	–	–	–	3
31 December	12	7	1	(26)	(6)	(12)	13	5	–	(23)	(7)	(12)

Offsetting of deferred tax assets and liabilities

We have presented all the deferred tax assets and liabilities above on a net basis within the Group and Company balance sheets on page 182. This is on the basis that all our deferred tax assets and liabilities relate to taxes levied by HMRC upon the Company and we have a legally enforceable right to offset these. Further details on our offsetting of financial assets and liabilities can be found in note 33.

Unrecognised deferred tax assets

We have total unused tax losses of £859 million for which a deferred tax asset of £215 million has not been recognised. The impact of recognising the deferred tax asset in the future would be material.

Although there is an expectation for profits in the near future, the tax benefits would be spread over a number of years. In addition, the 50% corporate loss restriction in place extends the timeline over which we can offset losses against future profits. This will be reassessed for the year ending 31 December 2023 in light of actual performance against our forecasts and prevailing market conditions. There is no time limit beyond which these losses expire.

Due to unrealised accumulated investment property impairments of £11 million there is an unrecognised deferred tax asset of £3 million (31 December 2021: £3 million).

Company disclosures

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

Notes to the financial statements Continued

10. Financial instruments

Accounting policy

Repurchase agreements

Where we sell financial assets subject to sale and repurchase agreements, the financial assets are retained in their respective balance sheet categories, however become encumbered and are not available for transfer or sale. The associated liabilities are included in the repurchase agreements line. The difference between the sale and repurchase price of repurchase agreements is treated as interest and accrued over the life of the agreements using the effective interest method as set out in note 2.

Other financial instruments

Our accounting policies in respect of our other financial instruments can be found in their respective notes, where applicable.

Our financial instruments primarily comprise customer deposits, loans and advances to customers and investment securities, all of which arise as a result of our normal operations.

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk). Further details on these risks can be found within the Risk report on pages 54 to 97.

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgements relating to the classification and measurement of financial instruments under IFRS 9.

Cash and balances with the Bank of England, trade and other receivables, trade and other payables and other assets and liabilities which meet the definition of financial instruments are not included in the following tables.

Classification of financial instruments

	31 December 2022			
Group	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	13,102	13,102
Investment securities	–	571	5,343	5,914
Financial assets held as fair value through profit and loss	1	–	–	1
Derivative financial assets	23	–	–	23
Liabilities				
Deposits from customers	–	–	16,014	16,014
Deposits from central bank	–	–	3,800	3,800
Debt securities	–	–	571	571
Derivative financial liabilities	26	–	–	26
Repurchase agreements	–	–	238	238

	31 December 2021			
Group	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	12,290	12,290
Investment securities	–	798	4,776	5,574
Financial assets held as fair value through profit and loss	3	–	–	3
Derivative financial assets	1	–	–	1
Liabilities				
Deposits from customers	–	–	16,448	16,448
Deposits from central bank	–	–	3,800	3,800
Debt securities	–	–	588	588
Derivative financial liabilities	11	–	–	11
Repurchase agreements	–	–	169	169

Notes to the financial statements Continued

10. Financial instruments Continued

Financial assets held at fair value through profit and loss
The financial assets held at fair value through profit and loss consist of loans previously absorbed by the RateSetter provision fund. Following the acquisition of the legacy peer-to-peer back book from RateSetter investors in April 2021 these loans are now owned by the Company. Following the back book purchase we no longer have any liability in respect of the provision fund.

Financial assets pledged as collateral
We have pledged £5,286 million (31 December 2021: £5,463 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £2,131 million (31 December 2021: £1,491 million) is made up of high-quality securities and £3,141 million (31 December 2021: £3,956 million) is from our own loan portfolio.

This does not include cash balances pledged as collateral which are shown separately within note 17.

LIBOR replacement
On 1 January 2022 SONIA (Sterling Overnight Index Average) replaced LIBOR (London Inter-bank Offered Rate) as the industry standard sterling interest rate benchmark.

As at 31 December 2022 all of our market-facing derivative flows are executed against SONIA, however, we continue to hold £64 million (31 December 2021: £295 million) of mortgages that are either exposed, or revert to synthetic LIBOR.

11. Cash and balances with the Bank of England

Accounting policy
Cash and balances with the Bank of England consists of both cash on hand and demand deposits, both at other banks as well as the Bank of England. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash if they have a short maturity of three months or less from the date of acquisition and are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within a short period of their maturity.

Where cash is pledged as collateral and as such is not available on demand this is included within other assets within note 17.

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Unrestricted balances with the Bank of England	1,761	3,361	1,761	3,361
Cash and unrestricted balances with other banks	136	177	133	156
Money market placements	59	30	59	30
Total cash and balances with the Bank of England	1,956	3,568	1,953	3,547

The expected credit loss held against cash and balances with the Bank of England is less than £0.1 million (31 December 2021: less than £0.1 million).

Notes to the financial statements Continued

12. Loans and advances to customers

Accounting policy

Loans and advances to customers are classified as held at amortised cost. Our business model is that customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, which is detailed further in note 2. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses (ECL) are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as 'Expected credit loss expense'.

	31 December 2022			31 December 2021		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Consumer lending	1,480	(75)	1,405	890	(42)	848
Retail mortgages	7,649	(20)	7,629	6,723	(19)	6,704
Commercial lending (excluding asset and invoice finance)	3,748	(84)	3,664	4,526	(102)	4,424
Total loans and advances to customers (Company)	12,877	(179)	12,698	12,139	(163)	11,976
Asset and invoice finance	412	(8)	404	320	(6)	314
Total loans and advances to customers (Group)	13,289	(187)	13,102	12,459	(169)	12,290

Further information on the movements in gross carrying amounts and ECL can be found in note 30.

An analysis of the gross loans and advances by product category is set out below:

Group	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Overdrafts	60	66	60	66
Credit cards	19	13	19	13
Term loans	1,401	811	1,401	811
Total consumer lending	1,480	890	1,480	890
Residential owner occupied	5,507	5,022	5,507	5,022
Retail buy-to-let	2,142	1,701	2,142	1,701
Total retail mortgages	7,649	6,723	7,649	6,723
Total retail lending	9,129	7,613	9,129	7,613
Professional buy-to-let	731	950	731	950
Bounce back loans	801	1,304	801	1,304
Coronavirus business interruption loans	127	165	127	165
Recovery loan scheme[1]	385	157	385	157
Other term loans	1,578	1,791	1,578	1,791
Commercial term loans	3,622	4,367	3,622	4,367
Overdrafts and revolving credit facilities	122	156	122	156
Credit cards	4	3	4	3
Asset and invoice finance	412	320	–	–
Total commercial lending	4,160	4,846	3,748	4,526
Gross loans and advances to customers	13,289	12,459	12,877	12,139
Amounts include:				
Repayable at short notice	156	181	156	181

1. Recovery loan scheme includes £97 million acquired from third parties under forward flow arrangements (31 December 2021: £66 million). The loans are held in a trust arrangement in which we hold 99% of the beneficial interest, with the issuer retaining the remaining 1% (the trust retains the legal title loans).

Notes to the financial statements Continued

13. Investment securities

Accounting policy

Our investment securities may be categorised as amortised cost, FVOCI or fair value through profit and loss. Currently all investment securities are non-complex, with cash flows comprising solely payments of principal and interest. We hold some securities to collect cash flows; other securities are held to collect cash flows, and to sell if the need arises (e.g. to manage and meet day-to-day liquidity needs). Therefore, we have a mixed business model and securities are classified as either amortised cost or FVOCI as appropriate. We do not categorise any investment securities as fair value through profit and loss.

Settlement date accounting is used when recording financial asset transactions where a trade is settled through the regular settlement cycle for that particular investment.

Investment securities held at amortised cost

Investment securities held at amortised cost consist entirely of debt instruments. They are accounted for using the effective interest method, less any impairment losses.

Investment securities held at FVOCI

Investment securities held at FVOCI consist entirely of debt instruments. Investment securities held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method.

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Investment securities held at FVOCI	571	798	571	798
Investment securities held at amortised cost	5,343	4,776	5,343	4,776
Total investment securities	5,914	5,574	5,914	5,574

Investment securities held at FVOCI

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Sovereign bonds	215	566	215	566
Residential mortgage-backed securities	38	38	38	38
Covered bonds	152	156	152	156
Multi-lateral development bank bonds	166	38	166	38
Total investment securities held at FVOCI	571	798	571	798

Investment securities held at amortised cost

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Sovereign bonds	1,717	1,198	1,717	1,198
Residential mortgage-backed securities	1,095	1,687	1,095	1,687
Covered bonds	542	442	542	442
Multi-lateral development bank bonds	1,821	1,289	1,821	1,289
Asset backed securities	168	160	168	160
Total investment securities held at amortised cost	5,343	4,776	5,343	4,776

Further information on the ECL recognised on investment securities can be found in note 30.

Notes to the financial statements Continued

14. Property, plant and equipment

Accounting policy

Property, plant and equipment

Our property, plant and equipment primarily consists of investments and improvements in our store network and is stated at cost less accumulated depreciation and any recognised impairment.

We depreciate property, plant and equipment on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures, fittings and equipment	5 years
IT hardware	3 to 5 years

We keep depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment under review to take account of any change in circumstances.

All items of property, plant and equipment are reviewed at the end of each reporting period for indicators of impairment.

Right-of-use assets

All of our leases within the scope of IFRS 16 'Leases' (other than those of low value) relate to our stores and head office properties.

Upon the recognition of a lease liability (see note 22 for further details) a corresponding right-of-use asset is recognised. This is adjusted for any initial direct costs incurred, lease incentives paid or received and any restoration costs at the end of the lease (where applicable).

The right-of-use asset is depreciated on a straight-line basis over the life of the lease.

All right-of-use assets are reviewed at the end of each reporting period for indicators of impairment.

Investment property

Investment property is also stated at cost less accumulated depreciation and any recognised impairment. Depreciation is calculated on a consistent basis with that applied to land and buildings as set out above.

	2022						
Group	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT Hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2022	18	280	341	24	1	295	959
Additions	–	–	22	–	7	1	30
Disposals	–	–	–	–	–	(13)	(13)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(6)	–	–	–	–	–	(6)
Transfers	–	(9)	9	–	–	–	–
31 December 2022	12	261	372	22	8	283	958
Accumulated depreciation							
1 January 2022	12	68	28	19	–	67	194
Depreciation charge	–	12	5	3	2	13	35
Impairments	1	–	–	–	–	–	1
Disposals	–	–	–	–	–	(3)	(3)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(5)	–	–	–	–	–	(5)
Transfers	–	(1)	1	–	–	–	–
31 December 2022	8	69	34	20	2	77	210
Net book value	4	192	338	2	6	206	748

Notes to the financial statements Continued

14. Property, plant and equipment Continued

Group	2021 Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT Hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2021	18	292	298	25	11	330	974
Additions	–	12	29	–	1	(4)	38
Disposals	–	–	–	–	–	(29)	(29)
Write-offs	–	(10)	–	(1)	(11)	(2)	(24)
Transfers	–	(14)	14	–	–	–	–
31 December 2021	18	280	341	24	1	295	959
Accumulated depreciation							
1 January 2021	12	66	21	15	7	47	168
Depreciation charge	–	14	4	4	2	18	42
Impairments	–	–	–	–	–	6	6
Disposals	–	–	–	–	–	(4)	(4)
Write-offs	–	(9)	–	–	(9)	–	(18)
Transfers	–	(3)	3	–	–	–	–
31 December 2021	12	68	28	19	–	67	194
Net book value	6	212	313	5	1	228	765

Impairments

During the year impairments were recognised in relation to some of our investment property. Our investment property typically consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. As at 31 December 2022 our investment property had a fair value of £4 million (31 December 2021: £6 million). The fair value has been provided by a qualified independent valuer.

Impairment indicators were also identified in respect of other items of our property, plant and equipment. The assets, which included our stores, were tested for impairment. We do not consider individual stores to be cash generating units (CGU), on the basis that they do not generate sufficiently independent cash flows. Instead all of our stores and associated assets are deemed to belong to our retail bank CGU. Further details on the impairment testing of our CGUs can be found in note 15.

The recoverable amount of the retail bank CGU was found to be in excess of its carrying amount and as such no impairment was recognised.

Write-offs

The write-offs made during the year relate to items that are no longer being used or are no longer providing us with any economic benefit.

Transfers

Transfers represent costs associated with the improvements made to the two (2021: four) previously leased stores which have been purchased during the year. These stores were purchased where there was a strong commercial rationale for doing so.

Assets classified as held for sale

During the year we agreed the sale of one of our investment properties. This site had been previously acquired as a location for a future store, which we subsequently decided against proceeding with and as such it had been classified as investment property. As at the 31 December 2022 the property met the criteria to be classified as held for sale and was therefore remeasured to its fair value (less disposal costs) and transferred out of investment property. The sale of the site was completed in early 2023, with no gain or loss being recognised upon disposal.

Contractual commitment for the acquisition of property, plant and equipment

As at 31 December 2022 we had no contractual commitments relating to the acquisition of property, plant and equipment that are not reflected in the tables (31 December 2021: £nil).

Company disclosures

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

Notes to the financial statements Continued

15. Intangible assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of our CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however, it is tested for impairment at the end of each reporting period.

The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows.

If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

Software includes both purchased items and internally developed systems, which consists principally of identifiable and directly associated internal colleague, contractor and other costs.

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset which we control and which will generate future economic benefits in accordance with IAS 38 'Intangible Assets'.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis within the income statement using the following useful economic lives:

Core banking software[1]	up to 20 years
Other banking software	3 to 10 years
Software licences	licence period
Customer contracts	10 years
Brands	5 years

All intangible assets are reviewed at the end of each reporting period for indicators of impairment.

1. Core banking software consists of our central banking transaction platform. The original platform was assessed as having a 20-year life due to it being the central component of our digital infrastructure. It was upgraded during 2019 with the upgrade assessed as having a 15-year life. Our core banking software has been in use since we first opened and given its significance is unlikely to be replaced in the foreseeable future.

	2022			
Group	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2022	10	2	336	348
Additions	–	–	24	24
Write-offs	–	–	(22)	(22)
31 December 2022	10	2	338	350
Accumulated amortisation				
1 January 2022	–	–	105	105
Amortisation charge	–	–	42	42
Write-offs	–	–	(13)	(13)
31 December 2022	–	–	134	134
Net book value	10	2	204	216

	2021			
Group	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2021	10	2	328	340
Additions	–	–	39	39
Write-offs	–	–	(32)	(32)
Deferred grant (see note 23)	–	–	1	1
31 December 2021	10	2	336	348
Accumulated amortisation				
1 January 2021	–	–	86	86
Amortisation charge	–	–	38	38
Impairments	–	–	7	7
Write-offs	–	–	(26)	(26)
31 December 2021	–	–	105	105
Net book value	10	2	231	243

Software

Software consists of both internally generated and externally acquired assets. As at 31 December 2022 externally acquired licences had a net book value of £9 million (31 December 2021: £6 million). Out of our total intangible assets, £39 million of software assets were under the course of construction at 31 December 2022 (31 December 2021: £98 million).

Notes to the financial statements Continued

15. Intangible assets Continued

Write-offs

The write-offs in the year consisted primarily of software and applications that are no longer being used and are no longer providing any further economic benefits.

Contractual commitment for the acquisition of intangible assets

As at 31 December 2022 we had no contractual commitments relating to the acquisition of intangible assets that are not reflected in the tables (31 December 2021: £nil).

Goodwill and impairment testing of cash generating units

An impairment test on the carrying value of the assets in our CGUs has been undertaken. As at 31 December 2022 we had two main CGUs being the retail bank and our asset and invoice finance business and no changes have been made to our CGUs during the year. Both of our CGUs contain goodwill and as such are tested annually for impairment. Additional impairment indicators were identified in relation to the retail bank CGU in relation to both its intangible assets as well as property, plant and equipment (see note 14).

	31 December 2022 £'million
Asset and invoice finance business	4
Retail bank	6
Total	10

The recoverable amount for both CGUs was determined by a value in use (VIU) calculation. The VIU was higher than their carrying value and therefore no impairment charge has been recognised for the current year (2021: £nil). The VIU calculation is based on our Board-approved Long Term Plan which covers the five-year period from 2023 to 2027 inclusive. Our Long Term Plan is constructed using our best estimate of the future performance of the business and encompasses commercially sensitive estimates including lending and deposit yields and volumes, as well as costs forecasts over the period. The Long Term Plan is built on the assumption that we remain appropriately capitalised to fund our anticipated growth. We have determined that we will be able to meet the appropriate regulatory requirements, which has been based on an analysis of both our existing and planned capital structure. This is consistent with the assessment undertaken by the Directors in respect of assessing viability, which can be found on pages 96 to 97.

The profitability for each CGU per the Long Term Plan is adjusted for non-cash items (including depreciation and amortisation), capital expenditure and long-term funding costs (which are reflected in the discount rate) to establish the cash flows for the VIU. Cash flows beyond the five years have been extrapolated using a decreasing growth rate for years six to ten at which point a terminal growth rate of 2% (31 December 2021: 2%) is applied. The period of projection and growth rates used reflects our anticipated growth profile after the five-year planning period, as well as the nature and life of the assets within the CGUs. The terminal growth rate of 2% represents the predicted long-term GDP growth rate of the UK economy (the only market both CGUs operate in).

A pre-tax discount rate of 15.3% (31 December 2021: 13.3%) has been used for the VIU calculation. The discount rate is based on our post-tax weighted average cost of capital (which is grossed up to a pre-tax rate).

The VIU is most sensitive to changes in the projected profitability per the Long Term Plan and the discount rate applied (which are dependent on the assumptions regarding capital outlined above). If adjusted independently of all other variables, reasonable changes to the assumption in either of these factors over the next 12 months would not cause the recoverable amount of either CGU to fall below its carrying amount.

Company disclosures

Company	2022 Software £'million	2021 Software £'million
Cost		
1 January	326	293
Additions	24	64
Write-offs	(15)	(32)
Deferred grant (see note 23)	–	1
31 December	335	326
Accumulated amortisation		
1 January	95	84
Amortisation charge	42	37
Write-offs	(6)	(26)
31 December	131	95
Net book value	204	231

Notes to the financial statements Continued

16. Prepayments and accrued income

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Prepayments	32	28	27	24
Accrued income[1]	52	38	52	38
VAT receivable	1	2	1	2
Total prepayments and accrued income	85	68	80	64
Current portion	85	68	80	64
Non-current portion	–	–	–	–

1. Includes accrued interest receivable.

17. Other assets

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Cash pledged as collateral	39	36	39	36
Other[1]	34	40	34	39
Amounts owed by Group undertakings	–	–	400	317
Total other assets	73	76	473	392
Current portion	45	52	445	365
Non-current portion	28	24	28	27

1. Other balance primarily comprises customer transactions in process or items in the course of collection over year-end.

18. Deposits from customers

The total deposits from customers as at 31 December 2022 consisted of 49% from retail customers (31 December 2021: 52%) and 51% from commercial customers (31 December 2021: 48%).

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Deposits from retail customers	7,851	8,527	7,851	8,527
Deposits from commercial customers	8,163	7,921	8,163	7,921
Total deposits from customers	16,014	16,448	16,014	16,448

As at 31 December 2022, 49% of deposits from customers consisted of instant access current accounts (31 December 2021: 44%). In line with our strategy we continued to let fixed term saving accounts roll-off, with these making up 4% of balances as at the year-end (31 December 2021: 9%).

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Demand: current accounts	7,888	7,318	7,888	7,318
Demand: savings accounts	7,501	7,684	7,501	7,684
Fixed term: savings accounts	625	1,446	625	1,446
Total deposits from customers	16,014	16,448	16,014	16,448

19. Deposits from central banks

Deposits from central banks consist solely of amounts drawn down under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Amounts drawn down under TFSME	3,800	3,800	3,800	3,800
Deposits from central banks	3,800	3,800	3,800	3,800

TFSME was closed to further drawdowns in October 2021 and our drawdowns will mature in 2024, 2025 and 2027 in the amounts of £550 million, £1,860 million and £1,390 million respectively.

Notes to the financial statements Continued

20. Debt securities

Accounting policy
Debt securities in issue are recognised initially at fair value, being proceeds less transaction costs. Subsequently, debt securities are measured at amortised cost using the effective interest method.

Name	Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
Fixed Rate Reset Callable Subordinated Notes	26/06/18	GBP	250	5.50%	26/06/23	26/06/28
Fixed Rate Reset Senior Non-Preferred Notes	08/10/19	GBP	350	9.50%	08/10/24	08/10/25

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	588	600	588	600
Fair value movements due to micro hedging arrangements	(19)	(14)	(19)	(14)
Unwind of issuance costs	2	2	2	2
31 December	571	588	571	588

In December 2022 the Bank of England's Resolution Directorate has agreed to provide a temporary, time-limited, adjustment for our existing Fixed Rate Reset Callable Subordinated Notes (the 'Notes') with respect to MREL eligibility until 26 June 2025. This will come into effect upon the implementation of a holding company, which we are required to implement by 26 June 2023.

The adjustment permits the Notes to remain eligible to count towards the holding company's MREL requirement until 26 June 2025, while remaining at the operating company. The adjustment has been granted in line with the statement in the Bank of England's December 2021 MREL Policy Statement that it may, on a firm's request, make 'temporary, time-limited adjustments' to the implementation of its policy change on MREL debt eligibility with respect to individual firms where to do so would not materially affect the overall amount of loss absorbing and recapitalisation capacity available in resolution.

As set out in the table above the Notes have a one-time call date of 26 June 2023 and, given the adjustment, at present we do not expect to exercise the call provision (unless it would be economically rational to do so at the time and subject to Prudential Regulation Authority approval). The Notes' eligibility for Tier 2 capital amortises from the call date over the remaining life of the instrument if not called.

21. Derivatives

Accounting policy
In accordance with our risk management strategy, to the extent not naturally hedged, we use interest rate swaps to manage our exposure to interest rate risk. On adoption of IFRS 9 we chose to continue applying the hedge accounting rules set out in IAS 39 'Financial Instruments: Recognition and Measurement' as we employ dynamic portfolio hedge accounting of interest rate risk across fixed rate financial assets and fixed rate financial liabilities.

Where we are using interest rate swaps to hedge the changes in fair value attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply fair value hedge accounting. If there is an effective hedge relationship, the hedged item is adjusted for fair value changes in respect of the hedged risk. These fair value changes are recognised in the income statement together with the fair value movements on the hedging instrument (the interest rate swaps).

Hedge accounting is discontinued when a hedge ceases to be highly effective, a derivative expires or is sold, the underlying hedged item matures or is repaid, or periodically if a new underlying hedged item or hedging instrument is added to the hedge relationship. Where a fair value hedge is de-designated (either due to becoming ineffective or as part of our dynamic approach to hedge accounting) any hedge adjustments accrued to that point are amortised over the remaining life of the hedged item.

At the inception of every hedge, we produce hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

Notes to the financial statements Continued

21. Derivatives Continued

We use derivatives as part of our approach to hedging interest rate and foreign exchange exposure. Our derivative financial instruments are analysed in the table below.

	31 December 2022				31 December 2021			
	Assets		Liability		Assets		Liability	
Group and Company	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million
Interest rate swaps – Designated as hedging instruments	452	21	450	26	–	–	1,164	10
Foreign currency swaps – Designated as held at fair value through profit and loss	146	2	145	–	160	1	162	1
Total	598	23	595	26	160	1	1,326	11

Hedge accounting

Our hedging strategy is divided into micro hedges, where the hedged item is an identifiable asset or liability, and portfolio hedges, where the hedged item is a portfolio of mortgage assets.

The designated risk components of hedged items are benchmark interest rate risk. Other risks such as credit risk and liquidity risk are managed separately and are not included in the hedge accounting relationship.

The changes in the designated risk component usually account for the largest portion of the overall change in fair value of the hedged item.

Portfolio fair value hedges

We operate a macro hedging programme. As part of this we use interest rate swaps to manage our interest rate risk. So far the macro hedging programme has been applied to our fixed rate mortgage assets only.

We determine hedged items by analysing portfolios of fixed rate mortgages into repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated appropriately to those repricing time buckets.

The hedge relationship is tested for effectiveness prospectively at the designation date, and retrospectively at each de-designation on a monthly basis. This is done by comparing fair value movements of the designated proportion of the bucketed mortgages, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes due to interest rate risk in the hedged mortgages are recognised on the balance sheet as an asset and liability respectively. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the mortgage. Amortisation begins at the date of de-designation.

Micro fair value hedges

We use this hedging strategy on fixed rate assets and liabilities held at fair value through other comprehensive income and amortised cost as well as on our fixed rate debt issuance.

Hedge ineffectiveness

Hedge ineffectiveness within fair value hedges can occur due to a number of potential sources, such as non-zero derivative designated in a hedge relationship; mismatches between contractual terms such as basis, timing, principal and notionals; or change in credit risk of interest rate swaps.

For the purposes of calculating ineffectiveness recognised in the profit or loss, the total movement in fair value due to the hedged risk on the hedged item and hedging instrument since designation are considered. The total ineffectiveness on our fair value hedges is recognised in Other income within note 5.

Notes to the financial statements Continued

21. Derivatives Continued

Summary of hedging instruments in designated hedge relationships

The amounts relating to items designated as hedging instruments in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2022				31 December 2021			
	Assets		Liability		Assets		Liability	
Group and Company	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million
Interest rate swaps	452	21	450	26	–	–	1,164	10
Total derivatives designated as fair value hedges	452	21	450	26	–	–	1,164	10

Summary of hedged items in designated hedge relationships

The items designated as hedged items in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2022				31 December 2021			
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item	
Group and Company	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million
Fixed rate mortgages[1]	129	–	–	–	456	–	2	–
Fixed rate debt issuance[2]	–	424	26	–	–	443	7	–
Fixed rate investment securities at FVOCI[3]	236	–	–	20	195	–	1	–
Fixed rate investment securities at amortised cost[4]	59	–	–	1	60	–	–	–
Fixed rate loans[1]	5	–	–	–	5	–	–	–
Total derivatives designated as fair value hedges	429	424	26	21	716	443	10	–

1. Hedged item and the cumulative fair value changes are recorded in Loans and advances to customers.
2. Hedged item and the cumulative fair value changes are recorded in Debt securities in issue (see note 20).
3. Hedged item and the cumulative fair value changes recorded in Investment securities held at FVOCI
4. Hedged item and the cumulative fair value changes are recorded in Investment securities held at amortised cost.

Summary of ineffectiveness from designated hedge relationships

Total hedge ineffectiveness recognised in profit or loss for the designated fair value hedge relationships is £nil (2021: gain of £0.2 million).

Notes to the financial statements Continued

22. Leases

Accounting policy
At the inception of a contract we assess whether the contract contains a lease.

At the commencement of a lease we recognise a lease liability and right-of-use asset (see note 14 for further details). The lease liability is initially measured as the present value of the future lease payments discounted at the rate implicit in the lease (where available) or our incremental cost of borrowing. Generally we use our deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Where we are reasonably certain to exercise a break in the lease, only the lease payments up until the date of the break are included.

We subsequently remeasure the lease liability when there is a change to an index or rate used or when there is a change in expectation that we will exercise a purchase option or break clause or if we extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right-of-use asset.

Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which is due. This is included within note 6, General operating expenses, under 'occupancy expense'.

We have elected not to recognise a lease liability and right-of-use assets for any leases that have a term of less than 12 months, or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

All of our leases within the scope of IFRS 16 (other than those of low value) relate to our stores and head office properties.

Lease liabilities

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	269	327	269	325
Additions and modifications	1	(6)	1	(6)
Disposals	(11)	(40)	(11)	(40)
Lease payments made	(25)	(29)	(25)	(27)
Interest on lease liabilities	14	17	14	17
31 December	248	269	248	269
Current	23	25	23	25
Non-current	225	244	225	244

Right-of-use assets
All of our disclosures relating to right-of-use assets, including our accounting policy, can be found in note 14.

Disposals
The disposals during the year relate to the two (2021: four) stores where we purchased the freehold or long-lease during the year. Following the purchase both the lease liabilities and right-of-use assets relating to these stores were derecognised. Additionally we derecognised one of the leases relating to the three stores we closed during the year following the surrendering of this lease back to the landlord.

Minimum lease payments
Future undiscounted minimum payments under lease liabilities, exclusive of VAT, as at 31 December are as follows:

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Within one year	24	25	24	25
Due in one to five years	88	92	88	92
Due in more than five years	172	219	172	219
Total	284	336	284	336

Low value and short leases
During the year ended 31 December 2022 £0.2 million (2021: £0.7 million) was recognised in the income statement with respect to assets of low value or a lease of less than 12 months.

Notes to the financial statements Continued

22. Leases Continued

Future income due under non-cancellable property leases
We lease out surplus space in some of our properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of VAT.

Receivable	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Within one year	1	1	1	1
Due in one to five years	3	4	3	4
Due in more than five years	4	4	4	4
Total	8	9	8	9

Finance lease receivables
Through our asset finance business we lease a variety of assets to third parties, which typically consist of plant, machinery and vehicles. These rentals typically cover the assets' useful economic life and as such any residual value is minimal. Amounts receivable are classified as loans and advances to customers and are categorised within our asset and invoice finance lending per the breakdown provided in note 12.

	Group					
	31 December 2022			31 December 2021		
Group	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million
Within one year	6	(1)	5	7	(1)	6
Due in one to five years	9	(1)	8	10	(1)	9
Due in more than five years	–	–	–	–	–	–
Total	15	(2)	13	17	(2)	15

23. Deferred grants

Accounting policy
Grants are recognised where there is reasonable assurance that we will both receive the grant and will be able to comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the purchase of an asset, it is recognised directly against the cost of the asset.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	19	28	19	28
Released to the income statement	(2)	(10)	(2)	(10)
Offset against capital expenditure (see note 15)	–	1	–	1
31 December	17	19	17	19

Our only deferred grant relates to amounts awarded in relation to the Capability and Innovation Fund which formed part of the RBS alternative remedies programme. The programme was aimed to increase competition in the UK business banking marketplace.

As part of the grant we are subject to delivering a number of public commitments. These commitments can be found on BCR's (the awarding body) website. As at 31 December 2022 we are currently on track to deliver all of these commitments.

Notes to the financial statements Continued

24. Provisions

Accounting policy

We recognise provisions when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made. The provision is measured at its current present value.

Provision	Description
Customer remediation	We are committed to doing the right thing but occasionally we identify issues that have caused detriment as a result of our actions. Where we have to refund costs to customers we provide for this at the point the obligation arises. The amounts recognised include any associated interest due.
Dilapidations	Dilapidations provisions are recognised in regard to certain properties we lease. The majority of our stores and offices have an automatic right to renewal at the end of the lease under the provisions of the Landlord and Tenant Act 1954. Where this is the case we do not provide for restorations on these sites since we have no intention of vacating at the end of the lease term. For sites that are outside the Landlord and Tenant Act 1954, or sites within the Landlord and Tenant Act 1954 where we think there is a chance we will vacate a site at the end of its lease, a provision is made for dilapidations. The provision is made in line with the underlying obligations contained within the lease.
Onerous contracts	Onerous contract provisions are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits we expect to be received under it. The provision is recognised as the net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
Legal and regulatory	Provisions are made relating to the outcome of legal cases and regulatory investigations based on our best estimate of settlement following consultation with our lawyers and advisors. The inclusion of a provision does not constitute any admission of wrongdoing or legal liability. Details of individual cases are provided where these are material to our financial statements and disclosure would not be prejudicial to the outcome of the case.
Other provisions	Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business.

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 32.

	2022					
Group and Company	Customer remediation £'million	Dilapidations £'million	Onerous contracts £'million	Legal and regulatory £'million	Other provisions £'million	Total £'million
1 January 2022	1	3	5	5	1	15
Additions	–	–	–	5	2	7
Released	–	(2)	(1)	–	–	(3)
Utilised	–	–	(2)	(10)	–	(12)
31 December 2022	1	1	2	–	3	7

	2021					
Group and Company	Customer remediation £'million	Dilapidations £'million	Onerous contracts £'million	Legal and regulatory £'million	Other provisions £'million	Total £'million
1 January 2021	2	3	6	–	–	11
Additions	–	2	5	5	1	13
Released	–	(2)	(4)	–	–	(6)
Utilised	(1)	–	(2)	–	–	(3)
31 December 2021	1	3	5	5	1	15

All additions for both the current and prior year have been recognised in the income statement, with the exception of the £2 million provision for dilapidations in 2021. This was recognised as an addition to the right-of-use assets (see note 14).

Dilapidations

The amounts provided in respect of dilapidations are calculated based on assessments by an independent qualified valuer. They represent the best estimate of the present value to restore the site to the condition required under the lease. As the date restoration is required may be up to 25 years in the future, there is uncertainty in this estimation. Additionally, for sites that are outside the act, should we be successful in renewing the lease at the end of its term, it is possible that the provision recognised may not be utilised.

The dilapidation provision releases during the year, relate to two of the sites we announced for closure. Agreements with our landlords on these sites has removed our requirement to reinstate these stores to their original condition.

Notes to the financial statements Continued

24. Provisions Continued

Onerous contracts
Onerous contracts primarily relate to the non-rental costs of fulfilling property contracts from which we will no longer benefit, including closed stores and head office space. The provision is determined with reference to the occupancy costs from the date of closure through to the next lease break. Rental costs on these sites from which we will receive no future economic benefits are represented by an impairment to the right of use asset. The utilisation and releases primarily relate to two of the stores we closed during the year which have either been surrendered back to the landlord or fully sublet for the remainder of the lease term.

Legal and regulatory
The provision for regulatory matters consisted of amounts in respect of the FCA's RWA investigation. During the year we paid £10 million in full and final settlement of this matter.

25. Other liabilities

	Group 31 December 2022 £'million	Group 31 December 2021 £'million	Company 31 December 2022 £'million	Company 31 December 2021 £'million
Trade creditors	1	4	1	4
Taxation and social security costs	9	11	8	10
Accruals[1]	99	76	99	75
Deferred income	57	37	57	37
Deferred consideration[2]	–	8	–	8
Amounts payable to group undertakings	–	–	16	7
Other liabilities	64	86	55	76
Total other liabilities	230	222	236	217
Current portion	205	175	211	170
Non-current portion	25	47	25	47

1. Includes accrued interest payable.
2. During the year we paid the remaining amount of deferred consideration to Retail Money Market Ltd ('RateSetter') investors following the delivery of lending targets agreed as part of the acquisition.

26. Called-up share capital

Accounting policy
On issue of new shares, incremental directly attributable costs are shown in equity as a deduction from the proceeds.

We have a single class of shares. As at 31 December 2022, we had 172.5 million ordinary shares of 0.0001p (31 December 2021: 172.4 million) authorised and in issue.

Called-up ordinary share capital, issued and fully paid
The called-up share capital reserve is used to record our nominal share capital. At 31 December 2022 our called-up share capital was £172.54 (31 December 2021: £172.42).

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
31 December	–	–	–	–

Share premium
The share premium reserve is used to record the excess consideration of any shares we have issued over the nominal share value.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
31 December	1,964	1,964	1,964	1,964

27. Retained losses

Retained losses records our cumulative losses since our formation. The Group's retained losses also include the accumulated earnings of our subsidiaries since they were acquired.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	(942)	(694)	(941)	(689)
Loss for the year	(73)	(248)	(73)	(252)
31 December	(1,015)	(942)	(1,014)	(941)

No dividends were paid during the year (2021: none). As at 31 December 2022 we have no distributable reserves (31 December 2021: none).

Notes to the financial statements Continued

28. Other reserves

Share option reserve

The share option reserve is used to record movements in relation to share options awarded under our Deferred Variable Reward and LTIP.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	18	16	18	16
Equity-settled share-based payment charges (note 7)	2	2	2	2
31 December	20	18	20	18

Fair value though other comprehensive income reserve

The FVOCI reserve is used to record changes in the fair value of investment securities designated at FVOCI. When investment securities held at FVOCI are sold, any accumulated gains or losses are transferred to the income statement.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
1 January	(5)	3	(5)	3
Changes in fair value	(10)	(11)	(10)	(11)
Deferred tax movements	2	3	2	3
31 December	(13)	(5)	(13)	(5)

Treasury shares

We have a small number of shares held in treasury relating to awards originally granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. The final tranche of these awards vested in April 2021 and the remaining balance represents awards that did not vest owing to the original conditions of the grant not being fulfilled. These are held by an employee benefit trust, which is consolidated within the Group accounts. The balance on the reserve is less than £1 million (31 December 2021: less than £1 million) and therefore not been separately disclosed as a component of reserves due to its immaterial size.

29. Share based payments

Accounting policy

The grant date fair value of options awarded to colleagues is recognised as an expense over the period in which colleagues become unconditionally entitled to the options. The expense (representing the value of the services received by us) is measured by reference to the fair value of the awards granted on the date of the grant. The cost of the colleague services received in respect of the awards granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period Graded vesting is applied where relevant.

Vesting conditions are limited to service and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. This estimate of the performance measures is used to determine the option fair value, discounted to present value. The Group revises the number of options that are expected to vest, including an estimate of lapses at each reporting date based on forecast performance measures. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

The fair value of colleague awards plans is calculated at the grant date using Black-Scholes and Monte Carlo models. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

We provide share award schemes to colleagues as part of their remuneration packages, and we operate a number of share-based compensation schemes, namely the DVRP and LTIP. The granting of awards is designed to provide incentives to colleagues to deliver long-term returns. No individual has a contractual right to participate in the plans or to receive any guaranteed benefits and the granting of awards remains at the discretion of the People and Remuneration Committee. Standard share options are granted for no consideration, are not pensionable and carry no voting rights.

Long Term Incentive Plan

The LTIP is the primary long-term incentive scheme for the members of our ExCo. It was approved by shareholders at the 2021 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period (four-years for the initial awards granted in 2021) against financial targets, which consist of return on tangible equity and relative total shareholder return, as well as continued employment within the Group.

Notes to the financial statements Continued

29. Share based payments Continued

Deferred Variable Reward Plan

The DVRP was first introduced in 2010 and the latest plan was approved by shareholders at the 2021 AGM. Although originally designed for all colleagues, the plan is now operated for senior managers, primarily consisting of members of the our ExCo and other Material Risk Takers. Under the current rules participants are required to defer a proportion of any bonus paid into nominal price awards, a proportion of which vest immediately and the remainder of which vest over seven years. There are no further performance conditions on these shares, other than continued employment. All awards under the DVRP are subject to a one year holding period, once exercised and all awards have a life of 10 years from the date of grant.

More information is available in relation to both the DVRP and LTIP is available within the Remuneration Report.

Awards outstanding

The table below summarises the movements in the number of options outstanding and their weighted average exercise price:

Group	2022 Number of options '000	2022 Weighted average exercise price £	2021 Number of options '000	2021 Weighted average exercise price £
Outstanding at 1 January	10,477	8.72	7,170	12.99
Granted	4,787	0.00	3,646	0.00[1]
Exercised	(222)	0.00	(3)	0.93
Lapsed	(1,716)	1.96	(336)	5.49
Outstanding at 31 December	13,326	6.61	10,477	8.72
Exercisable at 31 December	6,658	12.35	4,202	18.29

1. Nominal price awards with exercise price of 0.0001p.

The average share price during 2022 was 88p (2021: 111p). For share options exercised during the period, the weighted average share price at the date of exercise was 93p (2021: 113p).

All our options are equity settled and we have no legal or constructive obligation to repurchase the shares or settle the options in cash. Exercises of awards granted are satisfied via the issuance of new shares.

Total share based compensation charges totalled £2.4 million in the year ended 2022 (2021: £2.4 million).

Fair value of options granted

The number of options outstanding at year end was as follows:

Exercise price	2022 Number of options '000	2022 Weighted average remaining contractual life years	2021 Number of options '000	2021 Weighted average remaining contractual life years
£0.00[1]	6,997	9.0	3,646	9.4
£0.93	2,116	7.3	2,403	8.3
£7.94	660	6.2	712	7.2
£10.00	–	–	128	0.8
£12.00	235	0.8	235	1.8
£13.00	60	1.2	60	2.2
£13.50	616	1.8	616	2.8
£14.00	194	n/a	194	n/a
£16.00	611	n/a	611	n/a
£20.00	444	3.2	444	4.2
£32.73	633	4.2	633	5.2
£35.36	760	5.2	795	6.2
Total	13,326	7.3	10,477	7.2

1. Nominal price awards with exercise price of 0.0001p.

The total fair value of options granted in 2022 was £4.3 million (2021: £3.8 million), based on the following assumptions:

Group	2022 awards
Risk-free interest rate	1.10% to 1.53%
Expected life	1 to 7 years
Volatility	159%
Expected dividend yield	nil
Share price at grant date	£0.90
Exercise price	0.0001p

Volatility has been estimated by taking our share price volatility since we listed in 2016.

An assumption is also made in respect of how many shares will lapse due to the vesting criteria not being met. For the awards granted in 2021 and 2022, as these were only made to members of the ExCo, the lapse assumption has been set at 0%. The fair value charges recognised in the income statement for these scheme are adjusted annually to reflect actually lapses. For all other schemes the lapse assumption is updated annually.

Notes to the financial statements Continued

30. Expected credit losses

Accounting policy

We assess on a forward-looking basis the ECL associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime ECL recognised where the risk of default of an instrument has increased significantly. Risk of default and ECL must incorporate forward-looking and macroeconomic information.

Loans and advances

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. ECL are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original effective interest rate.

Key model inputs, judgements and estimates include:

- Consideration of when a SICR occurs.
- PD, LGD and EAD as well as their modelled impact.
- Macroeconomic scenarios and weightings applied.

Significant increase in credit risk

IFRS 9 requires a higher level of ECL to be recognised for underperforming loans. This is considered based on a staging approach:

Stage	Description	ECL recognised
Stage 1	Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk (high quality investment securities only) at the reporting date.	**12-month ECL** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.	**Lifetime ECL** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due or where the borrower is considered unlikely to pay.	**Lifetime ECL** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
POCI	Financial assets that have been purchased and had objective evidence of being non-performing or credit impaired at the point of purchase.	**Lifetime ECL** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime ECL are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime ECL are recognised as a loss allowance.

Notes to the financial statements Continued

30. Expected credit losses Continued

Accounting policy Continued

A SICR may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated PD on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The threshold is set at three times the median PD of the portfolio at origination.
- Qualitative criteria – instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative analysis. In addition instruments classified on the Early Warning List as higher risk, are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to either:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with.
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (i.e. from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

Probability of default

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A PD is calculated for all loans based on historical data and incorporates:

- Credit quality scores.
- Life cycle trends depending on a loan's vintage.
- Factors indicating the quality of the vintage.
- Characteristics of the current and future economic environment.

Notes to the financial statements Continued

30. Expected credit losses Continued

Accounting policy Continued

Loss given default

LGD represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default.
- Expected haircut applied to the collateral value to reflect a forced sale discount.
- Price index forecasts applied to project collateral values into the future.
- Stress factors based on macroeconomic scenarios.

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued.
- Repayments may be received on mortgages.
- For a revolving product, further drawings may be taken between the current point in time and the point of default.
- Estimations of these factors will be incorporated into our estimate of EAD.

PD, LGD and EAD are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and EAD are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

Macroeconomic scenarios

The ECL recognised in the financial statements reflects the effect on ECL of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use three scenarios. These represent a 'most likely outcome', (the 'Baseline' scenario) and two, less likely, 'Outer' scenarios on either side of the Baseline scenario, referred to as an 'Upside' and a 'Downside' scenario respectively. The Baseline scenario captures the most likely economic future; the Downside scenario presents particular adverse economic conditions; and the Upside scenario presents more favourable economic conditions. During 2021 a fourth, 'Severe downside' macroeconomic scenario has been introduced across all portfolios to ensure the set of scenarios adequately reflect a wider range of downside risks which have been previously included within management overlays.

Notes to the financial statements Continued

30. Expected credit losses Continued

Accounting policy Continued

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied as at 31 December 2022 and 31 December 2021:

- UK interest rates (five-year mortgage rate).
- UK unemployment rates.
- UK HPI changes, year-on-year.
- UK GDP changes, year-on-year.
- UK commercial real estate index, year-on-year (2022 only)

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index mortgage collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, share prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to our data.

Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A simulation process was designed to determine the weighting to apply to each scenario based on its severity and the range of possible scenarios for which that scenario was representative. A summary of each scenario and weighting used at 31 December 2022 are as follows:

- Baseline scenario: Reflects the projection of the median, or '50%' scenario, meaning that in the assessment there is an equal probability that the economy might perform better or worse than the baseline forecast.
- Upside scenario: This above-baseline scenario is designed so there is a 10% probability the economy will perform better than in this scenario, broadly speaking, and a 90% probability it will perform worse.
- Downside scenario: In this recession scenario, in which a deep downturn develops, there is a 90% probability the economy will perform better, broadly speaking, and a 10% probability it will perform worse.
- Severe downside scenario: In this recession scenario, in which a deep downturn develops, there is a 96% probability the economy will perform better, broadly speaking, and a 4% probability it will perform worse.

These assumptions are considered sufficient to capture any material non-linearities.

The weightings applied to each scenario at 31 December 2022 were Baseline – 50%, Upside – 20%, Downside – 25% and Severe Downside scenario – 5% (31 December 2021: Baseline – 40%, Upside – 20%, Downside – 30% and Severe Downside scenario – 10%).

Notes to the financial statements Continued

30. Expected credit losses Continued

Accounting policy Continued

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2022 and 31 December 2021 are as follows:

		31 December 2022				31 December 2021			
		2023	2024	2025	2026	2022	2023	2024	2025
Interest rates (%) – five-year mortgage rate	Baseline	5.5%	4.4%	4.0%	4.0%	2.7%	3.3%	3.7%	4.1%
	Upside	5.3%	4.3%	4.0%	4.0%	3.0%	3.6%	4.2%	4.6%
	Downside	5.5%	4.4%	3.6%	3.1%	2.3%	2.8%	3.1%	3.1%
	Severe downside	5.8%	4.0%	3.4%	3.0%	2.1%	2.6%	2.9%	3.1%
UK unemployment (%)	Baseline	4.3%	4.5%	4.5%	4.6%	4.7%	4.4%	4.4%	4.5%
	Upside	3.9%	3.6%	3.7%	4.0%	3.9%	3.3%	3.5%	3.8%
	Downside	6.2%	7.2%	7.2%	6.8%	6.2%	6.6%	6.5%	6.3%
	Severe downside	7.4%	8.3%	8.2%	7.9%	7.2%	7.5%	7.2%	7.1%
UK HPI – % change year-on-year	Baseline	(4.4%)	2.3%	4.8%	2.9%	3.4%	6.0%	5.2%	3.7%
	Upside	9.0%	5.4%	2.1%	(1.2%)	14.2%	8.5%	4.8%	2.1%
	Downside	(14.9%)	(7.0%)	4.0%	5.7%	(12.8%)	(8.1%)	(1.9%)	4.4%
	Severe downside	(20.7%)	(10.9%)	4.4%	4.3%	(16.3%)	(10.3%)	(2.5%)	4.3%
UK GDP – % change year-on-year	Baseline	(0.8%)	1.2%	1.4%	1.2%	3.9%	3.1%	1.4%	1.0%
	Upside	1.9%	1.2%	1.1%	1.2%	7.7%	1.7%	1.2%	1.1%
	Downside	(6.9%)	1.3%	2.5%	1.2%	(2.3%)	5.7%	2.4%	1.7%
	Severe downside	(8.3%)	(0.3%)	3.5%	2.1%	(3.9%)	5.4%	2.2%	1.8%
UK commercial real estate index, year-on-year – % change (2022 only)	Baseline	(8.2%)	(6.0%)	2.0%	1.4%	n/a	n/a	n/a	n/a
	Upside	3.2%	(3.6%)	(0.3%)	(2.2%)	n/a	n/a	n/a	n/a
	Downside	(23.2%)	(11.9%)	5.1%	4.2%	n/a	n/a	n/a	n/a
	Severe downside	(30.5%)	(14.8%)	6.9%	3.5%	n/a	n/a	n/a	n/a

Following the initial four-year projection period, the Upside, Downside and Severe downside scenarios converge to the Baseline scenario. The rate of convergence varies based on the macroeconomic factor, but at a minimum convergence takes place three years from the initial four-year projection period.

We recognise that applying the above scenarios will not always be sufficient to determine an appropriate ECL in all economic environments. The scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

Investment securities and other financial assets

Impairment provisions have been calculated based on our best estimate of ECL on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. These impairment provisions are not material.

Notes to the financial statements Continued

30. Expected credit losses Continued

Critical accounting judgement

Measurement of the expected credit loss allowance

The measurement of ECL is complex and involves the use of significant judgements. We consider that the following represent key judgements in respect of the measurement of the ECL.

Significant increase in credit risk

IFRS 9 requires a higher level of ECL to be recognised for under-performing loans as a lifetime ECL is recognised compared to a 12-month ECL for performing loans. This is considered based on a staging approach. Financial assets that have had no SICR since initial recognition, or that have low credit risk at the reporting date, are considered to be performing loans and are classified as 'Stage 1'. Losses are calculated based on our expectation of defaults which may occur within the next 12 months. Assets which are considered to have experienced a SICR since initial recognition, but that do not have objective evidence of impairment, are classified as 'Stage 2'. Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a SICR has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to Stage 2, is performed at each reporting period by considering the change in the PD expected over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

Use of post model adjustments and overlays

We have applied expert judgement to the measurement of the ECL in the form of PMOs and PMAs.

Post model adjustments

PMAs refer to increases/decreases in ECL to address known model limitations, either in model methodology or model inputs. These rely on analysis of model inputs and parameters to determine the change required to improve model accuracy. These may be applied at an aggregated level however, they will usually be applied at account level.

Post model overlays

PMOs reflect management judgement. These rely more heavily on expert judgement and will usually be applied at an aggregated level. For example, where recent changes in market and economic conditions have not yet been captured in the macroeconomic factor inputs to models (e.g., industry specific stress event).

The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by the Audit Committee (see page 126).

Notes to the financial statements Continued

30. Expected credit losses Continued

Critical accounting judgement Continued

ECL assessment

Given the continued economic uncertainty, we continue to maintain cautious levels of PMOs. The level of PMAs/PMOs has been reduced during 2022 with PMAs/PMOs reducing to 16% of total ECL as at 31 December 2022 (31 December 2021: 26%).

PMAs make up £0.4 million of the ECL allowance for the year ending 31 December 2022 (31 December 2021: £9.1 million) and are being held in anticipation of IFRS 9 models being implemented into production by H1 2023, once these are validated and approved through internal governance process, and comprise:

- IFRS 9 retail mortgage secured LGD model (31 December 2022: £0.1 million; 31 December 2021: £nil) – A PMA has been raised in 2022 in anticipation of the implementation of a new model.
- IFRS 9 commercial business loans lifetime PD model scope extended to commercial Revolving facilities (31 December 2022: £0.3 million; 31 December 2021: (£0.7 million)).

In 2021 we also had a PMA of £9.8 million in respect of our IFRS 9 commercial Secured LGD model. This was raised in anticipation of the new IFRS 9 Commercial model which was still being reviewed as at 31 December 2021. In 2022 this was approved and therefore now forms part of the modelled ECL.

PMOs make up £30.5 million of the ECL allowance for the year ending 31 December 2022 (31 December 2021: £35.0 million) and are comprised of:

- High inflation environment and cost of living risks – Management overlays have been introduced in 2022 to reflect high inflation and cost of living pressures, which are not fully captured through the economic scenarios and IFRS9 models (31 December 2022: £22.5 million; 31 December 2021: £nil). This reflects the associated risks across retail mortgage, consumer, and commercial portfolios. For Commercial, the inflation PMO has been assessed based on potential future portfolio migration of current Stage 1 lending migrating into Stage 2 and 3, based on an inflationary stress scenario.
- Climate change impact – An expert judgement overlay raised in 2021 has been maintained as at 31 December 2022 and reflects the impact of climate change on property values for the mortgage and commercial portfolios (31 December 2022: £3.5 million; 31 December 2021: £5.1 million).
- HPI and commercial real estate adjustment – An overlay has been raised in 2022 to reflect further downside risk in property price indices beyond the latest scenarios for the retail mortgage and commercial property portfolios (31 December 2022: £6.1 million; 31 December 2021: £1.2 million). This overlay was previously held to account for concentration risk across these property values.
- Commercial model enhancements – An overlay has been raised in anticipation of model adjustments for the commercial portfolio in 2022 (31 December 2022: £1.2 million; 31 December 2021: £nil).
- An expert judgement overlay for the commercial portfolio – To reflect additional downside risks as a result of economic uncertainty for the commercial portfolio buy-to-let portfolio not fully captured by the IFRS 9 models (31 December 2022: £0.6 million; 31 December 2021: £nil).
- SICR adjustment overlay – A negative overlay has been introduced in 2022 for the mortgage and consumer portfolios to reflect a change in measurement in the SICR criteria feeding through the IFRS 9 PD models. These overlays will be removed once the IFRS 9 PD annual model reviews for both portfolios are validated and implemented into production (31 December 2022: (£3.4 million); 31 December 2021: £nil).

In 2021 we also had PMOs totalling £29.9 million relating to the COVID-19 pandemic and its associated uncertainty. These have all been released during the year.

We review our PMOs on an ongoing basis and reassess these based on the evolving economic outlook and observation of performance data.

All PMOs impact the ECL measurement, however not all adjust the staging.

Notes to the financial statements Continued

30. Expected credit losses Continued

Critical accounting estimate

Measurement of the expected credit loss allowance

We consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

Multiple forward-looking economic scenarios

The ECL recognised in the financial statements reflects the effect on ECL of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios, including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied:

- UK interest rates.
- UK unemployment rates.
- UK HPI changes, year-on-year.
- UK GDP changes, year-on-year.
- UK commercial real estate index, year-on-year (2022 only).

The weightings applied to each scenario at 31 December 2022 and 31 December 2021 are:

	31 December 2022	31 December 2021
Baseline	50%	40%
Upside	20%	20%
Downside	25%	30%
Severe downside	5%	10%

The weightings used are reviewed each reporting period to ensure these remain appropriate and as such are considered to represent significant accounting estimates. We have performed an assessment of the impact on the ECL if each of the Baseline, Upside, Downside and Severe downside scenarios were applied to the ECL calculation using a 100% weighting (that is, ignoring all other scenarios in each case):

	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	Total £'million
Baseline	62	42	68	172
Upside	55	33	68	156
Downside	87	75	71	233
Severe downside	103	103	73	279
Weighted	66	51	70	187

The sensitivities disclosed above represent example scenarios and may not represent actual scenarios which occur in the future. If one of these scenarios did arise then at that time the ECL would not equal the amount disclosed above, as the amounts disclosed do not take account of the alternative possible scenarios which would be considered at that time.

PMOs and individually assessed provisions are reflected in the above sensitivities as are any resulting movements in staging allocation.

Notes to the financial statements Continued

30. Expected credit losses Continued

Expected credit loss expense

Group	2022 £'million	2021 £'million
Retail mortgages[1]	1	(7)
Consumer lending[1]	33	17
Commercial lending (excluding asset and invoice finance)[1]	(18)	4
Asset and invoice finance[1]	2	1
Investment securities	1	–
Write-offs and other movements	21	7
Total expected credit loss expense	40	22

1. Represents the movement in ECL allowance during the year and therefore excludes write-offs which are shown separately.

The write-offs and other movements during 2022 primarily related to the write-off of a small number of large commercial single name exposures. These amounts had previously been fully provided for.

Investment securities
All investment securities held at FVOCI are deemed to be in Stage 1. Any credit loss allowance is, however, included as part of the revaluation amount in the FVOCI reserve. At 31 December 2022, the loss allowance included within the FVOCI reserve is £0.1 million (31 December 2021: £0.1 million).

All investment securities held at amortised cost are deemed to be in Stage 1. The total ECL expense recognised for these assets at 31 December 2022 is £0.7 million (31 December 2021: £0.1 million).

Collateral
Collateral is usually held in the form of real estate, guarantees, debentures and other liens that we can call upon in the event of the borrower defaulting. At 31 December 2022, 79% (31 December 2021: 79%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average DTV of 56% (31 December 2021: 55%) and 55% (31 December 2021: 57%) respectively. A further 6% (31 December 2021: 10%) of our lending portfolio consists of BBLS, which although do not have any collateral are 100% guaranteed by the Government. Further details on the collateral of our loans can be found in the Risk report.

As at 31 December 2022 we didn't hold any financial instruments for which no loss allowance was recognised because of collateral (31 December 2021: none).

Notes to the financial statements Continued

30. Expected credit losses Continued

The following tables explain the changes in both the gross carrying amount and loss allowances of our loans and advances during the year.

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Transfers to/(from) Stage 1[1]	517	(504)	(13)	–	–	(13)	13	–	–	–	504	(491)	(13)	–	–
Transfers to/(from) Stage 2	(451)	458	(7)	–	–	2	(2)	–	–	–	(449)	456	(7)	–	–
Transfers to/(from) Stage 3	(124)	(73)	197	–	–	1	7	(8)	–	–	(123)	(66)	189	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	10	(10)	(15)	–	(15)	10	(10)	(15)	–	(15)
New lending[3]	3,157	742	31	–	3,930	(30)	(15)	(11)	–	(56)	3,127	727	20	–	3,874
Repayments, additional drawdowns and interest accrued	(604)	(107)	(26)	(1)	(738)	–	–	–	–	–	(604)	(107)	(26)	(1)	(738)
Derecognitions[4]	(1,717)	(353)	(292)	–	(2,362)	7	10	34	–	51	(1,710)	(343)	(258)	–	(2,311)
Changes to model assumptions[5]	–	–	–	–	–	4	(5)	3	–	2	4	(5)	3	–	2
31 December 2022	10,849	2,088	352	–	13,289	(66)	(51)	(70)	–	(187)	10,783	2,037	282	–	13,102
Off-balance sheet items															
Commitments and guarantees[6]					1,120					–					1,120

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	10,175	1,812	257	–	12,244	(30)	(69)	(55)	–	(154)	10,145	1,743	202	–	12,090
Transfers to/(from) Stage 1[1]	559	(537)	(22)	–	–	(16)	16	–	–	–	543	(521)	(22)	–	–
Transfers to/(from) Stage 2	(772)	787	(15)	–	–	2	(3)	1	–	–	(770)	784	(14)	–	–
Transfers to/(from) Stage 3	(202)	(110)	312	–	–	–	6	(6)	–	–	(202)	(104)	306	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	11	(11)	(19)	–	(19)	11	(11)	(19)	–	(19)
New lending[3]	2,157	357	18	1	2,533	(23)	(13)	(10)	–	(46)	2,134	344	8	1	2,487
Repayments, additional drawdowns and interest accrued	(318)	(57)	(16)	–	(391)	–	–	–	–	–	(318)	(57)	(16)	–	(391)
Derecognitions[4]	(1,528)	(327)	(72)	–	(1,927)	5	11	20	–	36	(1,523)	(316)	(52)	–	(1,891)
Changes to model assumptions[5]	–	–	–	–	–	4	14	(4)	–	14	4	14	(4)	–	14
31 December 2021	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Off-balance sheet items															
Commitments and guarantees[6]					1,245					–					1,245

1. Represents stage transfers prior to any ECL remeasurements.
2. Represents the remeasurement between the 12 month and lifetime ECL due to stage transfer. In addition it includes any ECL change resulting from model assumptions and forward-looking information on these loans.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed as well as any ECL that has been recognised in relation to these loans during the year.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, sold or written off.
5. Represents the change in ECL to those loans that remain within the same stage through the year.
6. Represents undrawn lending facilities. Further details can be found in note 31.

Notes to the financial statements Continued

30. Expected credit losses Continued

Retail mortgages

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704
Transfers to/(from) Stage 1	293	(281)	(12)	–	–	(4)	4	–	–	–	289	(277)	(12)	–	–
Transfers to/(from) Stage 2	(199)	205	(6)	–	–	–	–	–	–	–	(199)	205	(6)	–	–
Transfers to/(from) Stage 3	(16)	(22)	38	–	–	–	1	(1)	–	–	(16)	(21)	37	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(1)	–	–	3	4	(1)	–	–	3
New lending	1,666	549	1	–	2,216	(3)	(7)	–	–	(10)	1,663	542	1	–	2,206
Repayments, additional drawdowns and interest accrued	(130)	(22)	(5)	–	(157)	–	–	–	–	–	(130)	(22)	(5)	–	(157)
Derecognitions	(965)	(149)	(19)	–	(1,133)	(1)	2	3	–	4	(966)	(147)	(16)	–	(1,129)
Changes to model assumptions	–	–	–	–	–	–	2	–	–	2	–	2	–	–	2
31 December 2022	6,195	1,343	111	–	7,649	(6)	(11)	(3)	–	(20)	6,189	1,332	108	–	7,629

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	5,911	863	118	–	6,892	(5)	(17)	(4)	–	(26)	5,906	846	114	–	6,866
Transfers to/(from) Stage 1	362	(345)	(17)	–	–	(8)	8	–	–	–	354	(337)	(17)	–	–
Transfers to/(from) Stage 2	(469)	477	(8)	–	–	1	(1)	–	–	–	(468)	476	(8)	–	–
Transfers to/(from) Stage 3	(19)	(26)	45	–	–	–	1	(1)	–	–	(19)	(25)	44	–	–
Net remeasurement due to transfers	–	–	–	–	–	7	(1)	–	–	6	7	(1)	–	–	6
New lending	894	233	–	–	1,127	(1)	(4)	–	–	(5)	893	229	–	–	1,122
Repayments, additional drawdowns and interest accrued	(131)	(17)	(2)	–	(150)	–	–	–	–	–	(131)	(17)	(2)	–	(150)
Derecognitions	(1,002)	(122)	(22)	–	(1,146)	1	1	1	–	3	(1,001)	(121)	(21)	–	(1,143)
Changes to model assumptions	–	–	–	–	–	3	1	(1)	–	3	3	1	(1)	–	3
31 December 2021	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704

Notes to the financial statements Continued

30. Expected credit losses Continued

Consumer lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	786	82	21	1	890	(18)	(8)	(16)	–	(42)	768	74	5	1	848
Transfers to/(from) Stage 1	19	(19)	–	–	–	(2)	2	–	–	–	17	(17)	–	–	–
Transfers to/(from) Stage 2	(96)	96	–	–	–	1	(1)	–	–	–	(95)	95	–	–	–
Transfers to/(from) Stage 3	(21)	(6)	27	–	–	1	2	(3)	–	–	(20)	(4)	24	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(3)	(15)	–	(16)	2	(3)	(15)	–	(16)
New lending	806	156	12	–	974	(15)	(7)	(9)	–	(31)	791	149	3	–	943
Repayments, additional drawdowns and interest accrued	(144)	(41)	(6)	(1)	(192)	–	–	–	–	–	(144)	(41)	(6)	(1)	(192)
Derecognitions	(170)	(18)	(4)	–	(192)	5	1	1	–	7	(165)	(17)	(3)	–	(185)
Changes to model assumptions	–	–	–	–	–	5	2	–	–	7	5	2	–	–	7
31 December 2022	1,180	250	50	–	1,480	(21)	(12)	(42)	–	(75)	1,159	238	8	–	1,405

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	149	43	12	–	204	(6)	(9)	(10)	–	(25)	143	34	2	–	179
Transfers to/(from) Stage 1	8	(8)	–	–	–	(1)	1	–	–	–	7	(7)	–	–	–
Transfers to/(from) Stage 2	(6)	6	–	–	–	–	–	–	–	–	(6)	6	–	–	–
Transfers to/(from) Stage 3	(2)	(3)	5	–	–	–	2	(2)	–	–	(2)	(1)	3	–	–
Net remeasurement due to transfers	–	–	–	–	–	1	–	(2)	–	(1)	1	–	(2)	–	(1)
New lending	697	66	12	1	776	(16)	(7)	(9)	–	(32)	681	59	3	1	744
Repayments, additional drawdowns and interest accrued	(20)	(9)	(1)	–	(30)	–	–	–	–	–	(20)	(9)	(1)	–	(30)
Derecognitions	(40)	(13)	(7)	–	(60)	1	2	7	–	10	(39)	(11)	–	–	(50)
Changes to model assumptions	–	–	–	–	–	3	3	–	–	6	3	3	–	–	6
31 December 2021	786	82	21	1	890	(18)	(8)	(16)	–	(42)	768	74	5	1	848

Notes to the financial statements Continued

30. Expected credit losses Continued

Commercial lending (excluding asset and invoice finance)

Our top 10 commercial exposures total £310 million as at 31 December 2022 (31 December 2021: £326 million), representing 8% (31 December 2021: 7%) of our total commercial lending.

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	3,425	775	326	–	4,526	(23)	(28)	(51)	–	(102)	3,402	747	275	–	4,424
Transfers to/(from) Stage 1	202	(201)	(1)	–	–	(7)	7	–	–	–	195	(194)	(1)	–	–
Transfers to/(from) Stage 2	(148)	149	(1)	–	–	1	(1)	–	–	–	(147)	148	(1)	–	–
Transfers to/(from) Stage 3	(85)	(45)	130	–	–	–	4	(4)	–	–	(85)	(41)	126	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(5)	–	–	(1)	4	(5)	–	–	(1)
New lending	485	36	17	–	538	(9)	(1)	(1)	–	(11)	476	35	16	–	527
Repayments, additional drawdowns and interest accrued	(275)	(42)	(14)	–	(331)	–	–	–	–	–	(275)	(42)	(14)	–	(331)
Derecognitions	(532)	(184)	(269)	–	(985)	2	6	29	–	37	(530)	(178)	(240)	–	(948)
Changes to model assumptions	–	–	–	–	–	(1)	(9)	3	–	(7)	(1)	(9)	3	–	(7)
31 December 2022	3,072	488	188	–	3,748	(33)	(27)	(24)	–	(84)	3,039	461	164	–	3,664

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	3,843	906	125	–	4,874	(15)	(43)	(40)	–	(98)	3,828	863	85	–	4,776
Transfers to/(from) Stage 1	189	(184)	(5)	–	–	(7)	7	–	–	–	182	(177)	(5)	–	–
Transfers to/(from) Stage 2	(292)	299	(7)	–	–	1	(2)	1	–	–	(291)	297	(6)	–	–
Transfers to/(from) Stage 3	(179)	(81)	260	–	–	–	3	(3)	–	–	(179)	(78)	257	–	–
Net remeasurement due to transfers	–	–	–	–	–	3	(9)	(16)	–	(22)	3	(9)	(16)	–	(22)
New lending	427	58	6	–	491	(4)	(2)	(1)	–	(7)	423	56	5	–	484
Repayments, additional drawdowns and interest accrued	(120)	(31)	(12)	–	(163)	–	–	–	–	–	(120)	(31)	(12)	–	(163)
Derecognitions	(443)	(192)	(41)	–	(676)	2	8	11	–	21	(441)	(184)	(30)	–	(655)
Changes to model assumptions	–	–	–	–	–	(3)	10	(3)	–	4	(3)	10	(3)	–	4
31 December 2021	3,425	775	326	–	4,526	(23)	(28)	(51)	–	(102)	3,402	747	275	–	4,424

Notes to the financial statements Continued

30. Expected credit losses Continued

Asset and invoice finance

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	314	5	1	–	320	(4)	(1)	(1)	–	(6)	310	4	–	–	314
Transfers to/(from) Stage 1	3	(3)	–	–	–	–	–	–	–	–	3	(3)	–	–	–
Transfers to/(from) Stage 2	(8)	8	–	–	–	–	–	–	–	–	(8)	8	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(1)	–	–	(1)	–	(1)	–	–	(1)
New lending	200	1	1	–	202	(3)	–	(1)	–	(4)	197	1	–	–	198
Repayments, additional drawdowns and interest accrued	(55)	(2)	(1)	–	(58)	–	–	–	–	–	(55)	(2)	(1)	–	(58)
Derecognitions	(50)	(2)	–	–	(52)	1	1	1	–	3	(49)	(1)	1	–	(49)
Changes to model assumptions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31 December 2022	402	7	3	–	412	(6)	(1)	(1)	–	(8)	396	6	2	–	404

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	272	–	2	–	274	(4)	–	(1)	–	(5)	268	–	1	–	269
Transfers to/(from) Stage 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 2	(5)	5	–	–	–	–	–	–	–	–	(5)	5	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(1)	(1)	–	(2)	–	(1)	(1)	–	(2)
New lending	139	–	–	–	139	(2)	–	–	–	(2)	137	–	–	–	137
Repayments, additional drawdowns and interest accrued	(47)	–	(1)	–	(48)	–	–	–	–	–	(47)	–	(1)	–	(48)
Derecognitions	(43)	–	(2)	–	(45)	1	–	1	–	2	(42)	–	(1)	–	(43)
Changes to model assumptions	–	–	–	–	–	1	–	–	–	1	1	–	–	–	1
31 December 2021	314	5	1	–	320	(4)	(1)	(1)	–	(6)	310	4	–	–	314

Notes to the financial statements Continued

30. Expected credit losses Continued

Credit risk exposures

Retail mortgages

	31 December 2022					31 December 2021				
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	6,194	1,289	33	–	7,516	5,544	1,010	38	–	6,592
1 to 29 days past due	1	21	7	–	29	2	27	9	–	38
30 to 89 days past due	–	33	15	–	48	–	26	16	–	42
90+ days past due	–	–	56	–	56	–	–	51	–	51
Gross carrying amount	6,195	1,343	111	–	7,649	5,546	1,063	114	–	6,723

Consumer lending

	31 December 2022					31 December 2021				
£'million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	1,172	235	3	–	1,410	786	71	2	–	859
1 to 29 days past due	8	2	–	–	10	–	2	–	–	2
30 to 89 days past due	–	13	5	–	18	–	9	3	–	12
90+ days past due	–	–	42	–	42	–	–	16	1	17
Gross carrying amount	1,180	250	50	–	1,480	786	82	21	1	890

Notes to the financial statements Continued

30. Expected credit losses Continued

Commercial lending (excluding asset and invoice finance)

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	3,052	412	64	–	3,528	3,414	654	117	–	4,185
1 to 29 days past due	20	36	5	–	61	11	43	2	–	56
30 to 89 days past due	–	40	20	–	60	–	78	23	–	101
90+ days past due	–	–	99	–	99	–	–	184	–	184
Gross carrying amount	3,072	488	188	–	3,748	3,425	775	326	–	4,526

Asset and invoice finance

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	401	7	3	–	411	313	2	1	–	316
1 to 29 days past due	1	–	–	–	1	1	3	–	–	4
30 to 89 days past due	–	–	–	–	–	–	–	–	–	–
90+ days past due	–	–	–	–	–	–	–	–	–	–
Gross carrying amount	402	7	3	–	412	314	5	1	–	320

Write-off policy

We write-off financial assets (either partially or fully) when there is no realistic expectation of receiving further payment from the customer. Indicators that there is no reasonable expectation of recovery include debt sale to a third party and ceasing enforcement activity. We may write-off financial assets that are still subject to enforcement activity.

Modification of financial assets

We sometimes renegotiate the terms of loans provided to customers with a view to maximising recovery. The modifications have not led to any material modification gains or losses being recognised.

Notes to the financial statements Continued

31. Financial commitments

Accounting policy

To meet the financial needs of our customers, we enter into various irrevocable commitments. These generally consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 30).

When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within our loans and advances to customers.

At 31 December 2022, we had undrawn loan facilities granted to retail and commercial customers of £1,120 million (31 December 2021: £1,245 million).

In addition, as part of our retail and commercial operations, we had commitments of £250 million (31 December 2021: £302 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

32. Legal and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters. The matters outlined below represent contingent liabilities and as such at the reporting date no provision has been made for any of these cases within the financial statements (details of our provisions are set out in note 24). This is because, based on the facts currently known, it is not practicable to predict the outcome, if any, of these matters or reliably estimate any financial impact. Their inclusion does not constitute any admission of wrongdoing or legal liability.

Financial Crime

The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters.

Magic Money Machine litigation

In 2022 Arkeyo LLC, a software company based in the United States, filed a civil suit with a stated value of over £24 million against us in the English High Court alleging, among other matters, that we infringed their copyright and misappropriated their trade secrets relating to money counting machines (i.e. our Magic Money Machines).

We believe Arkeyo LLC’s claims are without merit and are vigorously defending the claim.

Notes to the financial statements Continued

33. Offsetting of financial assets and liabilities

Accounting policy
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

	31 December 2022					31 December 2021				
	Effects of offsetting on the balance sheet			Related amounts not offset		Effects of offsetting on the balance sheet			Related amounts not offset	
Group	Gross amount £'million	Gross amounts offset in the balance sheet £'million	Net amounts presented in the balance sheet £'million	Amounts pledged as collateral £'million	Net amount £'million	Gross amount £'million	Gross amounts offset in the balance sheet £'million	Net amounts presented in the balance sheet £'million	Amounts pledged as collateral £'million	Net amount £'million
Loans and advances to customers	13,102	–	13,102	(3,141)	9,961	12,290	–	12,290	(3,956)	8,334
Investment securities	5,914	–	5,914	(2,131)	3,783	5,574	–	5,574	(1,491)	4,083
Deferred tax assets	16	(28)	(12)	–	(12)	16	(28)	(12)	–	(12)
Other assets	73	–	73	(39)	34	76	–	76	(36)	40

Notes to the financial statements Continued

34. Fair value of financial instruments

Accounting policy

Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which we have access at that date. The fair value of a liability reflects its non-performance risk.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that we have access to at the measurement date. We consider markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- **Level 2 financial instruments** – Those where the inputs that are used for valuation are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices, such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, we will classify the instruments as Level 3.
- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as whole.

	31 December 2022					31 December 2021				
Group	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
Assets										
Loans and advances to customers	13,102	–	–	12,321	12,321	12,290	–	–	12,356	12,356
Investment securities held at fair value through other comprehensive income	571	533	38	–	571	798	760	38	–	798
Investment securities held at amortised cost	5,343	3,834	1,135	40	5,009	4,776	2,977	1,710	60	4,747
Financial assets held at fair value through profit and loss	1	–	–	1	1	3	–	–	3	3
Derivative financial assets	23	–	23	–	23	1	–	1	–	1
Liabilities										
Deposits from customers	16,014	–	–	16,004	16,004	16,448	–	–	16,452	16,452
Deposits from central bank	3,800	–	–	3,800	3,800	3,800	–	–	3,800	3,800
Debt securities	571	423	–	–	423	588	495	–	–	495
Derivative financial liabilities	26	–	26	–	26	11	–	11	–	11
Repurchase agreements	238	–	–	238	238	169	–	–	169	169

Cash and balances with the Bank of England, trade and other receivables, trade and other payables and other assets and liabilities which meet the definition of financial instruments are not included in the tables. Their carrying amount is a reasonable approximation of fair value.

Notes to the financial statements Continued

34. Fair value of financial instruments Continued

Information on how fair values are calculated are explained below:

Loans and advances to customers
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

Investment securities
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value Level 1 assets), or using observable inputs (in the case of fair value Level 2 assets).

Financial assets held at fair value through profit and loss
The financial assets at fair value through profit and loss relate to the loans and advances previously assumed by the RateSetter provision fund. They are measured at the fair value of the amounts that we expect to recover on these loans.

Deposits from customers
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are either short-dated or are on a variable rate which aligns to the current market rate.

Derivative financial liabilities
The fair values of derivatives are obtained from discounted cash flow models as appropriate.

Notes to the financial statements Continued

35. Related parties

Key management personnel

Our key management personnel, and persons connected with them, are considered to be related parties. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and members of the ExCo are considered to be the key management personnel for disclosure purposes.

Key management compensation

Total compensation cost for key management personnel for the year by category of benefit was as follows:

Group	2022 £'million	2021 £'million
Short-term benefits	6.2	5.4
Post-employment benefits	0.1	0.1
Termination benefits	0.3	–
Share-based payment costs	1.8	1.3
Total compensation for key management personnel	8.4	6.8

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost represents the IFRS 2 'Share-based Payment' charge for the year which includes awards granted in prior years that have not yet vested.

Banking transactions with key management personnel

We provide banking services to Directors and other key management personnel and persons connected to them.

Deposit transactions during the year and the balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

Group	2022 £'million	2021 £'million
Deposits held at 1 January	1.5	2.1
Deposits relating to persons and companies newly considered related parties	0.2	0.1
Deposits relating to persons and companies no longer considered related parties	(0.3)	(0.1)
Net amounts deposited/(withdrawn)	0.1	(0.6)
Deposits held as at 31 December	1.5	1.5

Loan transactions during the year and the balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

Group	2022 £'million	2021 £'million
Loans outstanding at 1 January	3.2	1.9
Loans relating to persons and companies no longer considered related parties	–	(0.5)
Loans issued during the year	0.2	1.8
Net repayments during the year	(1.3)	–
Loans outstanding as at 31 December	2.1	3.2
Interest received on loans (£'000)	60	30

There were two (31 December 2021: three) loans outstanding at 31 December 2022 totalling £2.1 million (31 December 2021: £3.2 million). Both are residential mortgages secured on property; all loans were provided on our standard commercial terms.

In addition to the loans detailed above, we have issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel.

Credit card balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

Group	2022 £'000	2021 £'000
Credit cards outstanding as at 31 December	7	5

As with all of our lending we recognise an ECL on loans and credit card balances outstanding with key management personnel. As at 31 December 2022 the only ECL recognised on the balances above was our standard modelled ECL with no individual impairments recognised (31 December 2021: £nil). We have not written-off any balances to key management personnel in either 2021 or 2022.

Transactions with Group companies

Details of transactions with Group companies can be found within note 37.

Notes to the financial statements Continued

36. Loss per share

Basic loss per share is calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Loss attributable to our ordinary equity holders (£'million)	(72.7)	(248.2)
Weighted average number of ordinary shares in issue – basic ('000)	172,464	172,421
Basic loss per share (pence)	(42.2)	(144.0)

Diluted loss per share has been calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we made a loss during both the years to 31 December 2022 and 31 December 2021, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive loss per share.

	2022	2021
Loss attributable to our ordinary equity holders (£'million)	(72.7)	(248.2)
Weighted average number of ordinary shares in issue – diluted ('000)	172,464	172,421
Diluted loss per share (pence)	(42.2)	(144.0)

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of loss per share.

37. Investment in subsidiaries

The Group had the following subsidiaries at 31 December 2022:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited[1]	UK	Invoice financing	100%	–
SME Asset Finance Limited[1]	UK	Asset financing	–	100%
RDM Factors Limited[1]	UK	Dormant	–	100%
Retail Money Market Ltd[2]	UK	Not currently trading	100%	–
Vehicle Credit Limited[3]	UK	Not currently trading	100%	–

1. Registered address One Southampton Row, London, W21B 5HA.
2. Registered address 6th Floor, 55 Bishopsgate, London, EC2N 3AS.
3. Registered address No.1, Osiers Business Centre, Leicester, LE19 1DX.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company do not differ from the proportion of ordinary shares held.

We are currently in the process of winding up a number of the subsidiaries.

Investment in subsidiaries

	Company 2022 £'million	Company 2021 £'million
1 January	31	59
Deemed capital contribution	–	18
Impairment of subsidiaries	–	(46)
31 December	31	31

Notes to the financial statements Continued

37. Investment in subsidiaries Continued

In April 2021 we purchased the back book of peer-to-peer loans from RateSetter investors. As a result of that transaction the provision fund that RateSetter operated (via RateSetter Trustee Services Limited) for the benefit of these investors ceased to have liability for further claims, which resulted in a net release of £18 million of liabilities. This was treated as a deemed capital contribution due to the resulting increase in the subsidiary's net asset.

Following the purchase of the back book, only limited activities continued to occur in the RateSetter business and as such we undertook an impairment assessment on our investment in subsidiary. The recoverable amount of the investment in RateSetter was determined to be the fair value of the net assets remaining in the business. This resulted in an impairment charge of £46 million in 2021.

Over the course of 2021 and 2022 we have been rationalising our structure with all former RateSetter activities being transferred to the Company. As part of this process, during the year we dissolved RateSetter Trustee Services Limited, RateSetter Motor Limited, Security Trustee Services Limited and Vehicle Stocking Limited. We are in the process of winding up and dissolving Retail Money Market Ltd and Vehicle Credit Limited, with expected completion of this process in early 2023.

All remaining net assets from the closed entities were transferred to Retail Money Market Ltd via way of a £5.6 million dividend paid by RateSetter Trustee Services Limited.

Transactions between the Company and Group subsidiaries

Company	2022 £'million	2021 £'million
Interest on inter-Company loan with SME Asset/Invoice Finance	9.5	6.4
Servicing fees paid to RateSetter	–	5.9

Company	2022 £'million	2021 £'million
Amounts outstanding owed by SME Asset/Invoice Finance	397	312
Amounts outstanding owed to RateSetter	3	5

The ECL expense recognised within the Company's financial statements in respect of the inter-Company loan facility is less than £0.1 million (31 December 2021: less than £0.1 million).

The transactions above are eliminated upon consolidation.

38. Non-cash items

The table below sets out the non-cash items included in profit before tax of the Group and Company. These have been adjusted for in the cash flow statements on page 184.

	Group 2022 £'million	Group 2021 £'million	Company 2022 £'million	Company 2021 £'million
Interest income	(564)	(406)	(547)	(390)
Interest expense	160	110	160	110
Depreciation and amortisation	77	80	77	76
Impairment and write-offs of property, plant, equipment and intangible assets	10	25	10	18
Impairment of investment in subsidiaries	–	–	–	46
Expected credit loss expense	40	22	37	21
Share option charge	2	2	2	2
Grant income recognised in the income statement	(2)	(11)	(2)	(11)
Amounts provided for (net of amounts released)	4	5	4	5
Gain on sale of assets	–	(9)	–	(9)
Total adjustments for non-cash items	(273)	(182)	(259)	(132)

39. Post balance sheet events

There have been no material post balance sheet events.

Additional information

In this section

Country-by-country report

The reporting obligations set out in the Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations. The purpose of the regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The Company, Metro Bank, is a credit institution for the purposes of CRD IV and is therefore within the scope of Country-by-Country Reporting. Our activities are disclosed within note 1 to the financial statements.

For the purposes of Country-by-Country Reporting, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	4,040
Turnover (£'million)	523.5
Loss before tax (£'million)	(70.7)
Tax expense (£'million)	(2.0)
Corporation tax paid (£'million)	–

No public subsidies were received during the year.

Basis of preparation

Country

Metro Bank PLC and its subsidiaries only operate with the UK and are all UK registered entities.

Full-time equivalent employees

FTEs are allocated to the country in which they are primarily based for the performance of their employment duties. The figures disclosed represent the average number of FTEs, all of which were employed in the UK.

Turnover and loss before tax

Turnover and loss before tax are compiled from the Metro Bank PLC consolidated financial statements for the year ended 31 December 2022, which are prepared in accordance with IFRS. Turnover represents the sum of the Group's net interest income, net fee and commission income, net gains on sale of assets and other income.

Tax credit and corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2022. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of the tax charge.
- Brought forward losses from previous years that were used to extinguish a portion of its taxable profits.
- Other differences between when income and expenses are accounted for under IFRS and when they become taxable.

Independent auditors' report to the directors of Metro Bank PLC

Report on the audit of the country-by-country information

Opinion

In our opinion, Metro Bank PLC's (the "Group") country-by-country information for the year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2022 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 1 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Confirmation of our understanding of the Directors' going concern assessment process, including the preparation and approval of the budget. We obtained management's Board approved forecast covering the period of management's going concern assessment to 30 June 2024. We evaluated the forecasting method adopted by the Directors in assessing going concern, including considering severe but plausible downside scenarios;
- Evaluation of management's financial and regulatory capital forecasts. We checked the mathematical accuracy of the model and evaluated the key assumptions using our understanding of the bank and external evidence where appropriate. We used our Prudential Regulatory experts to review the bank's risk weighted assets and forecast capital requirement assumptions. We also performed a comparison of the 2022 budget and the actual results to assess the accuracy of the budgeting process;
- Evaluation of the reasonableness of management's downside assumptions using our firm's economic and credit risk modelling experts and our understanding of the bank and the external environment. We evaluated management's assumptions by performing independent stress testing to determine whether a reasonable alternative stressed scenario, or combination of scenarios, would result in a breach of minimum regulatory requirements;
- Considering the mitigating actions that management identified, including the reduction of costs and slowing down the origination of new loans and advances, and assessing whether these were in the control of management and possible in the going concern period of assessment;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England. We also reconciled the bank's liquidity position to its regulatory liquidity reporting returns;

Independent auditors' report to the directors of Metro Bank PLC Continued

- Reviewing correspondence between the bank and its regulators to evidence the current regulatory capital position and also to provide evidence to support forecast changes in the bank's capital requirement in the period to 30 June 2024. We met with the PRA during the audit and noted the PRA's perspectives on the bank's risks and its capital position; and
- Assessing the adequacy of disclosures in the Going Concern statement and within the Viability statement in the Consolidated and Company Financial Statements and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Groups ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in note 1 of the Country-by-Country Report and the accounting policies in the Consolidated and Company financial statements, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Independent auditors' report to the directors of Metro Bank PLC Continued

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable UK tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed included:

- Enquiries of the Audit Committee, management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence and holding discussions with regulators, such as the FCA and the PRA, in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, the assessment of the carrying value of non financial assets (excluding goodwill) and the ability of the group to continue as a going concern; and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Group's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Jonathan Holloway.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2023

Other disclosures (unaudited)

Reconciliation of statutory balance sheet to risk-weighted asset

	31 December 2022			31 December 2021		
	Financial statements £'million	Average risk density %	Risk-weighted assets £'million	Financial statements £'million	Average risk density %	Risk-weighted assets £'million
Cash and balances with the Bank of England	1,956	2%	30	3,568	1%	33
Loans and advances to customers	13,102	45%	5,949	12,290	42%	5,204
Investment securities held at FVOCI	571	4%	20	798	2%	19
Investment securities held at amortised cost	5,343	4%	215	4,776	6%	301
Financial assets held at fair value through profit and loss	1	–	–	3	–	–
Derivative financial assets	23	–	–	1	–	–
Property, plant and equipment	748	100%	748	765	100%	765
Intangible assets	216	–	–	243	26%	64
Prepayments and accrued income	85	47%	40	68	84%	57
Deferred tax assets[1]	1	100%	1	–	–	–
Assets classified as held for sale	–	n/a	5	–	n/a	5
Other assets	73	89%	65	76	97%	74
Total assets	22,119	32%	7,073	22,587	29%	6,522
Off-balance sheet assets			169			188
Credit risk (excluding counterparty credit risk)			7,242			6,710
Counterparty credit risk			9			6
Market risk			–			9
Operational risk			739			729
Total risk-weighted assets			7,990			7,454

1. In the consolidated balance sheet per the financial statements, deferred tax is shown as a net figure with the deferred tax liability, however, from a regulatory perspective the deferred tax asset and liability are treated separately.

Alternative performance measures (unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles under which we report. These measures are consistent with those used by management to assess underlying performance.

These alternative performance measures have been defined below:

Metric	KPI	Scorecard measure	LTIP	Definition
Cost of deposits	Yes	No	No	Interest expense on customer deposits divided by the average deposits from customers for the year.

	2022 £'million	2021 £'million
Interest on customer deposits (note 2)	32.9	40.1
Average deposits from customer	16,351	16,369
Cost of deposits	0.20%	0.24%

Metric	KPI	Scorecard measure	LTIP	Definition
Cost of risk	Yes	Yes	No	Expected credit loss expense divided by average gross loans.

	2022 £'million	2021 £'million
Expected credit loss expense (note 30)	39.9	22.4
Average gross lending	12,611	12,330
Cost of risk	0.32%	0.18%

Metric	KPI	Scorecard measure	LTIP	Definition
Coverage ratio	No	No	No	Expected credit losses as a percentage of gross loans.

	2022 £'million	2021 £'million
Expected credit losses (note 12)	187	169
Gross loans and advances to customers (note 12)	13,289	12,459
Coverage ratio	1.41%	1.36%

Retail mortgages	2022 £'million	2021 £'million
Expected credit losses – retail mortgages (note 12)	20	19
Gross retail mortgage lending (note 12)	7,649	6,723
Coverage ratio	0.26%	0.28%

Consumer	2022 £'million	2021 £'million
Expected credit losses – consumer (note 12)	75	42
Gross consumer lending (note 12)	1,480	890
Coverage ratio	5.07%	4.72%

Commercial	2022 £'million	2021 £'million
Expected credit losses – commercial (note 12)	92	108
Gross commercial lending (note 12)	4,160	4,846
Coverage ratio	2.21%	2.23%

Alternative performance measures (unaudited)
Continued

Metric	KPI	Scorecard measure	LTIP	Definition
Loan-to-deposit ratio	Yes	No	No	Net loans and advances to customers expressed as a percentage of total deposits as at the year end. It is a commonly used ratio within the banking industry to assess liquidity.

	2022 £'million	2021 £'million
Net loans and advances to customers (note 12)	13,102	12,290
Deposits from customer (note 18)	16,014	16,448
Loan-to-deposit ratio	82%	75%

Metric	KPI	Scorecard measure	LTIP	Definition
Net interest margin	No	No	No	Net interest income as a percentage of average interest-earning assets.

	2022 £'million	2021 £'million
Net interest income (note 2)	404.1	295.3
Average interest-earning assets	21,029	21,128
Net interest margin	1.92%	1.40%

Metric	KPI	Scorecard measure	LTIP	Definition
Non-performing loan ratio	No	No	No	Gross balance of loans in stage 3 (non-performing loans) as a percentage of gross loans as at year end.

Total book	2022 £'million	2021 £'million
Stage 3 loans (note 30)	352	462
Loans and advances to customers (note 12)	13,289	12,459
Non-performing loan ratio	2.65%	3.71%

Retail mortgages	2022 £'million	2021 £'million
Stage 3 loans – retail mortgages (note 30)	111	114
Gross retail mortgage lending (note 12)	7,649	6,723
Non-performing loan ratio – retail mortgages	1.45%	1.70%

Consumer	2022 £'million	2021 £'million
Stage 3 loans – consumer (note 30)	50	21
Gross consumer lending (note 12)	1,480	890
Non-performing loan ratio – consumer	3.38%	2.36%

Commercial	2022 £'million	2021 £'million
Stage 3 loans – commercial (note 30)	191	327
Gross commercial lending (note 12)	4,160	4,846
Non-performing loan ratio	4.59%	6.75%

Alternative performance measures (unaudited)
Continued

<table>
<tr><th>Metric</th><th>KPI</th><th>Scorecard measure</th><th>LTIP</th><th>Definition</th></tr>
<tr><td>Return on tangible equity</td><td>Yes</td><td>No</td><td>Yes</td><td>Statutory profit after tax as a percentage of average tangible equity (average total equity less intangible assets).
<table>
<tr><th></th><th>2022 £'million</th><th>2021 £'million</th></tr>
<tr><td>Statutory loss after tax (Consolidated statement of comprehensive income)</td><td>(72.7)</td><td>(248.2)</td></tr>
<tr><td>Average tangible equity</td><td>749</td><td>898</td></tr>
<tr><td>Return on tangible equity</td><td>(10%)</td><td>(28%)</td></tr>
</table></td></tr>
<tr><td>Statutory cost:income ratio</td><td>Yes</td><td>Yes</td><td>No</td><td>Statutory total operating expenses as a percentage of statutory total income.
<table>
<tr><th></th><th>2022 £'million</th><th>2021 £'million</th></tr>
<tr><td>Total operating expenses (Consolidated statement of comprehensive income)</td><td>554.3</td><td>641.2</td></tr>
<tr><td>Total income (Consolidated statement of comprehensive income)</td><td>523.5</td><td>418.5</td></tr>
<tr><td>Statutory cost:income ratio</td><td>106%</td><td>153%</td></tr>
</table></td></tr>
<tr><td>Total shareholder return</td><td>Yes</td><td>No</td><td>Yes</td><td>Total capital gains and dividends returned to investors over a three-year rolling period.
<table>
<tr><th></th><th>2022</th><th>2021</th></tr>
<tr><td>Share price at the start of the three-year period</td><td>205p</td><td>1,718p</td></tr>
<tr><td>Share price at the end of the three-year period</td><td>121p</td><td>96p</td></tr>
<tr><td>Total shareholder return[1]</td><td>(41%)</td><td>(94%)</td></tr>
</table>
1. No dividends were paid in either period</td></tr>
<tr><td>Underlying cost:income ratio</td><td>No</td><td>No</td><td>No</td><td>Underlying total operating expenses as a percentage of underlying total income.
<table>
<tr><th></th><th>2022 £'million</th><th>2021 £'million</th></tr>
<tr><td>Total underlying operating expenses (page 245)</td><td>532.8</td><td>546.8</td></tr>
<tr><td>Total underlying income (page 245)</td><td>522.1</td><td>397.9</td></tr>
<tr><td>Underlying cost:income ratio</td><td>102%</td><td>137%</td></tr>
</table></td></tr>
<tr><td>Underlying loss</td><td>Yes</td><td>Yes</td><td>No</td><td>Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business.

Details of the calculation of underlying loss can be found on pages 244 to 245.</td></tr>
</table>

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

Alternative performance measures (unaudited)
Continued

Non-underlying item	Description	Reason for exclusion
Impairment and write-offs of property, plant, equipment and intangible assets	The costs associated with non-current assets that are either no longer being used by or are no longer generating future economic benefit for the business.	The impairments and write-offs relating to property, plant, equipment and intangible assets are removed as they distort comparison between years. This is on the basis that the write-offs and impairments relate to specific events and triggers which are not consistent between years.
Net C&I costs	These costs and income relate to the delivering the commitments associated with the Capability and Innovation Fund (awarded by BCR). Further details on this grant can be found in note 23.	The commitments under the Capability and Innovation Fund continue through to 2025. The costs associated with fulfilling the commitments and associated income are felt to distort year-on-year comparison. Given the offsetting nature of the income and expenditure, there is no net impact on our profitability from this adjustment.
Remediation costs	Remediation costs consists of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to financial crime.	The remediation costs are felt to be time limited and will disappear once the investigations have concluded. As such are removed to allow greater comparability between periods. Following the conclusion of the investigations by the PRA, FCA and OFAC future remediation costs will be limited, primarily relating to the ongoing regulatory matters regarding financial crime.
Transformation costs	Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme.	The transformation costs are seen as a nonrecurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent year-on-year distortion. Following the conclusion of our transformation plan in 2022 no further transformation costs will be recognised in 2023.
Business acquisition and integration costs (2021 only)	The costs associated with acquiring and integrating RateSetter.	We acquire businesses infrequently and the costs are not anticipated to be recurring. We substantially completed our integration of RateSetter in 2021 and as such no costs have been recognised in 2022.
Mortgage portfolio sale (2021 only)	The gain on sale and associated costs of the £3.1 billion mortgage portfolio sale. It also includes the income and cost of servicing this portfolio until it was transferred in 2021.	The sale of loan portfolios is generally not considered in line with our business model. Given the infrequency of sales and the quantum of the gain it has been removed in order to prevent year-on-year distortion. The portfolio transfer completed in 2021.
Holding company insertion costs (2022 only)	Costs associated with the establishment and insertion of a holding company (Metro Bank Holdings PLC) above the current operating company (Metro Bank PLC) to meet regulatory requirements.	During 2022 we started work on implementing our new holding company. These costs are due to be time-limited as work is required to be completed by June 2023. As such they have been excluded from our underlying results to avoid distortion between years.

Alternative performance measures (unaudited)
Continued

A reconciliation from statutory loss before tax to underlying loss before tax is set out below.

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

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

Abbreviations

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ATM	Automated teller machine
BAME	Black, Asian and Minority Ethnic
BBLS	Bounce Back Loan Scheme
BCR	Banking Competition Remedies
BEIS	Department of Business, Energy and Industrial Strategy
bps	Basis points
C&I	Capability and Innovation Fund
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
D&I	Diversity and inclusion
DNED	Designated Non-Executive Director for Colleague Engagement
DTR	Disclosure Guidance and Transparency Rules
DTV	Debt-to-value
DVRP	Deferred Variable Reward Plan
EAD	Exposure at default
ECL	Expected credit losses
EPC	Energy Performance Certificate
ERC	Executive Risk Committee
ESG	Environmental, social, and governance
ExCo	Executive Committee
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSQS	Financial Services Qualification System
FTE	Full time equivalent
FVOCI	Fair value through other comprehensive income
GDP	Gross domestic product
GHG	Greenhouse gases
HMRC	His Majesty's Revenue and Customs
HPI	House price index
IAS	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based
KPI	Key performance indicator
LGBTQ+	Lesbian, gay, bisexual, transgender, queer plus
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LTI	Loan-to-income
LTIP	Long Term Incentive Plan
LTV	Loan-to-value
MPs	Members of Parliament
MREL	Minimum requirement for own funds and eligible liabilities
MSc	Master of Science
NED	Non-Executive Director
NICs	National insurance contributions
NPL	Non-performing loan
OFAC	Office of Foreign Assets Control
PAYE	Pay as you earn
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of default
PMA	Post model adjustments
PMO	Post model overlays
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
PwC	PricewaterhouseCoopers LLP
REGO	Renewable Energy Guarantee of Origin
RLS	Recovery Loan Scheme
ROC	Risk Oversight Committee
RWAs	Risk-weighted assets
SBTi	Science-Based Targets Initiative
SICR	Significant increase in credit risk
SME	Small or medium-sized enterprise
SONIA	Sterling Overnight Index Average
TCFD	Task Force on Climate-related Financial Disclosures
TFSME	Term Funding Scheme with additional incentives for SMEs
UK	United Kingdom
VAT	Value added tax
VIU	Value in use

Shareholder information

Registrars

We have appointed Equiniti Limited to maintain our register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited[1,2]
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2311
International callers: +44 121 415 7095

1. Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.
2. Lines are open from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

Registered and other offices

Our registered office and head office is:

One Southampton Row
London
WC1B 5HA

Telephone: 0345 08 08 500/0345 08 08 508
Website: metrobankonline.co.uk

Unsolicited mail

We are required by law to make our share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:
Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT

Website: mpsonline.org.uk

Shareholder information Continued

Annual General Meeting

Our 2023 AGM will be held on 26 April 2023. Full details for the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on our website.

Shareholder profile

Shareholder profile by size of holding as at 31 December 2022

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2022	Percentage of total
1–1,000	380	51.01%	101,114	0.06%
1,001–5,000	110	14.77%	256,118	0.15%
5,001–10,000	41	5.50%	309,855	0.18%
10,001–50,000	80	10.74%	1,967,692	1.14%
50,001–100,000	26	3.49%	1,989,396	1.15%
100,001–500,000	58	7.79%	13,493,066	7.82%
500,001–1,000,000	12	1.61%	8,738,764	5.06%
1,000,001 and above	38	5.09%	145,681,626	84.44%
Total	745	100.00%	172,537,631	100.00%

Shareholder profile by category as at 31 December 2022

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2022	Percentage of issued share capital
Private shareholders	457	61.34%	935,642	0.54%
Banks	2	0.27%	31,048	0.02%
Nominees and other institutional investors	286	38.39%	171,570,941	99.44%
Total	745	100.00%	172,537,631	100.00%

Forward-looking statements

This Annual Report and Accounts contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as ‘believes’, ‘projects’, ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘may’, ‘will’, ‘would’, ‘could’ or ‘should’ or similar terminology. Any forward-looking statements in this Annual Report and Accounts are based on our current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance. No assurances can be given that the forward-looking statements in this Annual Report and Accounts will be realised. We undertake no obligation to release the results of any revisions to any forward-looking statements in this Annual Report and Accounts that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and we disclaim any such obligation.

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