# Annual Report and Accounts 2023

**Strategic report**

3 Summary of the year
3 Our purpose and strategy framework
4 Financial review
5 Operating environment
7 Business model
10 Key performance indicators
13 Environmental, social and governance review
23 Section 172 statement
24 Risk overview summary
28 Viability statement

**Governance**

31 Board of Directors
32 2023 governance at a glance
35 Board activity and stakeholder engagement
36 Stakeholder engagement
40 Board leadership and company purpose
43 Board roles and responsibilities
44 Board effectiveness
46 Audit Committee report
50 Group Risk Oversight Committee report
53 Directors' report

**Risk**

57 Approach to risk management and management cycle
58 Governance structure
59 Risk culture
61 Financial risks
80 Non-financial risks

**Financial statements**

87 Independent auditors' report to the members of Metro Bank PLC
93 Consolidated statement of comprehensive income
94 Consolidated balance sheet
95 Consolidated statement of changes in equity
96 Consolidated cash flow statement
97 Notes to the financial statements
145 Company balance sheet
146 Company statement of changes in equity
147 Company cash flow statement
148 Notes to the financial statements

**Summary of the year**

2023 has been a year of two halves; whilst the first six months saw us return to profitability, our results in the second six months were impacted by speculation surrounding our capital options, contributing to the need to raise capital.

**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.

**Our purpose and strategy framework**

Despite the challenges faced in 2023, our ambition remains the same: 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 business, commercial and retail banking services that meet the needs of our customers in the area.

**It's achieved through our purpose**

Our purpose is **to create FANS.**

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

This simple purpose guides everything we do as it places the customer at the heart of all of our decision-making.

Strengthened by our **AMAZEING behaviours**

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

- Attend to every detail.
- Make every wrong right.
- Ask if you're not sure, bump it up.
- Zest is contagious, share it.
- Exceed expectations.
- Inspire colleagues to create FANS.
- Nurture colleagues so they grow.
- Game-change because this is a revolution.

Delivered via our **business model**

Our business model is how we generate stakeholder value. It involves combining stores and digital channels with exceptional customer service to generate sustainable long-term value and tangible book growth.

**Integrated model**

Our model combines delivery through physical and digital channels.

**Unique culture**

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

**Service-led core deposits**

We seek to attract core deposits through our service-led relationship banking model with specific emphasis on our core retail and SME franchise.

**Risk-adjusted returns**

We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.

Supported by our **strategic priorities**

**Our strategic priorities are what we focus on on a day-to-day basis that are crucial to developing our long-term success**

Revenue **-** Create FANS to deliver strong growth.

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

Cost **-** Cost discipline to support profitable growth and reinvestment.

Infrastructure **-** Protect value through safe, scalable infrastructure.

Communications - Engage colleagues, communities and other stakeholders to tell 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 to assess how our business model is performing. These consist of:

- Customer accounts.
- Colleague engagement.
- Customer satisfaction.
- Senior leadership diversity.
- Statutory profit/(loss).
- Total capital plus MREL.
- Cost of deposits.
- Cost of risk.
- Statutory cost:income ratio.
- Return on tangible equity.
- Loan-to-deposit ratio.

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.

**Financial Review**

We recorded a statutory profit before tax of £49.3 million (2022: loss of £70.7 million). Net interest income has increased from £404.1 million in 2022 to £411.9m in 2023, reflecting increased yields on lending balances, offset by a higher cost of deposits.

In May 2023, a holding company was implemented, Metro Bank Holdings PLC, becoming Metro Bank PLC's sole shareholder. In the last quarter of 2023, we issued £150 million of new equity and refinanced our debt securities. We recognised a one-off gain of £100 million on the refinancing of our Tier 2 debt..

Net loans and advances to customers ended the year at £12,297 million, down 6% from £13,102 million as at 31 December 2022, as we actively managed our RWA capacity reflecting our capital constraints for the majority of the year. We remain focused on being a service-led deposit-driven bank. We ended the year with deposits of £15,623 million (31 December 2022: £16,014 million), a decrease of 2% year on year but up 1% from 30 June 2023. Following press speculation surrounding a capital raise undertaken by Metro Bank Holdings PLC, we saw a time-limited outflow of deposits. Core deposit flows have since stabilised to more recent normal ranges and we have seen a return to growth in these balances following the successful completion of the capital raise. The launch of a deposit gathering promotion in November 2023 saw us successfully attract new funding albeit at a higher cost.

We ended the year with CET1, total capital and total capital plus MREL ratios of 13.3%, 15.3% and 22.2% respectively (31 December 2022: 10.3%, 13.4% and 17.7%), above regulatory minima including CRD IV buffers. Our liquidity position remains strong and in excess of regulatory minimum requirements. We ended the year with a liquidity coverage ratio of 332% (31 December 2022: 213%) and a net stable funding ratio of 145% (31 December 2022: 134%). We enter 2024 with a stronger and longer dated capital base, putting us in a good position to deliver on strategy. We have also started the process of delivering a disciplined cost reduction programme, which will help to mitigate some of the near-term headwinds, notably the increased cost of deposits.

# 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**
Whilst 2023 has been a turbulent year with continued global uncertainty, the UK economy has been remarkably resilient, despite entering a technical recession in the final two quarters of the year. Inflation has fallen back from recent highs although remains in excess of the Bank of England's long-term target of 2%. Part of this softening has been as a result of continued increases in base rates which were increased from 3.50% to 5.25% over the course of the year. Whilst the outlook is that rates have peaked, the increases seen in 2023 will continue to impact customers in the years ahead as they roll-off lower-cost fixed-rate borrowing. Although this has resulted in an increase in arrears, this has come off a low base.

We have started to see signs of the job market softening, with lower levels of hiring activities and the prospect of potential rises in unemployment in 2024, adding to an uncertain economic outlook.

**How we are responding**
We see the current levels of uncertainty remaining elevated through 2024 due to continuing global conflict and key elections in both the UK and USA, as well as a subdued economic outlook.

We continue to take a prudent approach to expected credit loss (ECL) provisioning and believe this reflects the current uncertainties, including those related to slower economic growth and increased unemployment.

At the end of 2023 we took the decision to move away from unsecured lending given the return on capital it is providing in the current economic climate.

## Competition

**How we see it**
The UK banking market remains highly competitive in respect of both deposits and lending.

For core current accounts, digital-only operators are achieving high levels of customer satisfaction whilst incumbent players continue to deploy switching offers and heavy marketing campaigns to maintain market share. At the same time average current account balances are reducing industry-wide as customers repay debt, deploy excess deposits into higher rate savings and weather the increased cost of living.

In the lending market, larger incumbent players continue to competitively price mortgages with mortgage rates ending 2023 at below 4%, compared to the base rate of 5.25%. Equally, specialist lenders continue to make inroads into non-relationship driven segments, often delivered via intermediaries or aggregators.

We have also started to see the early signs of consolidation within the industry, which is likely to see market share concentrated further between larger incumbents.

**How we are responding**
We are continuing to invest in our deposit proposition to ensure we remain competitive and gain market share. Whilst we saw a reduction in average current account balances, both due to wider-market forces and the speculation around our capital raise, we continue to grow account numbers and deepen customer relationships.

In the lending space we are focusing our attention on targeting more specialist segments of the market. This is in part due to the setback in our AIRB ambitions, which we announced in September. Being a non-AIRB approved lender makes it hard to compete in the prime 'vanilla' segment of the market in respect of both volume and price due to the structural disadvantages in the capital treatment of residential mortgages compared to larger AIRB-approved competitors.

## Customer behaviour

**How we see it**
Customer behaviour in 2023 has been marked by the higher rate environment and cost-of-living pressures. This has seen customers move their money to savings accounts to maximise interest as well as becoming increasingly willing to switch providers. The higher savings rates have also seen customers making greater use of ISAs as a tax shield, particularly amongst savers with high balances where interest payments exceed the personal savings allowance.

We are also continuing to witness the acceleration of digitisation with customers continuing to prefer digital-first channels. This rise in use of new technology also gives rise to increasingly sophisticated fraud.

**How we are responding**
We have increased our investment in our deposit gathering channels including building out our ISA proposition ready for the 2024 season. We were able to deploy some of these deposit gathering tools in the fourth quarter where we were able to quickly attract new deposits to replace balances lost in response to the speculation surrounding our capital raise.

We expect the current digitisation trend to continue and we will continue to make disciplined investment choices in this area.

We remain committed to stores and maintaining a fully integrated offering, although have reduced hours in response to changing customer needs.

# Regulatory environment

**How we see it**
The UK regulatory environment has undergone significant changes in recent years and continues to evolve, with multiple changes on the horizon from key regulatory bodies.

Regulatory authorities including the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) have introduced reforms aimed at enhancing financial stability, consumer protection and market integrity.

Key regulatory initiatives have included the new Consumer Duty requirements, which we completed the implementation of this year, and Basel 3.1 which sees changes to the industry's capital requirements.

We are also continuing to see regulators take a firm approach to misconduct and ensuring fair outcomes for customers. An example of this is the FCA's review into historical motor finance commission arrangements, the cost of which to lenders could be significant.

**How we are responding**
We continue to deliver a range of comprehensive projects to ensure we remain compliant with changes to the regulatory environment. During the year we have implemented our Consumer Duty requirements and continue to prepare for the introduction of Basel 3.1

We retain proactive engagement with our regulators, industry bodies and other stakeholders to help shape the regulatory agenda, provide feedback on proposed reforms and continue to advocate for proportionate and pragmatic regulations that support both innovation and growth, whilst protecting the integrity of the financial system.

The current FCA investigation into motor finance shows the continued focus of regulators on ensuring customers are treated fairly. As values we hold dear we support the regulators in helping achieve this.

# Capital and funding regime

**How we see it**
The UK's stringent approach to capital management continues to shape the banking industry. This is particularly true for new and mid-sized challengers like ourselves who remain subject to MREL requirements but unable to take advantage of the structural advantages of larger players who are able to benefit from their AIRB status for determining risk-weightings. This makes providing the required return on capital challenging, particularly in mainstream lending, which would benefit from additional competition.

With respect to funding, the Bank of England's continued planned withdrawal of TFSME (combined with additional quantitative tightening) will put additional pressure on banks' funding requirements, with firms needing to either shrink balance sheets or increase their deposits to replace this form of funding. Equally given the high-profile international bank failures in 2023 we see liquidity remaining a core focus for banks going into 2024, with firms likely to continue to hold excess liquidity over minimum requirements.

**How we are responding**
The capital raise during the year saw us restore all our capital ratios to above minima including CRD4 buffers.

The cost of capital remains high, both industry-wide and for ourselves in particular. We are therefore continuing to ensure we optimise our return on regulatory capital when determining our product and pricing strategy. Equally we are working to ensure we are right-sizing our cost base to aid in the delivery of sustainable organic capital generation.

We retain high levels of liquidity with a liquidity coverage ratio (LCR) as at 31 December of 332% (compared to the minimum requirement of 100%), and were able to weather deposit outflows in response to press speculation in October 2023. Our strong levels of liquidity have also allowed us to repay £550 million of TFSME drawings early.

# Focus on sustainability

**How we see it**
2023 was the hottest year on record globally and we are continuing to see the impacts of climate change both around the world and in the UK.

As awareness of environmental and social issues continues to grow stakeholders are increasingly scrutinising companies' responses to these sustainability challenges. In particular customers are continuing to have increased expectations of companies they interact with to deliver for the environment and wider society.

As well as our own decisions around sustainability we recognise the role we play in broader society, primarily through the decisions over who and what we choose to finance. We see that the financial system has a central role in acting as a catalyst for change in broader society and as such can play an outsized role in contributing to the transition to a more sustainable and resilient economy.

**How we are responding**
We recognise the interconnectedness between sustainable business practices and long-term financial performance and as a result continue to integrate sustainability into all of our core operations and decision-making processes.

We continue to deliver our plan to achieve our 2030 net zero carbon emissions goal. In achieving this we remain committed to being transparent in respect of our reporting of progress to delivering this.

As a community bank we also recognise the important of giving back to society and this will continue to be achieved through a range of initiatives which utilise our physical and digital channels.

Our corporate governance structure ensures that sustainability remains a key focus as part of our ambition to be the number one community bank.

# Business model

Our business model is simple. By delivering great customer service we can attract and grow a sustainable deposit base, allowing us to lend money to help individuals and businesses fund their ambitions.

## is underpinned by...

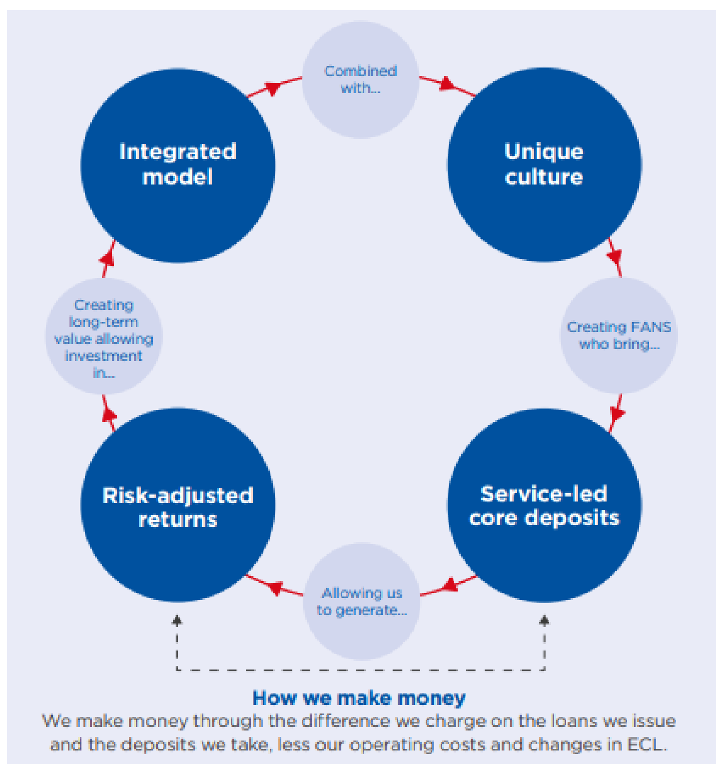
**Environmental and social priorities**
We ensure that our business model and approach is focused on the areas that matter most to our stakeholders.

**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.

**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.

## 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.




## delivers value for...

**Customers**
Without the loyalty of our customers we would not exist. Ensuring we are turning our customers into FANS ensures the enduring success of our business.

**Colleagues**
We strive to make Metro Bank a great place to work; where colleagues can excel, grow and be themselves.

**Investors**
We are committed to ensuring that we can be an attractive investment for equity and bondholders. We never take our investors for granted and are working hard to build and maintain trust.

**Regulators**
We continue to play our part in ensuring a safe and stable financial system.

**Suppliers**
Building a trusted supplier base is key to delivering our ambitions. We want to ensure that as we grow they share in our success.

**Communities**
To be the number one community bank we have to be at the heart of the neighbourhoods we serve, delivering societal value day-in day-out.

| | Progress in 2023 | Operating environment | Priorities | Risks | KPIs |
|---|---|---|---|---|---|
| **Integrated model**<br><br>Our integrated model aims to combine delivery through physical and digital channels. | We continue to deliver stand-out service through our stores and digital presence.<br><br>Our focus on our SME offering has seen us launch a new commercial overdraft and business credit card which includes straight through processing and automated decision-making. During the year we transformed our mortgage origination platform, streamlining the process for both mortgage intermediaries and customers. As mortgages will continue to be the largest component of our lending we envisage that this investment will yield improvements in productivity, allowing us to launch a greater range of products. | **Competition**<br><br>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.<br><br>**Consumer behaviour**<br><br>Customers are continuing to place a strong reliance on in-person service, although the move to digital continues.<br><br>**Focus on sustainability**<br><br>We continue to see strong pressure from all of our key stakeholders to ensure all of our operations are sustainable. | We will explore options to further right-size our cost base in the months ahead. While we remain committed to serving customers through stores, we will look to optimise how this best works for our customers and for our business. This is expected to be through focusing on opening smaller sites in strategic locations in the north of England, and through reassessing our store opening hours, based on how and when our customers use our services.<br><br>Although a physical presence remains core to our offering, our focus will be to digitalise to ensure we remain competitive against both larger high-street peers and new digital-first or digital-only entrants. | Our principal risks in respect of delivering our integrated model are:<br><br>· Conduct risk.<br>· Operational risk.<br>· Strategic risk.<br><br>We continue to enhance our processes and systems to minimise the risk of operational issues, and to continue delivering on our strategy. | **Number of accounts** (m)<br>2023: 3.0<br>2022: 2.7<br><br>**Customer satisfaction**<br>New to bank<br>2023: 76<br>2022: 85<br><br>Existing:<br>2023: 36<br>2022: 33 |
| **Unique culture**<br><br>Our colleagues deliver superior service and are at the heart of our people-people banking approach. | We pride ourselves on being a bank that puts our colleagues at the heart of what we do. 2023 has been an incredibly difficult year with changes to our organisational structure resulting in the reduction of 1,000 roles in early 2024.<br><br>Despite this, we continue to be focused on being an employer of choice. In 2023 we were awarded the Diversity, Equity & Inclusion Award from The Top 1% Workplace Awards 2023, reflecting our commitment to attract and retain talent from within the diverse communities we serve. | **Competition**<br><br>The market for talent remains highly competitive, and the high inflationary environment has continued to put pressure on wages. We must remain competitive to help colleagues and retain talent. | We are committed to ensuring our people are our key focus and that recent cost reduction measures do not impact our unique culture. We will continue to support a diverse and inclusive workforce where colleagues can be themselves, investing in training and promoting from within where possible.<br><br>Our cost reduction initiatives in 2024 will focus on further automation to free up colleagues' time and allow them to focus on what they do best — creating FANS. | Our principal risks in respect of delivering our unique culture:<br><br>· Conduct risk.<br>· Legal risk.<br>· Operational risk.<br>· Strategic risk.<br><br>Planned automation and strategic re-focus is key to managing risk within a smaller workforce. | **Colleague engagement** (%)<br>2023: 75<br>2022: 75<br><br>**Senior leadership diversity**<br>BAME<br>2023: 20<br>2022: 19<br><br>Female<br>2023: 38<br>2022: 41 |

| | Progress in 2023 | Operating environment | Priorities | Risks | KPIs |
|---|---|---|---|---|---|
| **Service-led core deposits**<br><br>We seek to attract core deposits through our service-led relationship banking model with specific emphasis on our core retail and SME franchise. | At the start of October several speculative media reports on the strength of our capital position led to an increased outflow of customer deposits. Whilst liquidity levels remained strong, a deposit campaign was launched in the last months of the year to replace the deposits lost. As at 31 December 2023 we had returned to broadly the same deposit levels as we reported for the third quarter, albeit at a higher cost.<br><br>Through 2023, we have invested in our deposit capabilities, started to provide savings accounts under our RateSetter brand on deposit aggregator sites, and launched new limited edition savings accounts. | **Competition**<br><br>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.<br><br>**Regulatory environment**<br><br>The regulatory environment continues to work towards ensuring the fair treatment of customers with a particular focus on vulnerable customers and Consumer Duty. This trend is seeing deposit-taking institutions, like ourselves, implement an increasing amount of regulatory requirements. | During 2024 our focus will be on utilising the deposit building capabilities we built during 2023. A key component of this will be the new ISA season with a particular emphasis on switching. Alongside this we will also launch a new 'boost' proposition for savings accounts, which will provide us with greater flexibility in the deposit pricing.<br><br>We also concentrate on continuing to grow our current account numbers, with priority geared towards increasing business accounts, where balances tend to be higher, fee earning opportunities are greater. | Our principal risks in respect of delivering service-led core deposits are:<br>• Conduct risk.<br>• Financial crime.<br>• Legal risk.<br>• Liquidity and funding risk.<br>• Market risk.<br>• Regulatory risk.<br><br>We continue to actively manage our balance sheet to ensure we retain high levels of liquidity and appropriately hedge our interest rate risk.<br><br>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** (%)<br>2023: 0.97<br>2023: 0.20 |
| **Risk-adjusted returns**<br><br>We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk. | Throughout 2023, we actively constrained lending to around replacement levels in an effort to preserve capital. Going into the year we were always clear about our need to access the capital markets, however external pressures caused us to accelerate our initial timetable. We successfully completed the delivery of a capital package in November, following which we decided to refocus our attention on commercial and mortgage lending, with a shift away from consumer lending.<br><br>Like most banks, a large proportion of our lending is fixed rate and therefore despite base rates having stabilised we are continuing to see the benefits as older loans mature into a higher rate environment. | **Competition**<br><br>Competition in the lending space remains strong notably in the mortgage space from larger competitors as well as specialist lenders in other key segments.<br><br>**Capital and funding regime**<br><br>The UK's rigorous capital regime continues to see large financial firms, including ourselves, dependent on capital markets to support regulatory requirements.<br><br>**Economic and political outlook**<br><br>We expect interest rates to continue at a more normalised level in 2024, but financial pressure on households and an uncertain political outlook remains. | Following the capital raise we continue to optimise our balance sheet and utilise our capital stack most efficiently to get the best possible sustainable returns for all stakeholders.<br><br>We plan to shift our focus away from unsecured lending back towards commercial, whilst mortgages will remain the largest component of our balance sheet with a focus on niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage. | Our principal risks in respect of delivering risk-adjusted returns are:<br>• Conduct risk.<br>• Credit risk.<br>• Market risk.<br>• Regulatory risk.<br>• Model risk.<br>• Capital risk.<br>• Strategic risk.<br><br>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 issue. | **Cost of risk** (%)<br>2023: 0.26<br>2022: 0.32<br><br>**Loan-to-deposit ratio** (%)<br>2023: 79<br>2022: 82<br><br>**Total capital plus MREL ratio** (%)<br>2023: 22.2<br>2022: 17.7 |

# 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 to assess how our business model is performing.

### Link to business model

**Components of our business model**

Our business model is set out on page 7. Further details of each component of our business model can be found on pages 8 to 9, 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:

- 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 is 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.

### KPI performance during 2023

Despite the challenging operating environment in 2023, we have performed robustly on the majority of our KPIs. A particular highlight has been the maintaining of record colleague engagement scores and the continued growth in customer numbers.

Customer satisfaction remains a key area of focus as whilst our scores remain favourable compared to market peers, we want to ensure the reversal of the decrease seen in year on new account openings, as well as to continue to increase the net promoter score on continuing relationships.

In respect of our financial metrics we have reported a statutory profit for the year. Equally our capital ratios have improved following successful delivery of the capital package during the year.

We did see a noticeable increase in our cost of deposits, which was driven by a combination of rising base rates as well as the cost of the deposit initiatives undertaken in the fourth quarter.

## Non-financial

### Customer accounts (m)
2023: 3.0
2022: 2.7
2021: 2.5

**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 s
2023: 75
2022: 75
2021: 69

**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 (%) s

**New account openings**
2023: 76
2022: 85
2021: 90

**Continuing relationships**
2023: 36
2022: 33
2021: 42

**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 (%) s

**Female**
2023: 38
2022: 41
2021: 43

**Minority ethnic**
2023: 20
2022: 19
2021: 20

**How we define it**
Proportion of female/minority ethnic 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.

## Financial

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

2023: 49.3
2022: (70.7)
2021: (245.1)

**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.

### **Total capital plus MREL ratio** (%) S

2023: 22.2
2022: 17.7
2021: 20.5

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

**Why it is important**
Our capital ratio represents the level of solvency of the bank, and the ability to be resilient in events of stress. This is important for all our stakeholders.

### **Cost of deposits** (%) A

2023: 0.97
2022: 0.20
2021: 0.24

**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** (%) A

2023: 0.26
2022: 0.32
2021: 0.18

**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** (%) A

2023: 87
2022: 106
2021: 153

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

**Why it is important**
As we become more efficient, the ratio decreases and indicates our path to achieve the relevant scale for our capabilities of products and services.

### **Return on tangible equity** (%) L A

2023: 5
2022: (10)
2021: (28)

**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** (%) A

2023: 79
2022: 82
2021: 75

**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.

# Environmental, social and governance review

Our ambition to be the number one community bank is built on doing the right thing by our customers, communities, colleagues, suppliers and the environment.

### The strong connection between community banking and ESG

There is a strong synergy between our ambition to be the number one community bank, and our approach to ESG. Inherent to our community banking model is acting supportively, sustainably and responsibly towards our customers, our communities, our colleagues and our environment.

Metro Bank has always strived to be a different kind of bank. We operate at the heart of local communities, delivering fantastic customer service. As we have grown, our community-focused activities have expanded too, and in parallel to this we have incorporated ESG priorities into our business.

We embrace diversity and champion inclusivity; value sustainability and act responsibly towards the environment; make a positive difference through the local colleagues we employ, the local businesses we work with and the local causes we support.

We simply aim to do the right thing by our stakeholders. In short, a true community bank. Our support for communities in 2023 has included:

- Easter Egg Appeal between 20 March and 6 April distributing eggs to local community groups.
- Pride events in London and Birmingham.
- Diwali in Leicester (one of the largest Diwali celebrations outside of India) in October and November.
- 21 stores participated in Silver Sunday on 1 October 2023, a campaign to tackle loneliness and isolation among older people.
- Armed forces day in June.
- The Morph art trail in central London.
- International Women's Day in March.
- Hertfordshire County Show in and the Hertfordshire Food and Farming day in July.

## 2023 ESG governance structure

### ESG governance and structure

The Board has oversight of our ESG strategy and priorities and ESG issues are regularly considered by ExCo. Our internal ESG structure comprises an ExCo-level ESG Steering Committee which coordinates all our ESG activities and reports into the Board on an annual basis, plus Working Groups of subject matter experts that coordinate progress and activity across ESG themes and report into the ESG Steering Committee every quarter.

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. ROC can escalate climate-related risk matters to the Board.

The Audit Committee reviews our ESG update and disclosures for TCFD requirements as part of its wider role in reviewing our Annual Report and Accounts.

Non-Executive Director Nick Winsor has an informal Board role for ESG oversight which includes engaging with senior management on ESG matters. The Chief People Officer is the ExCo member responsible for ESG strategy and the Chief Risk Officer has SMF responsibility for climate change risk.

## ESG materiality and priority themes

In 2022 we conducted a materiality assessment of our approach towards current and emerging ESG issues to obtain deeper understanding of our external and internal stakeholders' views. We used the Global Reporting Initiative approach. Following research and a shortlisting exercise, we asked stakeholders to rank 19 issues, which we mapped against six overarching priority themes. We take account of the results in our considerations of ESG issues.

### Our customers 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.

### 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.

### 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.

### 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.

### 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.

### 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.

# Our customers, communities and colleagues

We believe that by fostering these key relationships we can generate wider shared prosperity.

Our commitment to community banking aligns with the 'S' of ESG. It informs everything we do and runs through every aspect of our model and engagement with our colleagues, customers and communities. By helping our communities thrive we believe our business will too. Responsibility for delivery is shared across all Metro Bank colleagues, led by our stores with their physical presence in communities across the country. In the following section, we present how our approach to community banking promotes Education, Employment, Equality and Equity.

### Education

We have always championed financial education in our local communities. Research from the Money and Pension Service in summer 2023 found that under half of children aged seven to 17 have been taught the skills they need to handle money as adults. Our free Money Zone financial education programme recognises this need and colleagues in all our stores are specially trained to deliver Money Zone to children at Key Stage 2 and 3 in local schools and clubs. We have reached well over 250,000 children with Money Zone to date, including more than 170 schools and community groups in 2023. This year we extended Money Zone to large community events including to 1,100 children at the Hertfordshire Food and Farming day in July. Last year we launched a financial education programme for young care leavers, and in 2023 we extended it to young people in sixth forms and colleges and to people serving in the armed forces.

In 2023 we delivered 16 'Tech Zone' workshops with more than 300 primary school kids from the most deprived parts of London, teaching basic coding skills using micro:bit – tiny computers that have various sensors and capabilities such as buttons, LEDs, light sensor, temperature sensor, microphone, compass, accelerometer, speaker, radio and pins to connect to other devices or extensions. As part of this, Metro Bank built a strong relationship with STEM Learning and became accredited as a STEM organisation, in order to facilitate training to the community. We also created a train the trainer workshop to educate Metro Bank colleagues to deliver the programme in schools. We are aiming to extend the reach of the programme next year.

Education for our colleagues has always been a critical part of creating FANs in our communities. In addition to onboarding 1,040 new colleagues, this year we have run three learning campaigns with subject experts to develop skills and to foster a culture of learning.

Campaigns focused on key topics:

- data literacy and protection
- personal development and careers
- focusing on leadership mindset and skills.

The career campaign alone saw 61% of our colleagues accessing the new modules and events, with over 3,000 views on our Metro Bank University (MBU) internal digital platform.

Further developing our technical capabilities, we extended access to Go1 learning resources to support the majority of our corporate functions. We have access to over 2,150 new courses from expert training providers globally and we have seen 4,729 colleague interactions (equating to 1,085 learning hours). Our popular MSc Sustainable and Digital Banking apprenticeship programme has seen seven graduates this year with 19 colleagues starting in December. We also launched our Tech Academy developing skills through apprenticeships in cyber and IT operations, and currently we have 137 colleagues completing apprenticeships.

75% of our senior leaders attended one or more events hosted by a series of five thought leaders and industry experts. Topics ranged from developing a human customer experience to competition in the banking sector, to the barriers that women face returning to work after a career break.

### Employment

We are delighted to be named in Newsweek's UK top ten Most Loved Workplaces® for the second year running – the ranking recognises companies that put respect, caring, and appreciation for their colleagues at the centre of their business model. The numerous awards we've won in 2023 include:

- Top ten UK Most Loved Workplaces
- Top 1% Workplaces Awards: Diversity, Equity and Inclusion Award and Leader of the Year Award
- Global Diversity List 2023: Diversity and Inclusion Professional and Champion
- 2023 Inclusive Awards: Inclusive Culture Initiative Award
- Elite Women 2023: Best women mortgage leaders in the UK
- Women in Finance Awards 2023: Diversity Lead of the Year
- MoneyAge Mortgage Awards 2023: Large Loans Mortgage Lender of the Year
- British Specialist Lending Awards: Lender: Head of Sales
- Mortgage Strategy Awards: Best Large Loan Lender
- UK National Contact Centre Awards: Quality Manager of the Year
- Credit Strategy Car Finance Awards: Company Award for Diversity & Inclusion
- M&A Today, Global Awards 2023: Best Lender of the Year – UK
- Forbes Advisor Best of 2023 Awards: Best Business Credit Card
- Moneynet Personal Finance Awards 2023: Best Business Credit Card

In 2023, 95 colleagues joined us on our Level 2 and 3 Financial Services Customer Advisor Apprenticeship Programmes which support people starting a career in banking – the programme has achieved an overall effectiveness rating of 'good' from Ofsted. 63% of our apprentices in our stores and Amaze Direct contact centres come from the 50% most deprived areas of England.

Through the opportunity to share up to 25% of our apprenticeship levy we can support non-levy paying businesses in our local communities to recruit apprentices. In 2023, we focussed on supporting female led businesses in the Northants area.

Metro Bank is a founding signatory to the Investing in Women Code, and as a community bank we can be instrumental in supporting female entrepreneurs. In 2023, in addition to our stores' regular networking events for local businesses, stores hosted ten events for more than 300 female business leaders. We have redeveloped our public webpage dedicated to supporting women in business, adding a range of case studies to inspire future female business leaders, highlighting the support we can provide, and including the details of our local ambassadors for female entrepreneurs.

Metro Bank customer case studies also featured prominently in the British Business Bank's Investing in Women Code Annual 2023 Report. Our stores celebrated International Women's Day by hosting more than 2,000 people at complimentary networking events for local businesses.

We're committed to helping local businesses, who form such an important part of thriving communities. We put relationship banking at the heart of our support for businesses, with every small business customer enjoying direct access to a Local Business Manager.

We provide current accounts to more than 200,000 businesses and more are switching to us every day. Building on the successful introduction of our enhanced business overdraft last year, this year we have launched our enhanced Business Credit Card providing fast, flexible access to up to £60,000 of credit, underpinned by an automated and simplified application process meaning customers can walk out of their local store with their new credit card in under 45 minutes. We have also radically improved our small business lending products increasing lending amounts up to £60,000 with a faster journey from application to decision to receiving funds.

We are strong supporters of the Armed Forces Covenant and hold the Gold Award. We are proud to have been named in the 100 GREAT British Employers of Veterans by the Ex-Forces in Business Awards. In 2023 we recruited three ex-services colleagues and in June we hosted a business insights day in central London for veterans preparing for employment outside the military, and a number of our stores hosted celebrations for Armed Forces Day in June.

Our new stores planned in the north of England will create more than 200 roles directly, with around 30 in place already, and support a significant number of jobs indirectly via the many businesses we support in our local communities.

Our wellbeing programme offers a range of tools including our Employee Assistance Programme, plus 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. To support the launch of our wellbeing strategy, we ran a Wellbeing at Work week which saw 400 colleagues attend a webinar for financial wellbeing and over 100 colleagues booking Vitality Health checks. This is in addition to training and awareness sessions and online support materials. We also offer flexible working options and introduced a Day 1 right to request flexibility in May 2023. This generated a c.400% monthly increase in flexible working applications.

### Equality and equity

The current economic environment remains challenging for our customers and we have brought together information regarding the support we can offer into an online hub, along with money tips and links to specialist organisations. Recognising this is a concerning time for some of our mortgage customers, particularly those approaching the end of their existing deal, we have signed up to the Government's Mortgage Charter to offer additional support including for customers struggling to keep up with mortgage payments.

We are committed to financial inclusion and offer all our customers market-leading service, access and support. We have continued our extensive internal vulnerable customer programme throughout 2023 with a focus on bedding-in skills and capability across all functions so that vulnerability is considered across all relevant processes and practices.

Progress this year has included:

- Further specialist training for customer-facing colleagues;
- Further support for victims of financial abuse, including the roll-out of Safe Spaces across 52 stores and training for our store colleagues. Safe Spaces offer a private area for people to access support safely in partnership with the UK Says No More campaign;
- Launch of direct referral processes with StepChange, PayPlan and GamCare for customers in financial difficulty to get specialist support to manage their debt;
- Launch of a dedicated Vulnerable Customer page on our intermediary website to help brokers understand how to identify a vulnerable customer; and
- A new Mortgage Payment Support page for customers if they are worried about their finances.

## *Supporting our local causes*

*Just a handful of examples of our support for local good causes: our west London and Staines stores celebrated the Sikh New Year festival, Vaisakhi, by donating to local foodbanks; our local colleagues conducted extensive litter clean ups on a nature trail in Croydon and at St Edeyrns Village in Cardiff; our Oxford colleagues helped prepare a new premises for the local Yellow Submarine charity for people with learning difficulties and autism; and our Wolverhampton store donated 180 boxes of banana, apple and blueberry treats to Birmingham Dogs Home.*

## *From grassroots clubs all the way up to the Metro Bank Women's Ashes*

*2023 was a record-breaking season for the England Women's cricket team, making the launch of our partnership even more impactful. And with viewership on the rise too, our message is travelling further than ever. In fact, the highest number of people on record watched the women's games this summer – a total of 7.4 million, which is nearly a quarter of total women's sport viewership in the UK.*

*With our name up in lights for 138 matches – including the Metro Bank Women's Ashes and Metro Bank One Day Series – and two brand campaigns with a dynamic new look and feel, the figures are brilliant from a brand perspective too.*

*With our brand awareness growing +5ppt amongst cricket fans, coupled with a +9ppt increase in brand trust among female fans, we're off to a flying start. As always, our colleagues are also a huge priority for us, and it's been fantastic to see so many attending matches, meeting the players, and even presenting trophies on match days.*

*Our partnership has only just started to scratch the surface, and with the momentum in women's sport growing ever stronger, this is a real opportunity*

*for us to make a difference in our communities both on and off the field.*

In May we launched a free, on-demand British Sign Language (BSL) interpreters service to support deaf customers. The service is available for in-person visits to our stores and for phone calls to our AmazeDirect customer service team. This service enhances the existing range of accessibility options for Metro Bank customers including Relay UK to help customers with hearing and speech difficulties communicate with us over the phone, and the ability to request certain documents in braille, large print, or on audio CD.

In line with our AMAZEING values, if things go wrong we strive to put them right again and deliver a positive customer experience. We publish customer complaints data on our website here: www.metrobankonline.co.uk/helpand-support/forms/give-us-feedback/ complaints-data

As a community bank, Metro Bank gives every colleague a paid day dedicated to volunteering, we call it a 'Day to Amaze': it's a great way to support local good causes practically. In 2023, colleagues dedicated more than 5,000 hours of their time to volunteering, an increase of 60% compared to 2022. Alongside this, our colleagues and local communities raised £72,800 for local, national and international good causes via collections, sponsored activities and events and via the Magic Money Machines in our stores.

This year Metro Bank announced a new partnership with the England and Wales Cricket Board (ECB), recognising our shared commitment to diversity, inclusion, and making a meaningful impact in our communities. We're very proud to be:

- First ever Champion of Women's and Girls' Cricket
- Title Partner of the Ashes
- Title Partner of the International and Domestic One Day Series for Women and Men
- Official Banking Partner of the ECB.

At the heart of the partnership is the Women's and Girls' Fund, co-developed and co-funded by Metro Bank and the ECB to help transform grassroots cricket. Our mission is to triple the number of girls' teams by 2026, by empowering more female coaches and volunteers to inspire girls on and off the pitch.

We're proud of our culture, and colleagues are telling us they like working here too. Our Voice of the Colleague survey saw our best ever colleague engagement scores this year with all scores above or equal to the global benchmark. Our engagement question "How happy are you working at Metro Bank?" (eSAT) increased by 3 points compared with October 2022 (+4 points above benchmark).

We want every colleague to feel included and valued, and therefore diversity and inclusion (D&I) has always been an important part of our AMAZEING culture. Our commitment to being a D&I leader helps us bring out the best in our colleagues, attract new talent, thrive as a business and ultimately create more FANS in our communities.

## Our 5 colleague inclusion networks

**Mbody:** promotes health and wellbeing in both mind and body, including those with both visible and non-visible barriers.

**Mbrace:** embraces our diverse people and fosters an environment where everybody can be themselves.

**Mfamily:** a network for all those in a family environment to share experiences and provide support for those who want or need it.

**Mpride:** helps create an environment of inclusion where everyone can be themselves and at their very best. Open to all colleagues who identify themselves as LGBTQIA+ or consider themselves an ally.

**Women on Work (WoW):** supports all colleagues, regardless of gender, who are interested in engaging, inspiring and collaborating with female colleagues at Metro Bank.

Our colleague networks have had an impactful year: our MPride network had 50 colleagues join Pride marches in Birmingham and London in the summer, demonstrating solidarity with the LGBTQ+ community. In September, colleagues celebrated National Inclusion week with a variety of events, both in-person and virtual events at contact centre sites, team huddles at stores and webinars in head office. Cross-network Mentoring Circles were launched with 82 colleagues taking part promoting intersectional inclusion, and we launched 52 Safe Spaces across our stores in conjunction with a domestic abuse charity by WOW.

Our Mbrace network hosted their annual Black History Month event on 12 October where 86 colleagues attended in person at our Holborn office to hear from guest speakers, learn about mentoring and hear from the Sickle Cell Society. £5,400 was raised as part of a raffle and auction for the Sickle Cell Society. Our Mfamily network championed the achievement of Metro Bank becoming a Fostering Friendly organisation, whilst Mbody have dedicated time to educate our colleagues about disabilities and neurodiversity.

### Gender pay gap

As a community bank, we believe it is important that our team reflects the diverse communities we serve. We continue to make progress in tackling our gender pay gap on both mean and median measures. Our median gender pay gap of 16.7% compares with a national average gender pay gap of 14.3% across all industries, calculated by the Office for National Statistics in November 2023.

Whilst the gender split amongst our colleagues at Metro Bank is broadly balanced, our gender pay gap exists mainly because of an imbalance when we look at diversity by seniority. This means that we have more colleagues in junior roles than at senior levels, and within this balance we have more female colleagues in our junior roles, and more male colleagues in our senior roles

- Female Directors on the Board in 2023 was 36% (2022: 36%).
- Female colleagues as % of the workforce in 2023 was 46% (2022: 46%) compared to an industry average of 47%.
- Females in SLT (Exco-1) in 2023 was 38% (2022: 39%), compared to an industry average of 33%.

# Governance and resilience

Maintaining a strong governance framework allows us to operate effectively.

We have always had zero-tolerance for bribery and corruption. We deliver regular training to all colleagues on our Anti-Bribery and Corruption Policy and they are encouraged to raise any concerns about the conduct of others or the way the business is run, without fear of unfair treatment under our Whistleblowing Policy.

We comply with all applicable sanctions regimes. We also comply with UK anti-money laundering and anti-terrorist financing legislation and have an implementation framework in place. 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 do not tolerate any deliberate breach of financial crime laws and regulations that apply to our business and the transactions we undertake, and we continue to invest in our processes and systems and monitoring.

### Data privacy and security

Keeping our customers safe from fraud and scams is naturally one of our highest priorities. Our 'scam of the month' series informs people how to spot and protect against the latest tricks used by fraudsters. We joined the BBC Be Scam Safe awareness week in October. We are active supporters of the Take Five fraud awareness campaign and last year we joined Stop Scams UK's 159 service, which connects our FANS safely and securely to our contact centre if they receive a suspicious call about a financial matter.

Recognising the ever-evolving nature of cyber risk, we run a continuous improvement programme to ensure that our capability keeps pace. We constantly monitor for emerging threats and new attack methods and regularly conduct simulation exercises to fine tune our capability. We have a rigorous and mature vulnerability management process in place, our comprehensive policies and minimum standards align to ISO 7001 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 and we provide regular briefings to colleagues in addition to annual mandatory cyber security training.

Safe management of personal data is taken seriously and remains a priority for us. We continued to make improvements to our operations and records management team, to ensure effective governance of our data, in particular where records contain special categories of data.

### 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, setting out the expectations we have of our suppliers. The next version of our Code will launch in 2024 and will place more obligations on our suppliers, for example, to inform us of their progress towards lowering carbon emissions.

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. In our quarterly business reviews with our most important suppliers, we gather data on, and discuss, topics such as: ISO14001 certification, use of renewable energy, compliance with Modern Slavery legislation and gender pay gap data.

We regularly 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 expect our suppliers to adhere to the UN Guiding Principles on Business and Human Rights.

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.

### Human rights

As a community bank, we are committed to maintaining positive relationships with our stakeholders including conducting our business in a way that respects human rights. Our policies and practices reflect this, including our Whistleblowing Policy which applies to any information relating to suspected wrongdoing or dangers, and our detailed Modern Slavery Policy.

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 2023 we:

- Published our seventh 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 sixth 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.
- 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 2023, we engaged 1,440 active third parties. Thirty-eight (2.64%) were either based in riskier countries (where the 2023 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 38 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 2023.

### Political neutrality

Metro Bank is and will remain politically neutral and it is not our policy to open or close an account due to the political or personal beliefs of an individual or organisation.

### 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 2023 our total tax contribution was £139.3 million, made up of £72.9 million taxes paid and £66.4 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.

### ESG ratings

In 2023, we commenced engagement with specialist ESG rating agencies to ensure our data and activities are understood and appropriately reflected in our ratings.

**Taxes paid (2023)**

| | £m | % |
|---|---|---|
| 1. Irrecoverable VAT and customs duty | 39.2 | 53.77 |
| 2. Employer NICs | 23.6 | 32.37 |
| 3. Business rates | 8.6 | 11.80 |
| 4. Corporation Tax | 0.8 | 1.10 |
| 5. Other taxes | 0.7 | 0.96 |

**Taxes collected (2023)**

| | £m | % |
|---|---|---|
| 1. PAYE | 43.0 | 64.76 |
| 2. Employee NICs | 13.0 | 19.58 |
| 3. Net VAT | 10.4 | 15.66 |

# Our planet

Being good to our planet goes hand in hand with our ambition to be the number one community bank.

We are working to reduce the impact of our operations on the environment. Climate change is also a risk to us and the communities we serve – managing this risk, and helping our colleagues, suppliers, customers and communities to do so too is a key part of being a responsible community bank. As we grow and expand into new communities, we are building environmental considerations into the plans for our new stores.

In recognition of this, we have committed to two headline pledges to reduce our carbon footprint:

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

In summer 2023, we submitted a full disclosure to the Carbon Disclosure Project – a widely-recognised reviewer of corporate environmental data. The outcome is expected in early 2024.

In autumn 2022, we completed the transition to purchasing 100% electricity from renewable sources across all our stores and offices, certified by the Renewable Energy Guarantee of Origin (REGO) scheme. This important milestone has driven a significant reduction in our operational emissions and has taken our market-based Scope 2 emissions to zero. We do not have any operations based in high biodiversity habitats.

To continue the progress towards our operational net zero pledge, our next steps are to identify and measure our residual operational emissions and eliminate them where possible. The remainder will be offset by purchasing high quality carbon removals.

Since 2020, we have sent zero waste to landfill. We source supplies from renewable sources and recycle where possible. We donate surplus office furniture to local charities, saving tonnes of material from landfill in addition to the carbon emissions that would arise from purchasing equivalent new equipment.

This year we rolled out a new sustainable pen made from recycled plastic and designed to be accessible for everyone, including people with arthritis, carpal tunnel syndrome, or a prosthetic limb. Our pen caddies are made from recycled plastic and can be repurposed as a plant pot – we even provide strawberry seeds as a symbol of supporting our communities grow!

As an ethical community bank, we do not lend directly to businesses that undertake:

- metal ore mining, coal mining; peat, oil or gas extraction
- fossil fuel power generation
- activities that cause deforestation
- arms manufacture or military activities.

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.

The table below sets out our GHG emissions.

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|---|---|---|---|---|---|
| Scope 1 emissions | 469 | 179 | 336 | 67 | 319 |
| Scope 2 emissions (location based) | 2,705 | 2,855 | 3,327 | 3,799 | 4,247 |
| Scope 2 emissions (market based) | – | – | 1,194 | 729 | 3,256 |
| Scope 3 emissions (core)[1] | 1,335 | 1,397 | n/a | n/a | n/a |
| Scope 3 emissions (all) | 111,205 | 129,363 | 155,182 | 190,333 | 248,979 |
| Total GHG emissions (location based) | 114,379 | 132,397 | 158,845 | 194,199 | 253,545 |
| Total GHG emissions (market based) | 111,674 | 129,542 | 156,712 | n/a | n/a |
| Full-time equivalent colleagues (FTE) | 4,281 | 4,040 | 4,184 | 3,850 | 3,555 |
| Total emissions per FTE | 26.1 | 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).

### Non-financial information and sustainability information statement

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 7 to 9.

| 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 21 to 22 for a description of each policy) |
|---|---|---|
| **Environmental matters** | Page 19 – Our planet. | • Climate pledges.<br>• Supplier management.<br>• Business and commercial lending. |
| **Colleagues** | Page 15 – Our colleagues.<br>Page 17 – Gender pay gap. | • Diversity and inclusion.<br>• Recruitment and selection.<br>• Health and safety.<br>• Whistleblowing.<br>• Conflicts of interest. |
| **Social matters** | Page 15 – Our customers and communities.<br>Page 18 – Data privacy and security.<br>Page 18 – Governance and resilience.<br>Page 19 – Our planet. | • Climate pledges.<br>• Supplier management.<br>• Business and commercial lending.<br>• Vulnerable customers.<br>• Data protection.<br>• Anti-tax evasion.<br>• Anti-money laundering/counter terrorist financing.<br>• Business continuity.<br>• Complaints. |
| **Human rights** | Page 18 – Our suppliers. | • Modern slavery.<br>• Outsourcing.<br>• Diversity and inclusion. |
| **Anti-bribery and corruption** | Page 18 – Governance and resilience.<br>Page 80 – Financial crime risk. | • Anti-bribery and corruption. |

| Key | | | |
|---|---|---|---|
| | 1 Our customers and communities | 3 Data privacy and security | 5 Governance and resilience |
| | 2 Our colleagues | 4 Our suppliers | 6 Our planet |

### Policy list

| Policy | Description | ESG priorities |
|---|---|---|
| **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 |
| **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 |
| **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 |
| **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 |
| **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 4 5 |
| **Data Management** | 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 we comply with our data protection obligations and have the adequate level of data protection as prescribed by the General Data Protection Regulation. | 1 2 3 5 |
| **Diversity, Equity 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 |
| **Fraud** | The policy sets a consistent approach to the deterrence, detection and prevention of internal and external fraud. | 1 2 5 |
| **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 |
| **Information Security** | The policy sets objectives, expectations, roles and responsibilities and requirements for protecting both our and customer information. | 3 5 |
| **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 ourselves and our customers in pursuit of our goals and how we support our customers during periods of financial difficulty. | 1 |
| **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 |
| **Physical Security** | The policy protects our customers and colleagues. It defines the measures to protect our premises from security threats and to ensure the personal safety and security of all customers, colleagues and visitors. | 1 2 |
| **Procurement and 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 |
| **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 |
| **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 |

| Policy | Description | ESG priorities |
|---|---|---|
| **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 |
| **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 |
| **Technology** | The policy sets our approach to the management of technology and associated risks across each of the delivery channels, to support our strategic objectives and deliver good customer outcomes. | 1 2 3 5 |
| **Vulnerable Customer** | The Vulnerable Customer Policy sets out our approach to identifying and interacting with vulnerable customers to ensure we deliver good customer outcomes. | 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 us. | 2 5 |

# 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 customers**

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 customers 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 success for the benefit of our members, and in doing so have regard to the 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.<br>• Business model.<br>• Strategic priorities.<br>• Risk report. | 3<br>7 to 9<br>3<br>56 to 85 |
| **(b) the interests of the Company's employees** | • Non-financial information statement.<br>• Our colleagues.<br>• Board activity and stakeholder engagement. | 20<br>37<br>35 |
| **(c) the need to foster the Company's business relationships with suppliers, customers, and others** | • Board activity and stakeholder engagement.<br>• Environmental, social and governance review.<br>• Our suppliers. | 35<br>13 to 22<br>38 |
| **(d) the impact of the Company's operations on the community and the environment** | • Board activity and stakeholder engagement.<br>• Environmental, social and governance review. | 35<br>13 to 22 |
| **(e) the desirability of the Company maintaining a reputation for high standards of business conduct** | • Whistleblowing.<br>• Anti-bribery and corruption.<br>• Audit Committee report.<br>• Modern slavery. | 49<br>80<br>46 to 49<br>18 |
| **(f) the need to act fairly between members of the Company** | • Board activity and stakeholder engagement.<br>• Share capital. | 35<br>53 |

# Task Force on Climate-related Financial Disclosures

TCFD-aligned disclosures relating to our management of climate-related risks and opportunities, as well as details of our greenhouse gas emissions are included in the Metro Bank Holdings PLC Annual Report and Accounts.

# Risk overview summary

## We operate a straightforward community banking strategy and business model, carefully managing risk as we serve our customers through both physical and digital channels.

### Approach to risk management

Our risk management framework underpins our ability to deliver, ensuring risks are carefully considered when making decisions and are managed within acceptable limits on an ongoing basis. The framework establishes the risk management responsibilities of all colleagues, which are embedded within our AMAZEING values, formalises our risk appetite and sets out the tools and techniques used to operate safely within it.

### Risk environment in 2023

During 2023, there has been particular focus on overseeing the management of our capital risk, culminating with the successful completion of the refinancing activity in November, which restored capital ratios to above regulatory minima, including buffers (excluding any confidential buffers, where applicable). Management of liquidity risk was also heightened following increased customer deposit outflows in October as a result of speculative media reports on the strength of our capital position and negotiations.

Our strong levels of liquidity and prudent approach meant these outflows were manageable and by year end we had returned to broadly the same deposit levels as we reported for the third quarter. Whilst some deposits came at an increased cost, we continue to demonstrate strong liquidity and funding regulatory ratios. Focus has also remained on assessing and manging the impact of the changing macroeconomic environment and the effect of this on credit risk, including supporting our customers and ensuring appropriate levels of credit provisions.

Key areas of focus across non-financial risk have been the implementation of the new Consumer Duty requirements, ongoing assessment and improvements in operational resilience and continued strengthening of financial crime controls. Through the year, we have continued to enhance our risk data and systems, introduced new and updated tooling and focused on their application to further mature and streamline risk management activities. Our Policy Governance Framework has been refined with a focus on usability and we have enhanced reporting to governance committees and the Board.

### Principal risk exposures

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

We identify, define and assess a range of principal risks to which we are exposed. These are the high-level risks we face, for which risk appetite is set and monitored via key risk indicators. They are consistent with those set out in last year's annual report and comprise:

- Credit risk.
- Capital risk.
- Liquidity and Funding risk.
- Market risk.
- Financial Crime risk.
- Operational risk.
- Conduct risk.
- Regulatory risk.
- Legal risk.
- Model risk.
- Strategic risk.

Amongst these, certain risks have been considered most material over the course of the year. Our capital risk position has improved following the successful refinancing in late 2023, but oversight remains heightened as we continue to closely monitor the implementation of our strategy and our financial performance. Credit risk has been subject to continued close scrutiny in light of the challenging macroeconomic environment and management of financial crime risk remains a priority, aligned to regulatory focus. Strategic risk including reputational risk has also been subject to more active management in light of the risks prior to, and following, the capital restructuring and associated media speculation. This risk is anticipated to stabilise and improve in line with our planned return to sustained profitability. Further details on these four risks are set out on the following pages.

## Principal risks

| Principal risk | Exposure | Response | Outlook |
|---|---|---|---|
| **Strategic risk** | Strategic risk could arise as the result of an insufficiently defined, flawed, or poorly implemented strategy. Successful management of strategic risk requires a plan that is responsive to the rapidly evolving external environment in which we operate. Furthermore, our strategy needs to meet the expectations of our stakeholders, including our customers, regulators and investors.<br><br>During 2023, we remained focused on the execution of our strategy, with the return to profitability in the first half of the year demonstrating the strengths of our community banking strategy. The second half of the year saw a combination of increased capital requirements together with a setback in our ambition to achieve AIRB for residential mortgages. These factors put pressure on our capital position and restrained the levels to which we were able to grow capital organically.<br><br>In challenging market conditions, we were successful in delivering a £925 million capital package which included the raising of new capital as well as the refinancing of our existing regulatory debt. Externally, some negative sentiment was generated prior to and following this activity with short-term impacts on deposits. | We continue to oversee the development and execution of our strategy on an ongoing basis through regular in-depth management reviews of business performance and change delivery, oversight of strategic risks through risk governance and regular updates presented to the Board. We actively manage any potential reputational risks to the bank, including monitoring media coverage to understand stakeholder perceptions and potential impacts and ensure our corporate announcements are clear, informative and a fair reflection of who we are and what we do. The Board undertakes an annual review of the strategy and Long-Term Plan, which is supported by a risk assessment reviewed at the Risk Oversight Committee. During 2023, we have continued to strengthen our cost management discipline, including prioritisation and delivery of technology change. | We continue to see a high level of volatility in the external environment. The risk of further negative sentiment is expected to remain for the near term, but we are confident that we have developed a strategy for 2024 that serves our customers, sets us on a path to sustained profitability and supports our ambition to be the number one community bank. As we begin to see the success of our revised strategy, we expect this risk to recede.<br><br>Monitoring of performance will remain heightened with close Board oversight of the efficacy of the strategy and its implementation. This will be supported by ongoing risk assessment to support active management of the evolving risk profile, with oversight from the Risk Oversight Committee. |
| **Capital risk** | Capital risk exposures arise from the depletion of our capital resources which may result from:<br>• Increased RWAs.<br>• Losses.<br>• Changes to regulatory minima or other regulatory rules.<br><br>Our capital risk management approach is therefore focused on ensuring we can maintain appropriate levels of capital to both meet regulatory minima and support our objectives, both under normal and stressed conditions. | Our capital risk mitigation is focused on three key components:<br>• A return to sustainable profitability that will allow us to generate organic capital growth.<br>• The continued optimisation of our balance sheet to ensure we are utilising our capital stack efficiently.<br>• Continuing to assess the raising of capital, as and when market conditions and opportunities allow. | Following the capital raise we enter 2024 with a stronger and longer-dated capital base, putting us in a good position to deliver on strategy and achieve sustainable profitability in the years ahead. Our active P&L management, including disciplined cost reduction, will help to mitigate the near-term headwinds from the increased cost of deposits and funding for the Bank. Capital risk will continue to be subject to heightened monitoring and active management. |

| Principal risk | Exposure | Response | Outlook |
|---|---|---|---|
| **Credit risk** | During 2023, the macroeconomic environment in the UK has been impacted by high inflation, increased interest rates and subdued economic growth. This has impacted upon the cost of living for our customers and in turn, affordability and property valuations. There have been decreases observed in the residential property price indices, although the overall reduction has been relatively muted to date.<br><br>The rate of inflation has reduced significantly over the year, but remained above the central bank target rate at year end. As a result, whilst the Bank of England base rate has remained higher than prior years, mortgage rates have started to decrease and there is an expectation that this will continue in 2024.<br><br>We have observed some crystallisation of the economic deterioration on customer positions and through this, onto ECL. As affordability for customers has come under pressure from higher interest rates, we have observed an increase in arrears rates for the mortgage portfolio from a low base. Against this, whilst the economic outlook remains on the downside, forecasts have improved over the course of 2023, and this has resulted in a positive impact on the ECL position. | We have an appetite and credit criteria appropriate for managing lending through an economic cycle. We have made limited updates to our credit criteria and risk exposure where appropriate during 2023. We have continued to enhance our credit risk framework and associated policies in the current macroeconomic environment: reporting, analysis, and forecasting have been enhanced, particularly around arrears and impairments, to inform strategic decision-making and operational management.<br><br>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 the Bank 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. | The macroeconomic outlook has improved during the course of 2023, although risks remain as central banks manage the course of interest rates, and geopolitical instability continues from conflicts in both Ukraine and the Middle East.<br><br>We remain alert to the ongoing impact of the resetting of interest rates after a prior period of historically lower rates. We anticipate that the impact of this will continue throughout 2024 as customers transfer from older fixed rate mortgage products, and we have appropriate mechanisms in place to support customers and manage the associated risks.<br><br>We utilise macroeconomic scenarios provided by Moody's Analytics in the assessment of provisions. The use of an independent supplier for the provision of scenarios helps to ensure that the estimates are unbiased. The macroeconomic scenarios are assessed and reviewed monthly to ensure appropriateness and relevance to the ECL calculation. |
| **Financial crime risk** | We may be exposed to financial crime risk if we do not effectively identify and appropriately mitigate the risks of criminals using our products and services for financial crime. Financial crime risks include money laundering, sanctions violations, bribery and corruption, facilitation of tax evasion and terrorist financing.<br><br>Failure to prevent financial crime may result in harm to our customers, ourselves and third parties. In addition, non-compliance with regulatory and legal requirements may result in enforcement action such as regulatory fines, restrictions, or suspension of business or cost of mandatory corrective action, which will have an adverse effect on us from a financial and reputational perspective. | We are committed to safeguarding both ourselves and our customers from financial crime. We continue to invest in our financial crime control framework to ensure compliance with current as well as newly-issued legal and regulatory requirements. We have invested in an ongoing financial crime change capability to deliver these improvements as well as support with the embedding of previously implemented controls. In 2023, this saw us deliver an ongoing due diligence capability.<br><br>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. | Recognising the evolving landscape of financial crime risk against the backdrop of increasing regulatory focus, we continue to invest in our financial crime control environment to prevent financial crime and remain aligned to our legal and regulatory requirements. 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, and the FCA's enquiries remain ongoing. |

## Emerging risks

We proactively identify a range of evolving threats, which cannot yet be reliably quantified, but which have the potential to cause significant loss or harm to the Bank. These are actively monitored and regularly reported through the Bank's governance structures with preparatory actions taken in response where necessary.

Emerging risks are grouped by risk themes, which equate to the Bank's principal risks. Time horizons for their potential emergence as crystallised risks are considered alongside an estimate of the potential impact should they crystallise.

A range of methods are used to identify emerging risks including internal working groups, scenario analysis and consulting with external experts, to ensure an external perspective is incorporated. There continues to be increased focus on assessing and understanding how different individual risks and threats are correlated with each other, including via scenario analysis.

### Emerging risks and time horizon

| Emerging risk | Response | Principal risks | Crystallising time horizon |
|---|---|---|---|
| **Maintenance of strong culture and brand advantage** | • Clearly defined organisational strategy and reinforcement of AMAZEING values.<br>• Continued focus on exceptional customer service.<br>• Ongoing commitment to the physical store model, serving customers in their communities. | • Strategic | <12 months |
| **Geo-economic conflict** | • Ongoing investment in sanctions capability and active monitoring.<br>• Resilience planning, including for supply chain disruption.<br>• Business continuity planning and exercising. | • Operational<br>• Financial crime | <12 months |
| **Talent retention** | • Active management and targeted interventions in volume and high-competition roles.<br>• Differentiated offering with emphasis on growth plans and unique culture. | • Operational<br>• Conduct<br>• Strategic | <12 months |
| **Prolonged macroeconomic deterioration and impact of high interest rate environment** | • Close and active monitoring of customers in arrears/distress.<br>• Application of Consumer Duty principals to deliver good customer outcomes.<br>• Elevated fraud and financial crime monitoring. | • Credit<br>• Conduct<br>• Operational | 1 to 3 years |
| **Impact of Artificial Intelligence (AI)** | • Continued investment in technology and data capability.<br>• Safe and staged introduction of AI/machine learning use cases (internal efficiencies, customer opportunities).<br>• Close monitoring and response to evolving regulatory expectations with a focus on delivering good customer outcomes. | • Operational<br>• Strategic<br>• Regulatory | 1 to 3 years |
| **Evolving customer expectations and needs** | • Rebalancing of capability across channel offerings, with investment in digital capabilities.<br>• Evolved product and service offerings within target growth sectors. | • Operational<br>• Conduct<br>• Strategic | 1 to 3 years |
| **ESG agenda** | • Definition of authentic ESG strategy and integration into business metrics.<br>• Satisfying regulatory requirements and reporting transparency. | • Credit<br>• Operational<br>• Strategic | 1 to 3 years |
| **New entrants and increased competition** | • Investment in digital capabilities alongside physical presence.<br>• Clear definition and communication of purpose amongst sectors we serve. | • Strategic | 3+ years |

# Viability statement

### Assessment of principal and emerging risks

The Directors undertook a robust assessment of all the principal and emerging risks we face, to understand those that presented the greatest risks to going concern and viability.

See pages 25 to 26 for our principal risks

### Risks to going concern and viability

The principal risks that were felt posed the greatest risk to going concern and viability were:

- Operational failure (Operational risk).
- A lack of liquidity (Liquidity and Funding risk).
- Insufficient capital (Capital risk).

### Risk management and internal controls

The Directors undertook an assessment of our approach to risk management and the effectiveness of our internal control systems to ensure these remained appropriate and didn't require any additional consideration in respect of assessing going concern and viability.

## Assessment of prospects

### Strategic planning process

Our strategic planning process consists of our Long Term Plan which covers a five-year period from the year end and is central to the assessment of prospects. It is reviewed annually by the Board with the first four years forming the viability assessment period.

### Board review of the Long Term Plan

- Determination of whether the assumptions underpinning the Long Term Plan remain appropriate.
- Consideration of whether the plan continues to take appropriate account of the external environment.

### 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.

### Severe but plausible stress

Directors considered a scenario that led to increased ECL, deposit outflows, reduced fee income, increased costs and the removal of our ability to raise incremental regulatory capital. Under this scenario we retained sufficient liquidity. With respect to capital we fell below regulatory minima at a total capital plus MREL level.

### Scenario outcome and mitigating actions

The Directors considered the actions that could reasonably be deployed to mitigate the capital risk and concluded that these were both plausible and did not in and of themselves constitute any additional risk. Mitigating actions could include balance sheet optimisation through slowing growth or exiting portfolios, or through cost reduction, or through raising additional long term debt dependent on market conditions" Accounting for these actions we would remain above minima although we would need to operate in our capital buffers for a period of time.

### Routine stress testing

In addition to the specific scenario, we perform routine stress testing (including reverse stress tests) for both management and regulatory purposes including as part of the ICAAP and ILAAP. Directors review these assessments to understand the likelihood of such events occurring and what mitigating actions could be taken.

### Viability Statement

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 2027.

### Going concern

The Directors consider it appropriate to prepare the financial statements on the going concern basis.

### Approach and horizon period

Our approach starts with the consideration of the principal risks we face. Of our principal risks it was felt that only operational failure (Operational risk), a lack of liquidity (Liquidity and Funding risk), or insufficient capital (Capital risk) 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).

Alongside this the Directors considered our approach to risk management and the effectiveness of our internal control systems to understand if there were any other considerations that should form part of the assessment. This included consideration of all material controls, including financial, operational and compliance controls. As described in the corporate governance and risk reports, our risk management and internal control systems are monitored and evaluated on an ongoing basis at the Risk Oversight Committee, Audit Committee and Board.

Although underpinned by a wide variety of support, central to the assessment was our Long Term Plan. The Long Term Plan represents our best forecast estimate covering the period from 1 January 2024 to 31 December 2028, the first year of which reflects our 2024 budget. Although the plan covers five years the Directors have assessed prospects and viability for the four years through to 31 December 2027. This is felt appropriate as it 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 then focused on reviewing the plan against the principal risks identified above that could impede our ability to remain viable over the four-year horizon period.

### 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 our liabilities as they fall due. Our prospects are assessed primarily through our strategic planning process (our Long Term Plan) as set out above. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so considers whether the plan continues to take appropriate account of the external environment. The latest updates to the Long Term Plan (covering the period 2024 to 2028) were formally approved by the Board in February 2024.

Our purpose and strategy framework which incorporates our business model and strategic priorities are central to an understanding of our prospects. The nature of our activities is long-term and our business model has remained unchanged since we were founded.

Delivering on our strategic priorities is key to achieving our forecasts in the Long Term Plan. The Directors have reviewed the assumptions underpinning our plan and have determined they are appropriate.

### 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.

### 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. Given this assessment, combined with the fact that 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 2027.

### Going concern statement
The Directors also consider 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. The Strategic Report, including pages 3 to 29, was approved by the Board and signed on its behalf by:

Daniel Frumkin
Chief Executive Officer
23 April 2024

# Governance

**In this section**

31 Board of Directors
32 2023 governance at a glance
35 Board activities and stakeholder engagement
36 Stakeholder engagement
40 Board leadership and company purpose
43 Board roles and responsibilities
44 Board effectiveness
46 Audit Committee report
50 Group Risk Oversight Committee report
53 Directors report

# Board of Directors

As at the date of publication

### Robert Sharpe

Chair

Robert has over 45 years' experience in retail banking and is currently Chair at Pollen Street Limited and Hampshire Trust Bank plc. He has had an extensive number of board appointments both in the UK and the Middle East including Chairman of Bank of Ireland UK plc, Non-Executive Director at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc, RIAS plc and several independent Non-Executive Director roles at banks in Qatar, UAE, Oman and Turkey. Robert was previously Chief Executive Officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was Chief Executive Officer at Portman Building Society and Bank of Ireland consumer business in the UK.

Appointed to the Board:
1 November 2020

### Catherine Brown

Senior Independent Non-Executive Director

Catherine's Non-Executive Director and Remuneration Committee Chair roles include QBE Underwriting Limited and QBE UK Limited, one of the world's leading international insurers, FNZ (UK) Limited. Catherine has previously held a Non-Executive Director role at the Cabinet Office and was Chair of Additive Flow Limited. She has been a Trustee of Cancer Research UK and Chatham House. Catherine has extensive experience in organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous executive appointments include Group Strategy Director at Lloyds Banking Group, Executive Director of Human Resources at the Bank of England and Chief Operating Officer at Apax Partners.

Appointed to the Board:
1 October 2018

### Paul Thandi CBE

Independent Non-Executive Director

Paul is an experienced Chief Executive Officer, Chair and Non-Executive Director with diverse international media and service-led experience with an emphasis on people, innovation, data and culture. Paul is the former Chief Executive Officer and Chair of the NEC Group in Birmingham and successfully steered the NEC on a journey from public sector ownership to a £307 million management buyout in 2015, and then an £800m acquisition of the NEC Group by Blackstone in 2018. In addition, Paul is the Chair of BOXPARK, Chair of Student Energy Group, sits on the Board of the West Midlands Growth Company Limited and the British Allied Trades Federation, is a patron of Marie Curie and sits on the Advisory Board of Bowel Cancer UK Heads Together. Paul is Deputy Lieutenant of West Midlands Lieutenancy, representing the King in the region, and was awarded a CBE for services to the economy in the New Year's Honours List 2020.

Appointed to the Board:
1 January 2019

### Daniel Frumkin

Chief Executive Officer

Daniel is responsible for leading the Bank — with a focus on driving long-term sustainable 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.

Appointed to the Board:
1 January 2020

### Nicholas Winsor MBE

Independent Non-Executive Director, Designated Non-Executive Director for Colleague Engagement, and Consumer Duty Champion

Nick is Non-Executive Director of Schroder Oriental Income Limited, Chair of its Nomination and Remuneration Committee and a member of its Audit and Risk, and Management Engagement committees. He is also Senior Independent Director of the States of Jersey Development Company, Chair of its Remuneration and Nomination Committee and a member of the Audit and Risk Committee; and a non-executive director for Bankers Without Boundaries Connect Singapore PTE Ltd. Nick has more than 36 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 UK. 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.

Appointed to the Board:
20 April 2020

### Michael Torpey

Independent Non-Executive Director

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 is currently a Non-Executive Director of FICS Group Holdings Limited, Frasers Group Financial Services Limited, Remitly Europe Limited and Studio Retail Group plc. 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.

Appointed to the Board:
1 September 2019

### Dorita Gilinski

Shareholder-Nominated Non-Executive Director

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

Appointed to the Board:
26 September 2022

### Clare Gilligan

Company Secretary

Clare joined Metro Bank as Company Secretary in July 2023 and leads the Bank's company secretarial function and ensures it continues to meet its statutory and regulatory obligations. Clare joined Metro Bank after more than 15 years at the Bank of Ireland where she held a number of senior risk governance roles, latterly UK Company Secretary. Clare holds a BA Hons in Russian & Soviet Studies from the University of Manchester.

Appointed:
31 July 2023

# 2023 governance at a glance

**Board gender diversity**
As at 31 December 2023

| | |
|---|---|
| Female | 36% |
| Male | 64% |

**Board independence***
As at 31 December 2023

| | |
|---|---|
| Non-Independent Directors | 30% |
| Independent Directors | 70% |

*Excluding the Chair.

## Highlights

**New company structure**
In May, we completed the implementation of our holding company, marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework.

**Capital package**
In November 2023, we announced the successful completion of a £925 million capital package.

**2023 Board changes**
On 31 December 2023, Anne Grim, Ian Henderson and Monique Melis stepped down from the Board. In January 2024, James Hopkinson stepped down as CFO and Executive Director. Cristina Alba Ochoa has been appointed as Interim CFO until Marc Page joins the Bank later in the year as CFO and Executive Director.

**2023 Board and Committee attendance**

| | Standard Board 8 meetings | Additional Board[5] 18 meetings | Audit 7 meetings | ROC 8 meetings |
|---|---|---|---|---|
| Robert Sharpe | 8 | 18 | | |
| Daniel Frumkin[1] | 7 | 18 | | |
| James Hopkinson | 8 | 18 | | |
| Catherine Brown | 8 | 14 | | 8 |
| Monique Melis[2] | 7 | 12 | 7 | |
| Paul Thandi[3] | 7 | 16 | | |
| Michael Torpey | 8 | 17 | 7 | 8 |
| Nick Winsor | 8 | 17 | | 8 |
| Ian Henderson[4] | 8 | 15 | 6 | 8 |
| Anne Grim | 8 | 18 | | |
| Dorita Gilinski | 8 | 15 | | |

1. Daniel Frumkin was unable to attend one Board meeting for personal reasons.
2. Monique Melis was unable to attend one Board meeting for personal reasons.
3. Paul Thandi was unable to attend one Board meeting for personal reasons.
4. Ian Henderson was unable to attend one Audit Committee meeting for personal reasons.

## Compliance with the UK Corporate Governance Code

The Bank was fully compliant with the requirements of the UK Corporate Governance Code (the 'Code') up to May 2023, where, following incorporation, Metro Bank Holdings PLC (the 'Parent Company') took over as the listed entity for the Group. The Bank continues to comply with the Code except for provisions 17 and 23 as the Bank does not have a nomination committee, and principles P, Q and R and provisions 32-41 as the Bank does not have a remuneration committee. The Parent Company Nomination Committee and People and Remuneration Committee undertake these activities on behalf of the Group and are required to take into account the requirements of the Bank in these areas as part of their duties and responsibilities. Details of the activities of these committees can be found within the 2023 Annual Report and Accounts of Metro Bank Holdings PLC.

The UK Corporate Governance Code can be accessed through the Financial Reporting Council website at www.frc.org.uk.

The details where key content on compliance with the Code can be found in this report is below.


| Board leadership and company purpose | |
|---|---|
| Section 172 statement | 23 |
| Board of Directors | 31 |
| 2023 governance at a glance | 32 |
| Strategic priorities | 3 |
| Business model | 7 |
| **Division of responsibilities** | |
| Board roles and responsibilities | 43 |
| Committee attendance | 32 |
| Board independence | 32 |
| **Composition, succession and evaluation** | |
| Board of Directors | 31 |
| Board effectiveness | 44 |
| **Audit, risk and internal controls** | |
| Audit Committee Report | 46 |
| Risk Report | 60 |

| Key Board activity | | Stakeholders considered | Strategic priorities |
|---|---|---|---|
| **New holding company** | In May, we completed the implementation of our holding company, marking an important milestone in meeting the requirements of the Bank of England's resolution framework. This was a complicated process which the Board kept under careful review. It was pleasing to receive a high level of support from our shareholders at the Court and General Meetings in April. Following a robust implementation process, the new structure is fully embedded and working well. | Our customers,<br>Our investors,<br>Our regulators | Infrastructure |
| **Capital package** | The Holding Company announced our £925 million capital package in October 2023, which included the transfer of regulatory debt from the Bank to the Holding Company. We carefully considered all stakeholders when making the decision to recommend the capital package and, although some investors were unable to participate, the Board felt that the package demonstrated the best possible outcome for all stakeholders. | Our customers,<br>Our investors,<br>Our colleagues,<br>Our regulators | Balance Sheet |
| **Cost reduction** | In November, we announced that potential cost savings of £50 million per year had been identified. In making decisions to implement these cost savings the Board considered very carefully the impacts on all of its stakeholders.<br>Whilst we remain committed to providing services to our communities through our stores, we made the decision to reduce store opening hours from early 2024 onwards. Increasingly, our customers are choosing to bank with us in other ways, and Online Banking and the Metro Bank App are available 24 hours a day.<br>We also made changes to our organisational structure, resulting in a reduction of roles in the Bank. Whilst we remain focused on colleague engagement and wellbeing, the Board agreed this was a necessary step to support the long-term sustainability of the Bank and was the best decision for all stakeholders. | Our customers,<br>Our investors,<br>The communities we serve,<br>Our regulators | Costs |
| **ESG** | The Board continued to keep the Bank's ESG strategy and priorities under review and was heartened to see all the initiatives successfully launched during the year. The Board will keep the Bank's ESG strategy under close review as it is a key enabler of the Bank's objective to become the best community bank. | Our customers,<br>Our colleagues,<br>Our suppliers,<br>Our regulators,<br>Our investors | Costs |
| **ECB partnership** | During the year, the Board approved a new partnership with the England Cricket Board (ECB). The Board believes this is an important step in our community banking offering and is pleased that the Bank will be able to support a number of initiatives including the Women's and Girls' Fund. | The communities we serve | Communication<br>Revenue |

## 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 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 Board agenda items. 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. Approved Board Committee minutes 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 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.

The Board meets periodically without the Executive Directors present to ensure any concerns can be discussed.

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 and her team compile the Board and Board Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary and her team ensure 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.

## Key announcements, decisions and Board activity

| **January 2023** |
|---|
| Annual review of the Bank's Resolution Readiness. |
| Overview of the 2022 internal evaluation outcomes and review of the actions. |
| **February 2023** |
| Reviewed and approved the Bank's Long Term Plan. |
| Approved the risk appetite for the Bank ensuring that we can maximise returns in a safe and sustainable way. |
| Directors' duties refresher. |
| **March 2023** |
| **2022 year-end results** |
| Approval of the Prospectus and Scheme Document published in relation to the new holding company. |
| **April 2023** |
| Approval of the partnership with the England and Wales Cricket Board (ECB). |
| Welcomed shareholders to our AGM and held a General Meeting and Court Meeting to give shareholders the opportunity to vote on the insertion of a new holding company into the Group. |
| **May 2023** |
| **Q1 2023 results** |
| Consumer Duty training. |
| **June 2023** |
| Following support from our shareholders, insertion of the holding company into the Group. |
| **July 2023** |
| Following recommendation from the Parent Company Nomination Committee, reviewed and approved the appointment of Clare Gilligan as Company Secretary. |
| **August 2023** |
| **H1 2023 results** |
| **September 2023** |
| Held our annual away days to agree our vision of the Bank’s strategic objectives for 2024. |
| **November 2023** |
| **Q3 2023 results** |
| **December 2023** |
| Announced the resignation of Anne Grim, Ian Henderson and Monique Melis from the Board. |

# Stakeholder engagement

# Our customers

Our diverse range of customers all have their own individual needs, but what binds them together is the desire for AMAZEING service and a range of banking services. We remain one of the highest rated high street banks for overall service quality for personal customers, the best bank for service in-store for business customers and joint top for service in-store for personal customers in the CMA's Service Quality Survey in February 2024.

**What matters most to them**

- 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.

The Board recognises the importance of continuing to invest in our digital channels. During the year, we enhanced self-serve options online and via our App. We launched Confirmation of Payee to our customers to give them confidence that they have the correct payment details before making a payment. Customers using our App can now receive push notifications when they near their credit limit, supporting customers in managing their money. We have also introduced Aida, our chatbot, to support our customers with general enquiries, like how to make a payment via the App.

We have also delivered virtual queueing for customers visiting our stores, enhancing the customer experience with an SMS service, so customers can continue with their day before sitting down with a colleague.

We have continued our programme of launching new products and services for our SME community. As part of this we launched a new business credit card journey to improve the accessibility of this product to our customers.

**2023 outcomes and highlights**

- Investment into our digital infrastructure — all to heighten the consumer experience.
- Launched Confirmation of Payee to our customers.
- Introduced Aida, our chatbot, to support our customers with general enquiries.
- Delivered virtual queueing for customers visiting our stores.

# Our colleagues

We understand that our colleagues are what makes the Bank different. We want every colleague to be a fan of Metro Bank, feel supported and invested in, so that they can make FANS of our customers.

**What matters most to them**

- Flexible and hybrid working practices.
- Engaged and motivated colleagues.
- Development and career opportunities.
- Fair pay, reward and opportunity to make a difference.
- Culture of inclusion and wellbeing.

**How we engage**

- Engagement representatives across the business.
- Have your say cafés and colleague meetings with leaders.
- Revolution Update hosted by the ExCo team.
- Voice of the Colleague surveys.
- Remuneration working groups.
- Opportunities to engage with ExCo and Board members.
- A programme was piloted for our senior leaders to build greater customer awareness, including direct involvement with stores and contact centres to develop a deeper understanding of what our customers want and need from their Bank.
- Face-to-face and virtual opportunities to meet and provide feedback to our DNED, Nicholas Winsor.

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 go through to Zest Den — a panel of senior leaders and ExCo. The winning ideas at this stage are then taken forward by colleagues for implementation.

We engage with colleagues through our colleague inclusion network groups, our Voice of the Colleague engagement representatives and our Senior Leadership Team forum.

The Board reviews Voice of the Colleague survey results and receives updates on people and culture through the year to ensure it continues to be strong, healthy and reflects our purpose and values.

**2023 outcomes and highlights**

- Engagement score of 78, four points above global benchmark.
- New panel format Revolution Update with the opportunity to join in person or virtually.
- 'Thank You' week to recognise the work that our colleagues have done throughout the year.
- Online 'Yam Jams' Q&As with senior leadership.

# Our investors

It is important to us that we engage with our investors to keep them up to date on our performance, strategy updates, share our vision for the future and understand their views and focus areas. We engaged 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.
- Capital management and ability to lend more to our customers.

**How we engage**

2023 AGM, General meetings and Annual Report and Accounts.
Quarterly trading updates and investor presentation at half/full year.
Investor roadshows and conferences.
Proxy adviser 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.

**2023 outcomes and highlights**

- Approval from shareholders for the insertion of the Parent Company as the listed entity for the Group.
- All resolutions at the 2023 AGM passed with 91% or more votes in favour.
- Following insertion of the Parent Company as the listed entity, the Bank assists the Parent Company with its engagement with investors.

# 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, 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 engagement and communication.

**How we engage**

- Annual PRA presentation to the Board.
- Regular meetings between our regulators and certain members of the Board and ExCo.

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 2023 with respect to key initiatives and will continue this engagement across upcoming changes to the regulatory landscape in 2024 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.

# 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.
- Regular senior level engagement with key suppliers.
- Dedicated relationship manager with the Bank.

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 2023 and 31 December 2023 our average invoice payment turnaround was 29 days. We continue to review and improve our processes with the aim of ensuring all of our suppliers are consistently paid within defined terms.

The Board understands the risks posed by our suppliers and ensures 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 work closely with our suppliers, meeting regularly at senior level with key suppliers. We have continued to embed ESG considerations in conversations with suppliers, driving meaningful engagement with their ESG teams, and have taken the first steps toward supplier specific emissions reporting.

We also further bolstered our oversight of supplier risks and controls, with a particular focus on our top tier material engagements.

**2023 outcomes and highlights**

- First supplier-specific emissions reporting.
- Enhanced oversight of material supplier risks and controls.

# 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 number one 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. In 2023, we expanded our financial education programmes to include young adults aged 16 to 18 in schools and colleges and people serving in the armed forces.
- Networking and community events.
- Days to AMAZE volunteering.
- Fundraising for charities.
- Our stores celebrated International Women's Day by hosting more than 2,000 people at complimentary networking events for local businesses.

The Board understands how important it is to have a physical presence in our communities. In deciding where to build a new store, we take into account where we can reach the most people and businesses so that we can continue to offer convenient banking at a time that suits our customers, and we will be looking at opportunities to open more stores in the North of England in 2024.

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.

**2023 outcomes and highlights**

- Joined the UK SAYS NO MORE campaign to end domestic violence and made 52 of our stores official 'Safe Spaces' for those in need.
- 15,000 children completed Money Zone.
- Attended Herts County Show where we were a headline sponsor to the event, which welcomed over 35,000 people, and provided financial education to over 1,000 children.
- Marched alongside our communities in the London, Birmingham, Cardiff and Oxford Pride Parades.
- Metro Bank is the ECB's first-ever Champion of Women's and Girls' Cricket. A new Women's and Girls' Fund — made up of equal contributions from the ECB and Metro Bank — is at the heart of the partnership. The Fund will accelerate cricket's progress towards becoming a more inclusive sport, through community team programmes to attract and retain women and girls.

# Board leadership and company purpose

## Board leadership and company purpose

**Role of the Board**

The Board is accountable to our stakeholders for setting the strategy to promote the long-term success of the Bank. The Board is responsible for the oversight of the Executive Committee, governance, internal controls, risk management, strategy, and the overall performance of the Bank. The interests of our stakeholders are 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 Non-Executive Chair, the CEO, four independent Non-Executive Directors and a 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 31 and information on the responsibilities of the Board can be found on page 43.

**Matters reserved for the Board**

The Board is responsible for setting and managing the Bank's strategic direction. The Board has a formally documented schedule of matters that are reserved for approval. This includes decisions concerning the Bank's strategic aims and long-term objectives, financial reporting and internal controls, risk management, and various statutory and regulatory matters. The Board is also responsible its culture, purpose and values and any changes to the Board or Board Committee membership or structure. 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 delegates specific responsibilities to the Audit Committee and Risk Oversight Committee. The roles of nomination and remuneration committees are performed at the Parent Company level on behalf of the Bank by the Parent Company Nomination Committee and People and Remuneration Committee. Each Committee is chaired by an independent Non-Executive Director and comprise independent Non-Executive Directors in accordance with the UK Corporate Governance Code.

Each of the Committees has established Terms of Reference setting out its duties, authority, and reporting responsibilities, copies of which are available on our website: (metrobankonline.co.uk)

The Terms of Reference of each Board Committee are reviewed regularly to ensure they remain appropriate and reflect any changes in legislation, regulations, or best practice. These documents are also reviewed formally every year by the relevant Board Committee, then approved by the Board, along with a self-assessment of how each Board and Board Committee discharged their duties during the year. The composition of each Board Committee can be found within each Committee's individual report.

Reports for each Committee can be found on pages:



| | |
|---|---|
| Audit Committee Report | 46 |
| Risk Oversight Committee Report | 50 |



The reports on the Parent Company Nomination Committee and People and Remuneration Committee can be found within the Metro Bank Holdings PLC 2023 Annual Report and Accounts. The Parent Company People and Remuneration Committee will also include the Directors' Remuneration Policy and Directors' Remuneration Report for the Group.

## Effectiveness

The Board is satisfied that the Chair and each of the Non-Executive Directors are able to devote sufficient time to the Bank's business to be effective in their roles. Each Director has committed to dedicate as much time as is necessary to the Bank in line with the time commitment expectation set out in the Non-Executive Directors' letters of appointment. Directors are expected to attend all meetings of the Board, and the Board Committees on which they serve. If Directors are unable to attend a meeting, their comments on matters being considered at the meeting are discussed in advance with the Chair and/or Company Secretary, so that their contribution can be included in the wider discussion.

A full report on the 2023 external Board effectiveness review is on page 44.

## Board skills

The Board, following review by the Parent Company Nomination Committee as part of succession planning, determines that each Non-Executive Director has the skills and experience to constructively challenge strategy and scrutinise management performance.

## Independent Directors

The Board is satisfied that, as at 31 December 2023, seven NEDs and the Chair were independent.

## Directors’ continuing professional development

The Company Secretary ensures that all Directors are kept aware of changes in relevant legislation and regulations. In 2023, the Board and Board Committees received training sessions on listed company obligations and Consumer Duty. Non-Executive Directors 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 serve. The Company Secretary provides the Board with relevant legislation and regulatory updates on a regular basis as necessary.

## 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. Non-Executive Directors meet the Chair and the CEO as part of the Parent Company’s selection process and again on appointment for a thorough briefing on all relevant aspects of the Bank. They also meet other Directors, the Company Secretary, ExCo and our advisors for briefings on their responsibilities as Directors and on our business, finances, risks, strategy, procedures and the markets where the Bank operates. Directors receive an electronic induction pack upon their appointment, which includes relevant Board materials, Bank policies and corporate and financial information.

## External appointments

The Board reviews the external appointments of new Non-Executive Directors before they are appointed to the Board. The Board also authorises additional external appointments that Non-Executive Directors may wish to take up, following due consideration of conflicts, regulatory requirements and assurances provided that the Non-Executive Director would still be able to devote sufficient time to their Bank duties. The external time commitments of our Non-Executive Directors are reviewed on an annual basis by the Parent Company’s Nomination Committee.

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 Bank. Any appointment is subject to prior approval by the Board. During the year ended 31 December 2023, none of the Bank’s Executive Directors held directorships in any other quoted company.

## Board culture

The Board places significant emphasis and importance on sustaining the Bank’s unique culture.

During the year, the Board received regular reports about colleague, communities and customer-related activities across the business, to support its understanding of how culture is embedded within the Bank. Presentations from ExCo members and relevant senior management colleagues to the Board during the year have provided culture-related data from across the Bank. The Board’s activities and examples of key decisions taken during the year are set out on page 35.

## Colleague engagement

The Board has appointed a Designated Non-Executive Director for Colleague Engagement to engage with colleague representatives throughout the Bank. The Board has approved Terms of Reference setting out the duties, authority and reporting responsibilities required for this role. The Designated Non-Executive Director for Colleague Engagement reports to the Board biannually on the progress of workforce engagement, initiatives, and activities. This provides the Board with in-depth insight into how the culture is embedded across our different business areas and functions, and any issues that need to be addressed. In addition, the views of the Bank’s colleagues are measured through a biannual anonymous Voice of the Colleague survey, which gives our colleagues the opportunity to give feedback and express their views on a variety of topics including their own remuneration, culture, leadership and policies and practices. An analysis of the results of employee surveys is presented to the Board.

## Governance framework

**Board**

**The Board's core role is to promote the long-term success of the Bank for the benefit of its shareholders. Alongside the operating company board, this requires us to:**

- Determine and review risk appetite.
- Monitor management performance in delivering our strategy.
- Ensure that risk management measures and internal controls are appropriate and effective.
- Oversee and monitor the embedding of and adherence to the Bank's business values.
- Ensure that the Bank's financial structure, resources, talent and culture will support long-term growth. In discharging this role, the Board must also have regard to and engage with the interests of a wide range of stakeholders, including colleagues, customers, suppliers and broader communities, in order to build mutual trust and support the long-term sustainability of the business.

**Risk Oversight Committee**

**Audit Committee**

**CEO**

**Executive Committees**

# Board roles and responsibilities

| Role | Name | Responsibilities |
|---|---|---|
| **Chair** | **Robert Sharpe** | The Chair leads the Board and is responsible for its effectiveness and governance. The Chair 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. The Chair sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. They report to the Board and are 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. The Chair is also responsible for ensuring that there are strong links between the Board, ExCo and shareholders. |
| **CEO** | **Daniel Frumkin** | The Chief Executive Officer (CEO) is responsible for the day-to-day management of the Bank's operations, for recommending the strategic direction and for implementing the strategic direction agreed by the Board. The CEO is supported by the Executive Leadership Team. The CEO directly reports to the Chair and to the Board and is responsible for providing the Board with appropriate information and updates. |
| **CFO** | **James Hopkinson** (resigned 12 January 2024) | The Chief Financial Officer (CFO) is responsible for planning, implementing, managing and controlling all financial-related activities of the Bank, both day-to-day and long-term management. The CFO is responsible for managing the Bank's financial position, including allocation and maintenance of capital, funding and liquidity. They are also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. The CFO has oversight of the Finance, Treasury, Strategy and Corporate Transformation and Investor Relations functions of the Bank.<br><br>On 12 January 2024, the Board announced that James Hopkinson would step down with immediate effect. An interim CFO[1], Cristina Alba Ochoa was appointed on 15 January 2024.<br><br>Marc Page will join as permanent CFO in September 2024. |
| **Company Secretary** | **Clare Gilligan** | The Company Secretary is responsible for advising and supporting the Chair and the Board on good corporate governance and best boardroom practice. |
| **SID** | **Monique Melis** (resigned 31 December 2023)<br><br>**Catherine Brown** (appointed 1 January 2024[2]) | The Senior Independent Director's role is to act as a sounding board for the Chair and to serve as an intermediary for Directors when necessary. The SID supports the Chair in the delivery of their objectives and is available to shareholders to hear their views and address any concerns they may have that have not been resolved through normal channels. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chair and conducts the Chair's annual performance evaluation. |
| **DNED for Colleague Engagement** | **Nicholas Winsor** | The Designated Non-Executive Director for Colleague Engagement (DNED) is responsible for bringing the views and experiences of our colleagues into the Boardroom. Working with the Board and particularly management, the DNED takes reasonable steps to evaluate the impacts of Board proposals and developments on colleagues. The DNED engages with management regarding colleague engagement and steps taken to address colleague concerns arising out of business-as-usual activities. Colleagues' views on remuneration concerns, including colleague views on executive remuneration as appropriate are reported to the Parent Company People and Remuneration Committee by the DNED.<br>The DNED reports regularly to the Board on activities undertaken and feedback received, as well as presenting the annual update for inclusion in the Annual Report and Accounts. |
| **Consumer Duty Champion** | **Catherine Brown** (until 26 February 2024)<br><br>**Nicholas Winsor** (from 27 February 2024) | The Consumer Duty Champion supports the Chair and CEO in ensuring that Consumer Duty and customer outcomes are raised regularly in all relevant discussions, and that the Board is challenging management on how it is embedding the Duty and focusing on consumer outcomes. The Consumer Duty Champion 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 Consumer Duty into our culture and governance. |
| **Independent NEDs** | **Catherine Brown**<br><br>**Paul Thandi**<br><br>**Michael Torpey**<br><br>**Nicholas Winsor** | The role of the Non-Executive Director (NED) is to constructively challenge management on matters such as the strategic direction of the Bank. Each NED brings specific experience and knowledge to the Board and its Committees. The NEDs have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture. |
| **Shareholder-nominated NED** | **Dorita Gilinski** | The shareholder-nominated NED's role is to assist the Board in ensuring 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 Committee report.

1. The Interim CFO does not sit on the Board.

2. Subject to regulatory approval.

# Board effectiveness

### 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 managing risk is further detailed on page 56. The Risk Oversight Committee reviews the effectiveness of the Risk function and risk management processes on the Board's behalf, and its approach can be found in the ROC Report on pages 50. 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 46.

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 ROC and Audit Committee as well as updates from the CRO and CIA. 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 the Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest. The Board will only approve a conflict of interest if it believes that it would not have an impact on the Directors' ability to carry out their duties and responsibilities to the Company.

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. During their tenure, Directors are asked to consult with the Company Secretary and the Board Chair before taking up any external appointment or responsibilities that may be an actual or potential conflict of interest. Prior to taking up external appointments, the Board needs to provide approval so that the Board can consider whether the appointment could constitute an actual or potential conflict of interest. Each Directors' conflicts of interest are considered by the Parent Company Nomination Committee annually.

### Independent professional advice

Directors are permitted to take independent professional advice at the Company's expense if required to enable them to fulfil their duties. 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.

### 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. All newly appointed Directors must stand for election by shareholders at the Annual General Meeting 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 2024 Annual General Meeting. 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.

### Board Composition

The Parent Company Nomination Committee is responsible for reviewing and advising the Bank's Board on the composition, structure and size of the Bank's Board and its Committees and providing any recommendations for changes as deemed appropriate. The review ensures that the appointed Directors have the skills, knowledge and experience required by the Bank to provide effective challenge and oversight of the delivery of the Bank's strategic objectives, and to ensure there is a strong pipeline for the Executive Committee and senior management positions. In 2023, the Board concluded that the Board has the skills, leadership and ability to devote sufficient time to provide the necessary oversight and proper challenge to the Executive Directors, ExCo and senior management. The Parent Company Nomination Committee also considered the skills that the Board may need to meet the Bank's future needs, as well as keeping the length of tenure of Non-Executive Directors under review, to ensure efficient succession.

The Bank announced that with effect from 1 January 2024, and subject to regulatory approval, Catherine Brown would become the Bank's Senior Independent Director and Chair of the Risk Oversight Committee. Ian Henderson, Anne Grim and Monique Melis stepped down from the Board on 31 December 2023. Following the changes to the Board composition, the Board (excluding the Chair) now comprises five Non-Executive Directors, four of whom are independent, and one Executive Director.

There were no Board appointments in 2023. The process for appointments to the Board is set out in the Parent Company Nomination Committee's Terms of Reference. The Board recognises the importance of ensuring a transparent and fair process for interviewing, assessing and appointing new candidates to the Board and the importance for a diverse list of candidates and remains fully committed to improving the diversity of the Board and Board Committees over the long term. In light of the strategic developments and revised Board composition, a key focus in 2024 is establishing a strong succession plan for the NEDs and Executive Directors.

### Board Diversity

The Board Diversity Policy (the Policy) sets out the Board's approach to diversity and inclusion. The Parent Company Nomination Committee is responsible for monitoring progress towards the Board's diversity objectives, as set out in the Policy, and reporting progress to the Board. The Policy acknowledges that a diverse Board appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, is more effective. The measurable objectives for achieving Board diversity are reviewed and discussed by the Parent Company Nomination Committee at least annually. In November 2023, the Parent Company Nomination Committee approved the inclusion of additional Board diversity metrics to measure cognitive and international diversity which will also be monitored and reviewed annually.

On gender diversity, the Board is committed to improving female representation on the Board to 40%. Throughout 2023, female representation on the Board was 36%. Following Anne Grim, Ian Henderson, James Hopkinson and Monique Melis' resignations, female representation on the Board is 29%, below the FCA target of 40%. We recognise that to date, the Bank has not met the FCA target of 40% female Board representation. In 2024, the

Parent Company Nomination Committee will continue to review Board diversity, recommending any changes as required to the Board. The position of Senior Independent Director in 2023 was held by Monique Melis until 31 December 2023, with Catherine Brown appointed as SID from 1 January 2024 (subject to regulatory approval).

The Board also has a target of at least one director to be from an ethnic minority background. As at the date of publication of this report, the Bank has two Directors from an ethnic minority background appointed to the Board.

### Colleague engagement

For information on how the Directors have engaged with colleagues, had regard for colleague interests and how this has affected the principal decisions taken by the Company during the financial year, see page 37.

### 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 35.

### 2023 external Board evaluation

The Board commissioned an externally facilitated Board evaluation in 2023 in line with the Code requirement to carry out an external review once every three years. After a thorough selection process, the Chair and SID recommended the appointment of Ian White to deliver the external Board evaluation. Ian does not have any other connection with the Company or individual directors. The Directors were pleased with Ian White's approach and are grateful for his work undertaken through 2023 and into 2024.

#### Process and approach

The approach and process for the Board evaluation was agreed with the Chair and SID, and included director and colleague interviews as well as Board and Committee meeting observation.

The report highlighted the following:

- The Board is led by a highly respected and seasoned Chair who leads the Bank in an inclusive manner.
- The Board is engaged with an inclusive, positive, collegiate and collaborative culture.
- There is effective delegation to Board committees which are clearly connected with the Board.
- The NEDs provide a wide range of skills, experience and behaviours to the Board.
- Relationships between NEDs and the wider Executive are professional and positive.

Recommendations from the review, for which there are actions for the Board to take forward to ensure continued effectiveness include:

- The Board should implement a mechanism to regularly review major decisions in terms of process and outcomes, including a review of the major decisions made in 2023.
- While there is challenge at Board meetings, there could be more on matters proposed by Executives.
- The papers presented to the Board are improving but the quality and length of papers should be kept under review, as should the timing of papers sent to the Board.
- Succession planning should be a high priority for the Board, particularly following the changes to the membership of the Board at the end of 2023, at both executive and non-executive levels. The Board should also ensure a continued focus on diversity.

The Board has in place plans for the implementation of the recommendations to enhance its effectiveness. These recommendations will form the basis of the next internal evaluation where progress will be assessed, and further actions agreed if necessary.

Although work started in 2023, the evaluation did not complete until early 2024. Despite this delay, the Bank will look to complete its next external evaluation again in 2026 in keeping with the Code's three-year cycle.

### Progress on actions from the 2022 internal evaluation

| **Board** | |
|---|---|
| **Agreed actions** | **Progress** |
| Provide for additional focus on marketing and consumer strategy, product and store performance, the investment programme underpinning the strategy, and culture on the Board's agenda | The Board dedicated time on the Board agenda in 2023 to focus on these topics, particularly at the Board's strategy away day in 2023. |
| Consider Board composition and skills as the Bank's priorities change | The Board's composition and skills were regularly reviewed by the Parent Company Nomination Committee throughout 2023. This will continue into 2024 following the recent changes to the Board. |
| Look for opportunities to refine papers presented to the Board | Board papers, and the information contained within these papers, are continually reviewed to assist with Board effectiveness and a new Board paper template was designed and implemented in 2023. |

# Audit Committee report

## Committee composition and attendance for 2023

| Members | Meetings attended | Meetings held during Director's tenure |
|---|---|---|
| Michael Torpey (Chair) | 7 | 7 |
| Ian Henderson[1] | 7 | 7 |
| Monique Melis[1] | 7 | 7 |

1. Ian Henderson and Monique Melis stood down from the Committee on 31 December 2023. Catherine Brown and Nick Winsor were appointed to the Committee on 31 December 2023.

The Committee is comprised of the Committee Chair, Michael Torpey, and in 2023 the other members were Ian Henderson and Monique Melis. Both were 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 members' skills and experience, please refer to their biographies on page 31. Ian Henderson and Monique Melis stepped down from the Committee on their departure from the Board on 31 December 2023. Catherine Brown and Nicholas Winsor joined the Committee ahead of the 2024 audit cycle.

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 Committee include the Chief Internal Auditor, CRO, CFO, CEO, Board Chair and senior members of the Finance team, representatives from the external auditor and the Deputy Company Secretary, who is the Committee Secretary. The Committee Chair also sits on the ROC and works closely with its Chair. The ROC Chair also sits on the Committee.

## 2023 activities

- Assessed going concern and viability.
- Reviewed key accounting judgements.
- Reviewed the impact of the Group's implementation of a new holding company on financial and tax accounting.
- Reviewed advice received and accounting for the capital package announced in October 2023 and made recommendations to the Board to assist in the review of the relevant documentation.
- Had oversight of regulatory reporting.
- Reviewed the Bank's published financial information.
- Reviewed internal audit reports and regular updates from the Chief Internal Auditor.
- Monitored the Group's tax position.
- Recommended to the Board the appointment of the new Chief Internal Auditor.

## Committee evaluation

During the year, the Committee has continually reflected on its effectiveness, considered how it discharged its duties as set out in its 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 2023 and is well placed to deliver on the same in 2024.

During 2023, an external Board effectiveness evaluation to assess the Committee's performance commenced. The evaluation concluded that the Committee and Committee Chair are performing well with members constructively challenging executives during meetings. However, while the Committee has a clearly defined role, the Committee could be better connected with the Board. This is an area that the Committee will work on during 2024.

## The Audit Committee in brief

- The 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.
- A key role of the 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 is fair, balanced and understandable.
- The Committee considered a number of significant reporting areas which are set out in the table on the following page.

| 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.<br>The Committee also considered the Bank'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.<br>After consideration, the Committee supported the approach adopted by management, which is set out in the viability statement on page 28. |
| **Implementation of new holding company** | In May 2023, the Group completed the implementation of its new holding company. The Committee undertook a review of management's assessment in relation to the accounting arrangements for the implementation of the new structure. Notable areas of the review included :<br>• The consideration of the reserves movements both to facilitate the insertion of the new company but to also create distributable reserves within both Metro Bank PLC and Metro Bank Holdings PLC.<br>• The financial classification of the internal MREL assets within the stand-alone financial statements for Metro Bank Holdings PLC. The Committee agreed with management's assessment that these instruments failed the 'solely payments of principal and interest' test under IFRS 9 and as such were required to be held at fair value through profit and loss. |
| **Capital package** | The Committee reviewed the accounting treatment in relation to the £925 million capital package, approved by investors in November 2023. Specific consideration was given by the Committee to the judgements relating to the refinancing of the Group's existing debt and specifically whether this constituted a substantial modification.<br>The Committee agreed with management's conclusion that the refinancing should be treated as a substantial modification and therefore the old debt should be fully derecognised with the replacement debt treated as a new issuance. |
| **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 and a benchmark of the Bank's ECL against its peers, as well as reviewing the components of the calculation (including SICR, definition of default, macroeconomic scenarios and scenario weightings).<br>The Committee agreed with management's assessment that the measurement of the ECL allowance remained both a critical accounting estimate and judgement. Further details are set out on page 98. |
| **Deferred tax assets** | The Committee considered whether a deferred tax asset should be recognised in relation to the Bank's unused tax losses (which were written off in 2019) as at 31 December 2023. The Committee agreed with management's assessment that the criteria for re-recognising these had not been met. |
| **Impairment review** | The Committee has kept impairment indicators in relation to the Bank's property, plant, equipment, intangible assets and subsidiary investments 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.<br>The Committee concurred with management's view that no impairment was necessary in relation to these assets. |
| **Alternative performance measures** | The Bank continues to use alternative performance measures as it believes this provides readers with a greater understanding of underlying trends in the business. |

### Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2023 Annual Report and Accounts is 'fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy'. The Committee is satisfied that the 2023 Annual Report and Accounts meets this requirement and, in particular, that there are appropriate disclosures for relevant developments in the year. The process which enabled the Committee to reach this conclusion included:

- The compilation of the 2023 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 2023 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 2027.

### 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 2023 Internal Audit Plan, through reports provided by the Chief Internal Auditor, and discussed areas of significance identified in audits with management.
- Recommended the 2024 Internal Audit Plan to the Board for approval.
- Approved changes to the Internal Audit Methodology.
- Recommended to the Board the appointment of the new Chief Internal Auditor.

The Committee Chair also met regularly with the Chief Internal Auditor and made sure she had access to the Board if needed. As a new Chief Internal Auditor was appointed during the year, the Chair was involved in her recruitment and induction to ensure a smooth handover.

The 2024 Internal Audit Plan focuses on areas that present the greatest risk to the Bank and are of regulatory importance. The Committee will monitor the resources available to Internal Audit to make sure they can effectively deliver the 2024 Internal Audit Plan.

### Systems of internal control and risk management

Details of the Bank's risk management framework are provided on page 57. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor. In addition, management was 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 the effectiveness of these controls is assessed 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 2023 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 Assurance team has been proactively involved in preparing the Bank for compliance with the revised Corporate Governance Code, specifically the internal controls-related elements which will become effective from 1 January 2026. The team has provided regular written updates to the Committee throughout 2023.

### Regulatory reporting framework

The Committee has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Group.

The Committee has oversight of the Bank's Regulatory Reporting Committee and Regulatory Interpretation Committee, committees designed 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 2023 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 insights 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 2024 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.

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 2023, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2023 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 2023.

**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 2023, 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 104.

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 2023.

## 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 2023, 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 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 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 2023

| Members | Meetings attended | Meetings held during Director's tenure |
|---|---|---|
| Ian Henderson (Chair)[1] | 8 | 8 |
| Catherine Brown[2] | 8 | 8 |
| Michael Torpey | 8 | 8 |
| Nick Winsor | 8 | 8 |

1. Ian Henderson stepped down from the Committee on 31 December 2023.
2. Catherine Brown was appointed ROC Chair from 1 January 2024.

In 2023, the Committee was comprised of the Committee Chair, Ian Henderson, with three other members: Catherine Brown, Michael Torpey and Nicholas Winsor. NEDs who were not ROC members were also permitted to attend meetings. The Board Chair, CEO, CFO, Chief Internal Auditor 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. Ian Henderson stepped down from the Committee on his departure from the Board on 31 December 2023. Catherine Brown took over the role as Committee Chair and Paul Thandi joined the committee for 2024.

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.

The Committee met regularly throughout the year in accordance with its Terms of Reference.

### 2023 activities

- Oversight of the Bank's capital and liquidity position.
- Ongoing review of the changing macroeconomic environment and the effect of this on credit risk.
- Review and endorsement of the ICAAP and ILAAP.
- Review and endorsement of the Bank's Resolvability Assessment Framework.

### Committee Evaluation

In line with best practice, an external committee effectiveness evaluation was conducted in 2023. The outcome of the evaluation concluded that the Committee members utilise their previous experiences to effectively challenge executives and the Committee effectively prioritises the important matters at each meeting. In 2024, management will work to continue to reduce the length of the papers for each meeting.

### Risk Oversight Committee in brief

- The Committee 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. Accountable to the Board, 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.
- 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, Resolvability Assessment Framework and major risk policies.
- Oversees risk management procedures and reviews risk reports on key business areas.
- 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.
- 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.

### 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, issues under management, the Bank's performance against risk appetite, regulatory engagement, an overview of operational incidents 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 significant customer or loan has deteriorated. The Committee regularly reviews the performance of the loan portfolio including assessing the impacts of a changing macroeconomic environment and ensures that lending remains within risk appetite and policy exceptions are monitored.

#### Capital, Market and Liquidity and funding risk

The Treasurer provides a summary of relevant Treasury matters at each ROC meeting, including balance sheet performance and each of the principal prudential risks including liquidity and funding, capital and market risks. The Treasurer also submits the ICAAP, ILAAP, Recovery Plan, and relevant Treasury policies for approval and notes the minutes of the Asset and Liability Committee, which is the primary executive venue for in-depth discussion on Treasury and prudential risk matters. The Treasurer provides a report to the Committee summarising ALCO activities, which includes high-level management information on liquidity, funding, capital and market risks. In addition, the ALCO report includes updates on relevant regulatory matters.

The Committee also receives a regular update from the second line risk team on prudential risk, prudential risk appetite performance and model risk.

During the year, ROC reviewed and recommended to the Board for approval the ICAAP, ILAAP, Resolvability Assessment Framework and relevant policies.

#### Operational risk

The Committee receives reports concerning risk appetite and risk assessments for overall operational risk and the underlying operational risk categories including people, data, information security and systems availability, operational resilience, fraud, and the risk of poorly executed changes. 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. In addition to the ongoing review, quarterly updates are escalated through the Bank's governance to the Committee to enable effective oversight of control enhancement activity.

#### Regulatory, Conduct and Legal risk

The Committee is updated regularly on legal and regulatory developments and changes that could impact the Bank together with 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 the management of manages expressions of dissatisfaction, claims and litigation, and on the ongoing compliance assurance work performed by the second line of defence.

## Strategic risk

The Committee regularly considers a comprehensive risk review of the bank's strategy and Long Term Plan and receives updates on the management of risk within other key strategic initiatives as part of the monthly risk report.

## Model risk

Given the use of models to support a broad range of business and risk management activities, the Committee provides oversight of the effectiveness of the Model Risk Management Framework. This includes review of escalated findings in relation to specific modelling activities and exposure against model risk appetite.

## Deep dives and in-depth reviews

The Committee received in-depth reviews on areas of emerging risk and regulatory interest throughout the year covering:

- Cyber, information security and IT resilience.
- Vulnerable customer outcomes.
- Outcomes for customers in arrears.
- People and culture.
- Operational resilience.
- Financial crime.
- Climate risk.
- Consumer Duty.

# Directors' report

The Directors have the pleasure of presenting their Annual Report and Accounts for the year ended 31 December 2023. 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 30 to 55.

The Directors consider the Annual Report for the year ended 31 December 2023, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Bank's position and performance, business model and strategy.

### Principal activities

Our principal activities during 2023 were the provision of banking and related services. We are a deposit-taking and lending institution with a focus on retail and small and medium sized 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 93.

No dividend was declared or paid during 2023 (2022: £nil). The Directors do not anticipate declaring a dividend in the near future.

### Significant events

In May 2023, Metro Bank Holdings PLC became the holding company of Metro Bank PLC and its subsidiaries and the new principal debtor under the £350,000,000 Fixed Rate Reset Senior Non-Preferred Notes due 8 October 2025.

In September 2023, Metro Bank Holdings PLC announced that the Prudential Regulation Authority had indicated that the group's AIRB application for residential mortgages would not be attained during 2023.

On 8 October 2023, Metro Bank Holdings PLC confirmed completion of a £925 million capital package. The package comprised of £150 million of new equity and £175 million of new MREL issuance, alongside £600 million of debt refinancing. New equity and MREL and the impacts of the debt refinancing were down streamed to Metro Bank PLC.

### Articles of Association

The Articles of Association can be found on our website at: metrobankonline.co.uk.

### Share capital

As at 31 December 2023, our issued share capital was £672.68 comprising 672,676,547 ordinary shares of 0.0001p each and 1 special share of £1 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 121.

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 Bank.

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Bank's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

### 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 page 31. Monique Melis resigned as the Senior Independent Director and Anne Grim and Ian Henderson resigned as independent NEDs, effective 31 December 2023. James Hopkinson resigned on 12 January 2024. Catherine Brown was appointed as the Senior Independent Director with effect from 31 December 2023.

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 2023

| | Appointment date | Resignation date |
|---|---|---|
| Robert Sharpe (Chair) | 1 November 2020 | |
| Daniel Frumkin (CEO) | 1 January 2020 | |
| James Hopkinson (CFO) | 5 September 2022 | 12 January 2024 |
| Catherine Brown (Senior Independent Director) | 1 October 2018 | |
| Dorita Gilinski (Shareholder Nominated NED) | 26 September 2022 | |
| Anne Grim (Independent NED) | 20 April 2020 | 31 December 2023 |
| Ian Henderson (Independent NED) | 20 April 2020 | 31 December 2023 |
| Anna (Monique) Melis (Senior Independent Director) | 20 June 2017 | 31 December 2023 |
| Paul Thandi (Independent NED) | 1 January 2019 | |
| Michael Torpey (Independent NED) | 1 September 2019 | |
| Nicholas Winsor (Independent NED) | 20 April 2020 | |

### 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 44.

### Greenhouse gas emissions

Our energy consumption and associated GHG emissions during 2023 are set out in parent's accounts which can be viewed on our website.

### 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 page 37.

### 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 page 36.

### 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.

### 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.

### 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 2023 can be found on page 18. The Chair of the Audit Committee is appointed 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 56 to 85. Details around the processes in place in relation to financial reporting can be found in the Audit Committee Report on pages 46 to 49. 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 Bank has 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 97 and in the Viability statement (details of which can be found below).

### Viability statement

Our Viability statement is set out on page 28.

### 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 Bank's 2024 AGM.

### Political donations

We made no political donations in the year ending 31 December 2023 (2022: £nil).

As part of our community engagement during 2023 we met with 25 Members of Parliament (MPs), including Government and opposition party figures as well as MPs visiting local Metro Bank stores in their constituencies.

### Research and development

During the year, we spent £26 million on intangible assets and a further £25 million on research and development costs which were not capitalised.

### Post balance sheet events

Our post balance sheet events are set out in note 37 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 56 to 85 and in note 10 to the financial statements.

## Corporate Governance Statement

Our Corporate governance report is set out on pages 30 to 55 and forms part of this Directors' Report.

## 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 Bank 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 Bank and of the profit or loss of the Bank 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 Bank will continue in business.

The Directors are responsible for safeguarding the assets of the Bank 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 Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Bank'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 Bank'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 Bank 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 Bank. The Strategic report includes a fair review of the development and performance of the business and the position of the Bank, 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 Bank'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 Bank'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 53 to 55 has been approved by the Board of Directors.

By Order of the Board

**Clare Gilligan**
Company Secretary
23 April 2024

# Risk

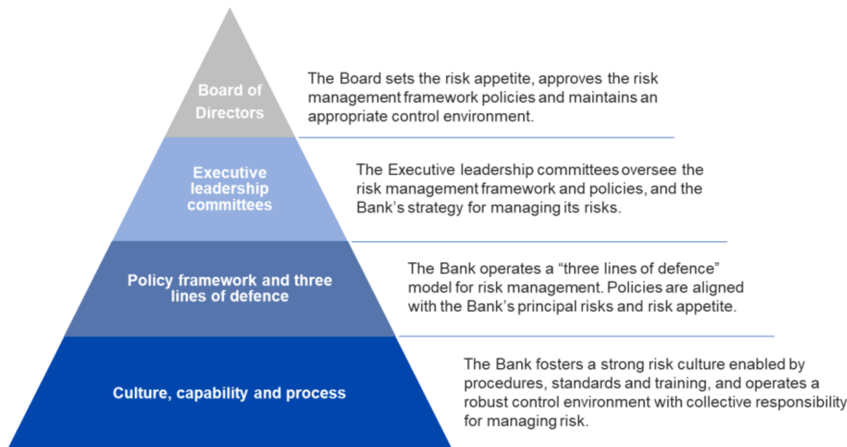
**In this section**

57 Risk management framework
58 Risk governance and oversight
59 Risk culture
61 Financial risks
80 Non-financial risks

# Risk report

## Risk management framework

**Approach to risk management**
Effective risk management is critical to realising our strategic priorities and underpins our 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.




### Risk management process

Our risk management process comprises the following key stages that enable the Board to fulfil its obligations under the Corporate Governance Code 2018:

1. **Identification** of the risks we are exposed to at various levels, making use of the Bank's established Risk Taxonomy.
2. **Assessment** or measurement of the identified risks using suitable risk management tools.
3. **Response** to the risk exposures, applying and operating appropriate controls to mitigate the risks to acceptable levels.
4. **Monitoring and reporting** of these risks to ensure they remain within risk appetite.

# Risk governance and oversight

All of our colleagues are risk managers, in accordance with our ‘Three Lines of Defence’ risk model, which is based on the overriding principle that risk capability must be embedded within the first line of defence (business) teams, overseen by our central Risk and Internal Audit teams in the second and third lines respectively.

Effective operation of the three lines of defence results from:

- Colleagues being equipped with the necessary skills and experience to manage risks and responsibilities being well understood.
- Proactive and transparent collaboration between colleagues across the lines, working with a common objective.
- Well-defined governance structures and processes that promote accountability and action.

The three lines of defence can be summarised as follows:

**First line**
- 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, appetite.
- Ensure adequate resources, tools and training are in place.
- Promote and maintain an appropriate risk culture.

**Second line**
- Establish and communicate the framework, governance structure and underlying policies and standards.
- Provide oversight 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.

**Third line**
- 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.

## Stress testing

We use stress testing as a key part of our risk management, strategic, capital and liquidity planning. It provides insight into the impact of severely adverse events and provides confidence of our financial stability. We use stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

| Board | | | |
|---|---|---|---|
| **Sets risk appetite and strategy** | | | |
| • Sets our strategy, corporate objectives and 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 (ROC) | | | |
|---|---|---|---|
| **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 (ERC)**<br>• Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.<br>• Reviews and recommends risk frameworks for approval by ROC (and Board as appropriate).<br>• Oversees the quality and composition of the credit risk portfolio, and recommends strategies to adjust the portfolio.<br>• Oversees and advises on financial and non-financial risk matters, including those escalated from oversight committees. | **Asset and Liability Committee (ALCO)**<br>• Monitors performance against the Board capital/funding plans.<br>• Ensures that we meet internal liquidity and capital targets.<br>• Agrees pricing decisions to ensure visibility of capital and liquidity impacts.<br>• Monitors interest rate risk.<br>**Credit Approval Committee (CAC)**<br>• Approves higher value lending requests.<br>**Impairment Committee (ICOM)**<br>• Reviews and approves monthly portfolio-level impairment results. |

## Risk culture

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. We value open and honest feedback from our customers which allows us to identify problems, put them right and ensure we are consistently delivering the high level of service we expect. Managing risk is a key part of our AMAZEING values, which are at the heart of everything we do, and we continually seek to enhance our risk management framework to ensure effective risk ownership and management within risk appetite, in turn enabling delivery of our strategic plan.

Our risk culture is shaped by 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 and its principals of personal accountability, we encourage open and effective challenge and work to create an environment in which colleagues are encouraged and able to raise concerns.

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.

## Risk appetite

We define risk appetite as the aggregate level and types of risk that we are willing to accept in our pursuit of our 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 our decision-makers in their strategic and business decisions.

The risk appetite statements detail the risk parameters within which we seek to operate, promoting good customer outcomes and protecting us from excessive risk exposures. The Board-owned statements are reviewed at least annually and include quantitative metrics which inform strategies, targets, policies, procedures and other controls.

We actively monitor exposure against our stated risk appetite on an ongoing basis. Key risk indicators are in place for all principal risks and these are reported regularly to Executive and Board committees together with actions and assessment of the adequacy of response. Business areas supplement monitoring of risk appetite with additional key risk indicators that are set within the overall parameters of those reported to the Board. Our overall risk appetite statement is set out below.

## Overall risk appetite statement

Metro Bank has a clear goal: to be the UK's best community bank, offering a superior level of service, whilst consistently delivering good customer outcomes and operating on an inclusive and socially responsible basis. It strives to achieve this by creating FANS, digitally and via its network of stores and AMAZE Direct, creating sustainable growth for its stakeholders, living by its AMAZEING values and taking active steps to reduce any negative impact on the climate and environment as a whole. We seek to balance risk and return as articulated in risk appetite statements which are separately defined for the Bank's principal risks, operating robust controls and processes and remaining within its impact tolerances at all times.

## Policies and procedures

To support our colleagues in managing our key risks and operating within our risk appetite, a suite of policies and procedures is in place. These articulate our stance and approach to managing each of our key risk exposures and define the minimum control requirements that must be observed to achieve compliance. Policy documents are in place covering each of the Bank's principal risks and include policy documents defined and operated to meet legal and regulatory requirements such as those for Financial Crime and Conduct Risk.

# Financial risks

## Financial risk covers several categories of risk which have the potential to impact the Bank's capacity to support its customers and continue operating in a safe, sustainable and compliant way. Financial risks include Credit risk, Capital risk, Liquidity and Funding risk and Market risk.

## Credit risk

### Risk definition

The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.

### Risk appetite statement

Our credit risk appetite reflects our position as a community bank, providing lending capacity to support UK retail and commercial customers. In line with the our strategy to return to sustainable profitability, and meet the credit product needs of our customers, our cautious credit risk appetite reflects our lending strategy and forecasted macroeconomic outlook. Our tolerance for credit losses has been set to reflect this and is consistent with the type of bank we are and with relevant peers. To enable us to remain within this tolerance, we control the quality of our credit assets through quantitative credit limits and a comprehensive credit risk management framework. We seek to control concentrations in credit exposures in line with the profile of a UK community bank.

### Exposure and assessment

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 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 review under delegated lending authority 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 measurement and management

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 the Executive Risk Committee, Risk Oversight Committee, Group Risk Oversight Committee 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 (12 months or lifetime) and incorporate assessments of the probability of default (PD), loss given default (LGD), and exposure at default (EAD). There are individual assessments of defaulted commercial exposures (and in mortgage exposures in some circumstances), and where relevant management judgement via post model adjustments (PMAs) and post model overlays (PMOs). The impairment assessment for year-end 2023 has been undertaken in line with our Impairment Policy.

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

Rigorous internal challenge is undertaken in order to assess the reasonableness of the impairment calculations, models, PMO/PMAs, individual assessments and overall level of impairments.

#### 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), with all other lending falling 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, with a 12-month ECL for performing loans (Stage 1).

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. Judgement may be required to determine when a significant increase in credit risk has occurred.

The assessment for a Retail financial instrument 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 financial performance, forecast 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**<br>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.<br>For Commercial counterparties, Early Warning List is used to inform qualitative triggers for SICR.<br>SICR includes the rebuttable presumption that financial instruments falling 30 DPD due on contractually defined payments are to be considered as having deteriorated significantly since origination and should trigger Stage 2. | **Lifetime ECL**<br>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 (non-performing loan) or where the borrower is considered unlikely to pay. This includes customers in Commercial who are categorised as Early Warning List 3 (EWL3) or forbearance. | **Lifetime ECL**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.<br>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**<br>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. |

In light of the classifications, our stage allocation criteria must include:

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

There are three 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 credit rating at origination is not available for some commercial lending.
- 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 (where they do not meet the criteria for Stage 3), 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 on both quantitative and qualitative criteria, are captured within the IFRS 9 model methodology and are approved as part of the annual model review process by the Model Governance and Model Oversight Committees.

**Non-performing loans (NPLs)**
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 the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance. This definition of default is aligned with internal credit risk management policies, and accounting and regulatory definitions.

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

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with due to financial difficulty; or
- 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.

**Credit exposure summary**
The following provides an overview of the performance of our portfolios during 2023. Total loans and advances to customers have decreased in 2023 by £793 million from £13.3 billion to £12.5 billion. Reductions have been driven by the run-off of Government-backed lending and of the professional buy-to-let (PBTL) portfolio within commercial lending, and more limited new lending of Consumer products.

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

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million |
| Retail mortgages | 7,817 | (19) | 7,798 | 7,649 | (20) | 7,629 |
| Consumer lending | 1,297 | (108) | 1,189 | 1,480 | (75) | 1,405 |
| Commercial lending | 3,382 | (72) | 3,310 | 4,160 | (92) | 4,068 |
| **Total loans and advances to customers** | 12,496 | (199) | 12,297 | 13,289 | (187) | 13,102 |

**Table 2: Total portfolio credit performance**

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Coverage ratio (including Stage 3) | 1.59% | 1.41% |
| % loans in Stage 2 | 12% | 16% |
| % loans in Stage 3 | 3% | 3% |
| 90+ days past due | 2% | 1% |

Our retail mortgages portfolio grew by £168 million during 2023 whilst consumer lending and commercial reduced by £183 million and £778 million respectively.

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

**Table 3: Non-performing loans**

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| Group | NPLs £'million | NPL Ratios | NPLs £'million | NPL Ratios |
| Retail mortgages | 146 | 1.87% | 111 | 1.45% |
| Consumer | 77 | 5.94% | 50 | 3.38% |
| Commercial | 166 | 4.91% | 191 | 4.59% |
| **Total** | 389 | 3.11% | 352 | 2.65% |

NPLs increased to £389 million (31 December 2022: £352 million) with the overall NPL ratio increasing to 3.11% (31 December 2022: 2.65%). The NPL ratio for mortgages has increased to 1.87% (31 December 2022: 1.45%). This is driven by new defaults primarily due to accounts moving to 90+ day arrears. The NPL ratio for consumer customers has increased to 5.94% (31 December 2022: 3.38%) driven by the maturation of the RateSetter loans portfolio together with the runoff of the legacy portfolios. NPLs have decreased for Commercial due to successful BBLS claims, repayments and write-offs of a small number of large commercial exposures; however, due to the reduction in overall Commercial lending, the NPL ratio has increased to 4.91% (31 December 2022: 4.59%).

**Expected credit loss**
Expected credit losses (ECL) have increased during the year by £12 million to £199 million (31 December 2022: £187 million) predominantly driven by maturation of the consumer portfolio, offset by repayments in commercial and improvements in macroeconomic scenarios. Metro Bank continues to hold overlays to reflect the continued macroeconomic uncertainty given the cost-of-living pressures, higher interest rates and anticipated property price falls not fully captured in the latest macroeconomic scenarios and IFRS 9 models. Overlays continue to be retained given the continued economic uncertainty, more details of which can be found on page 129.

**Credit risk exposure by internal PD rating**

The table below summarises balances by PD bandings and IFRS 9 production stage at a total bank level. All PDs include forward looking information and are based on 12-month values for all stages.

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

| | | 31 December 2023 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount (£'million) | | | | | Loss allowance (£'million) | | | | | |
| All Portfolios | IFS 9 PD range % | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | ECL coverage % |
| Band 1 | 0.00 – 3.00 | 8,928 | 499 | – | – | 9,427 | 29 | 3 | – | – | 32 | 0.34% |
| Band 2 | 3.00 – 17.00 | 1,664 | 883 | – | – | 2,547 | 33 | 27 | – | – | 60 | 2.36% |
| Band 3 | 17.00 – 99.99 | 4 | 129 | – | – | 133 | 1 | 13 | – | – | 14 | 10.53% |
| Band 4 | 100 | – | – | 389 | – | 389 | – | – | 93 | – | 93 | 23.91% |
| **Total** | | 10,596 | 1,511 | 389 | – | 12,496 | 63 | 43 | 93 | – | 199 | 1.59% |

| | | 31 December 2022 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount (£'million) | | | | | Loss allowance (£'million) | | | | | |
| | IFS 9 PD range % | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | ECL coverage % |
| Band 1 | 0.00 – 3.00 | 8,042 | 549 | – | – | 8,591 | 32 | 5 | – | – | 37 | 0.43% |
| Band 2 | 3.00 – 17.00 | 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% |

The information in the tables above has been presented at a total bank level including BBLS.

The migration observed across bandings, in particular band 1, is primarily driven by the improvement in macroeconomic scenarios feeding through the IFRS 9 models resulting in customers moving to lower PD bands.

**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 over the year.

**Table 5: Cost of risk**

| Group | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Retail mortgages | (0.01%) | 0.02% |
| Consumer | 3.29% | 2.26% |
| Commercial | (0.30%) | 0.11% |
| **Total** | 0.26% | 0.32% |

The overall cost of risk (CoR) is primarily driven by increased ECL for consumer lending (resulting from maturation of this portfolio) which carries a higher CoR than retail mortgages and commercial. The CoR for retail mortgages has reduced due to improvements in the macroeconomic scenarios. The CoR for Commercial has reduced due to improvements in macroeconomic scenarios, and repayments of a small number of large commercial exposures.

**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 backstop classification are also reported in Stage 2, in line with IFRS 9 standards. The Bank's SICR assessment is set out in Section 3.3.1.

**Table 6: Stage 2 balances**

| | 31 December 2023 £'million | | 31 December 2022 £'million | |
|---|---|---|---|---|
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Quantitative | 1,353 | 30 | 1,845 | 38 |
| Qualitative | 103 | 5 | 189 | 7 |
| 30 days past due backstop | 55 | 8 | 54 | 6 |
| **Total Stage 2** | 1,511 | 43 | 2,088 | 51 |

Note: 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 decreased in 2023, with the quantitative SICR criteria continuing to be the primary driver. Improvements in macroeconomic outlook have resulted in customers no longer triggering SICR, and consequently transferring back to Stage 1. Marginal decreases in Stage 2 balances have also been observed in the qualitative criteria. As at 31 December 2023, 90% (31 December 2022: 88%) of Stage 2 balances triggered quantitative SICR criteria, 7% (31 December 2022: 9%) triggered qualitative SICR and the remaining 4% (31 December 2022: 3%) triggered the 30

days past due backstop criteria.

**Portfolio level analysis – Retail mortgages**

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

**Table 7: Retail mortgage credit performance**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Loans and advances | 7,817 | 7,649 |
| Loss allowance | 19 | 20 |
| Coverage ratio | 0.24% | 0.26% |
| % loans in Stage 2 | 10% | 18% |
| % loans in Stage 3 | 2% | 1% |
| 90+ days past due | 1% | 1% |

Mortgage balances have grown slightly during 2023 to £7,817 million (31 December 2022: £7,649 million) with modest organic book growth outstripping the run-off of our legacy acquired portfolios.

The credit performance of the portfolio has seen some impact from the economic environment resulting from house price reductions, and rising cost of living and interest rates. Portfolio average DTV has increased by 2% to 58% as at 31 December 2023 (31 December 2022: 56%) as a result of falling house prices. Early arrears cases (>1 to < 3 months in arrears) have increased to 0.97% at 31 December 2023 (31 December 2022: 0.63%). Accounts that are 3 or more months in arrears have increased from 0.73% at 31 December 2022 to 1.08% at 31 December 2023. Increases in arrears have been seen to a greater extent in the legacy acquired portfolios that are in run-off and have greater sensitivity to interest rate rises.

Retail Mortgage new lending has continued to be of good quality during 2023. The average LTV was 63% (2022: 69%) and the proportion of lending with an LTV over 90% was only 1% due to restrictions on this lending. The proportion of new lending that is buy-to-let reduced in 2023 to 7% from 34% in 2022. Credit quality measured through credit score has remained stable over the last 3 years. Near Prime lending has continued to make up a small proportion of new lending (December 2023: 1.5%) and contributes a small proportion of the portfolio (December 2023: 0.6%).

27% of loans at December 2023 are on interest rates ≥4%, and 8% of loans are on variable rates; the remaining 65% remain on existing fixed rate mortgages and will migrate to higher rate products at the end of the fixed period. We expect that owner-occupied customers have a degree of protection against increasing interest rates as a result of origination credit criteria and underwriting approach; all of our organically originated owner-occupied loans were underwritten at a stressed interest rate allowing for at least a 2% increase, and in the majority of cases (88%) 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 payments. All organic buy-to-let mortgages have been underwritten at a minimum 140% rental cover and at a stressed interest rate.

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.

**Impairment**

There has been an increase in coverage ratio for Stage 1 (Stage 1: 0.10% in 2022 to 0.11% in 2023) driven by new business lending and improvements in macroeconomic scenarios resulting in fewer customers with higher PDs triggering SICR into Stage 2. There has been a decrease in coverage ratio in Stage 2 (0.82% in 2022 to 0.72% in 2023) driven by improvements in macroeconomic scenarios, 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 an increase in Stage 3 coverage ratio (Stage 3: 2.70% in 2022 to 4.05% in 2023) due to one single name case that triggered default.

**Payment performance**

Portfolio arrears have increased from a low base during 2023 due to the impact of the cost of living and interest rate rises. The proportion of the portfolio with >1 and <3 months in arrears has increased from 0.63% to 0.97% of the total retail mortgage portfolio, and the proportion of the portfolio with three or more missed payments has increased from 0.73% to 1.06%. A greater increase in arrears has been observed on the legacy acquired portfolios due to the portfolios being in run-off and there being a larger proportion of mortgages with variable rates in these portfolios. The acquired portfolios were not written under Metro Bank credit criteria and do not represent similar arrears profiles to organic lending. We also observe a higher increase in arrears in the buy-to-let portfolio due to this containing a larger proportion of interest only mortgages that are more sensitive to interest rate rises. Forbearance levels also remain low with 0.19% of our non-arrears portfolio subject to forbearance measures, increasing from 0.02% at December 2022.

**Interest-only lending**

Interest-only lending holds the additional risk of balance repayment at the end of the mortgage term. This risk arises principally in the mortgage book where the exposure to interest-only loans stands at £3.8 billion (31 December 2022: £4.1 billion).

All borrowers of interest-only facilities 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 with lower LTV thresholds compared to capital and interest mortgage lending. 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 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| Repayment type | Retail Owner Occupied | Retail BTL | Total | Retail Owner Occupied | Retail BTL | Total |
| Interest only | 1,933 | 1,878 | 3,811 | 2,005 | 2,047 | 4,052 |
| Capital and interest | 3,918 | 88 | 4,006 | 3,502 | 95 | 3,597 |
| **Total** | 5,851 | 1,966 | 7,817 | 5,507 | 2,142 | 7,649 |

**Geographic exposure**

The geographic distribution of our retail mortgages customer balances 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 which will reduce the geographical concentration of lending over time.

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

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| Region | Retail Owner Occupied | Retail BTL | Total | Retail Owner Occupied | Retail BTL | Total |
| Greater London | 2,040 | 1,091 | 3,131 | 1,937 | 1,201 | 3,138 |
| South east | 1,564 | 381 | 1,945 | 1,435 | 408 | 1,843 |
| South west | 487 | 87 | 574 | 476 | 99 | 575 |
| East of England | 590 | 150 | 740 | 531 | 163 | 694 |
| North west | 268 | 65 | 333 | 263 | 68 | 331 |
| West Midlands | 240 | 71 | 311 | 226 | 76 | 302 |
| Yorkshire and the Humber | 185 | 32 | 217 | 184 | 34 | 218 |
| East Midlands | 180 | 53 | 233 | 168 | 54 | 222 |
| Wales | 111 | 17 | 128 | 109 | 18 | 127 |
| North east | 60 | 8 | 68 | 63 | 10 | 73 |
| Northern Ireland | – | – | – | – | – | – |
| Scotland | 126 | 11 | 137 | 115 | 11 | 126 |
| **Total** | 5,851 | 1,966 | 7,817 | 5,507 | 2,142 | 7,649 |

**Collateral**

Table 10 shows the distribution of the retail mortgage portfolio by DTV. The portfolio DTV profile has increased slightly during 2023 as a result of falling house prices.

**Table 10: Retail mortgage lending by DTV (audited)**

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| DTV ratio | Retail Owner Occupied | Retail BTL | Total | Retail Owner Occupied | Retail BTL | Total |
| Less than 50% | 1,994 | 439 | 2,433 | 2,007 | 568 | 2,575 |
| 51–60% | 1,069 | 375 | 1,444 | 961 | 463 | 1,424 |
| 61–70% | 1,044 | 642 | 1,686 | 1,088 | 660 | 1,748 |
| 71–80% | 1,100 | 493 | 1,593 | 990 | 434 | 1,424 |
| 81–90% | 550 | 16 | 566 | 374 | 13 | 387 |
| 91–100% | 89 | – | 89 | 87 | – | 87 |
| More than 100% | 5 | 1 | 6 | – | 4 | 4 |
| **Total** | 5,851 | 1,966 | 7,817 | 5,507 | 2,142 | 7,649 |

**Portfolio level analysis — Consumer**

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

**Table 11: Consumer credit performance**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Loans and advances | 1,297 | 1,480 |
| Loss allowance | 108 | 75 |
| Coverage ratio | 8.33% | 5.07% |
| % loans in Stage 2 | 24% | 17% |
| % loans in Stage 3 | 6% | 3% |
| 90+ days past due | 5% | 3% |

**Portfolio and credit risk profile**

Consumer balances have reduced to £1.3 billion as at 31 December 2023 (31 December 2022: £1.5 billion) following a reduction in, and subsequent cessation of lending through the RateSetter brand. The portfolio is now composed of 96% lending through the RateSetter brand. The performance of this portfolio is aligned with expectations; increases in arrears and non-performing loans are in line with the growth of the book and normal portfolio maturation, and as a result of very low levels of write-offs causing an accumulation of cases in arrears. A batch write-off planned for 2024 is expected to reduce arrears levels. New lending in 2023 remained strong across fixed term and revolving products with average income and application scores remaining stable. Continual enhancements have been performed in relation to the affordability in light of the economic environment.

**Impairment**

The total ECL coverage position for consumer has increased to 8.3% as a result of the continued maturation of the portfolio and a post model overlay to reflect the uncertainty due to high inflation not fully captured in the IFRS 9 model (31 December 2022: 5.1%).

**Portfolio level analysis — Commercial**

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

**Table 12: Commercial credit performance**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Loans and advances | 3,382 | 4,160 |
| Loss allowance | 72 | 92 |
| Coverage ratio | 2.13% | 2.21% |
| % loans in Stage 2 | 12% | 12% |
| % loans in Stage 3 | 5% | 5% |
| 90+ days past due | 2% | 2% |

**Table 13: Summary of Commercial lending**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Professional buy-to-let | 465 | 731 |
| Bounce back loans | 524 | 801 |
| Coronavirus business interruption loans | 86 | 127 |
| Recovery Loan Scheme | 328 | 385 |
| Other term loans | 1,341 | 1,578 |
| **Total commercial term loans** | 2,744 | 3,622 |
| Overdrafts and revolving credit facilities | 172 | 122 |
| Cred it cards | 4 | 4 |
| Asset and invoice finance | 462 | 412 |
| **Total commercial lending** | 3,382 | 4,160 |

**Portfolio and credit risk profile**

Our commercial lending remains largely composed 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 £4,160 million to £3,382 million during 2023 reflecting the reduction in our portfolio of buy-to-let and Real Estate lending, and run-offs in Government-supported lending.

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. Early warning categories support our IFRS 9 stage classification. The percentage of the portfolio in Early warning categories has remained broadly flat since December 2022, however, some deterioration within early warning categories has been observed. Close customer management is key to identifying issues and supporting our customers.

**Impairment**

The ECL allowance has reduced to £72 million in 2023 (31 December 2022: £92 million) with coverage reducing to 2.13% (31 December 2022: 2.21%). The proportion of commercial lending in Stage 2 has remained flat at 12% (FY 2022: 12%) as a percentage of total balances. Reduced coverage reflects repayments received and reduction of cases with higher coverage, including conclusion of some larger single name cases as well as improvements in macroeconomic scenarios.

Our commercial book consists predominately of SME lending which is reflected in the coverage. The operating environment continues to be challenging and Commercial customers may be impacted by interest rates which remain higher than observed in recent years, and the impact of inflationary increases on discretionary spending and business expenses. We continue to hold appropriate levels of ECL to reflect the higher risk of default.

**Interest-only lending**

Interest-only lending in our commercial loans is concentrated towards professional buy-to-let where interest-only lending makes up 94% of professional buy-to-let lending (31 December 2022: 95%).

**Table 14: Commercial term lending – excluding BBLS by repayment type (audited)**

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| Repayment Type | Professional buy-to-let | Other term loans | Total | Professional buy-to-let | Other term loans | Total |
| Interest only | 438 | 222 | 660 | 691 | 253 | 944 |
| Capital and interest | 27 | 1,533 | 1,560 | 40 | 1,837 | 1,877 |
| **Total** | 465 | 1,755 | 2,220 | 731 | 2,090 | 2,821 |

**Geographic exposure**

The below table summarises the geographic distribution of the commercial term loans portfolio. 72% of commercial term loans are to companies in London and the South East (31 December 2022: 73%), which reflects the historical concentration of our store network.

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

**Table 15: Commercial term lending — excluding BBLS by geographic exposure (audited)**

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| Region | Professional buy-to-let | Other – term loans | Total | Professional buy-to-let | Other – term loans | Total |
| Greater London | 298 | 880 | 1,178 | 472 | 1,052 | 1,524 |
| South east | 88 | 340 | 428 | 149 | 377 | 526 |
| South west | 15 | 111 | 126 | 22 | 143 | 165 |
| East of England | 31 | 122 | 153 | 45 | 147 | 192 |
| North west | 11 | 106 | 117 | 13 | 153 | 166 |
| West Midlands | 4 | 101 | 105 | 8 | 112 | 120 |
| Yorkshire and the Humber | 2 | 17 | 19 | 3 | 23 | 26 |
| East Midlands | 9 | 44 | 53 | 12 | 43 | 55 |
| Wales | 3 | 8 | 11 | 3 | 11 | 14 |
| North east | 3 | 19 | 22 | 3 | 19 | 22 |
| Northern Ireland | 1 | 2 | 3 | 1 | 3 | 4 |
| Scotland | – | 5 | 5 | – | 7 | 7 |
| **Total** | 465 | 1,755 | 2,220 | 731 | 2,090 | 2,821 |

**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 2022. There has been an overall reduction in commercial real estate and professional buy-to-let. The following table shows the distribution of the commercial portfolio across business sectors.

**Table 16: Commercial term lending — excluding BBLS by sector exposure (audited)**

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| Region | 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) | 465 | 509 | 974 | 731 | 681 | 1,412 |
| Hospitality | – | 368 | 368 | – | 372 | 372 |
| Health & social work | – | 298 | 298 | – | 334 | 334 |
| Legal, accountancy & consultancy | – | 150 | 150 | – | 196 | 196 |
| Retail | – | 136 | 136 | – | 161 | 161 |
| Real estate (develop) | – | 14 | 14 | – | 6 | 6 |
| Recreation, cultural & sport | – | 72 | 72 | – | 87 | 87 |
| Construction | – | 48 | 48 | – | 62 | 62 |
| Education | – | 19 | 19 | – | 17 | 17 |
| Real estate (management of) | – | 7 | 7 | – | 9 | 9 |
| Investment & unit trusts | – | 7 | 7 | – | 11 | 11 |
| Other | – | 127 | 127 | – | 154 | 154 |
| **Total commercial term lending** | 465 | 1,755 | 2,220 | 731 | 2,090 | 2,821 |

**Collateral**

DTV is calculated for property and cash backed lending in commercial. As of 31 December 2023, 76% of this secured lending had a DTV of 80% or less, 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 but does provide an additional level of credit risk mitigation. DTV >100% also includes government-backed lending where the facility does not also benefit from property collateral. The decrease in DTV >100% in 2023 reflects a reduction in government-backed lending. The following table shows the distribution of the commercial portfolio DTV.

**Table 17: Commercial term lending – excluding BBLS by DTV (audited)**

| | 31 December 2023 (£'million) | | | 31 December 2022 (£'million) | | |
|---|---|---|---|---|---|---|
| DTV ratio | Professional buy-to-let | Other term loans | Total | Professional buy-to-let | Other term loans | Total |
| Less than 50% | 160 | 707 | 867 | 278 | 817 | 1,095 |
| 51 to 60% | 59 | 319 | 378 | 158 | 433 | 591 |
| 61 to 70% | 105 | 185 | 290 | 219 | 112 | 331 |
| 71 to 80% | 76 | 79 | 155 | 62 | 76 | 138 |
| 81 to 90% | 60 | 21 | 81 | 3 | 53 | 56 |
| 91 to 100% | 2 | 11 | 13 | 5 | 12 | 17 |
| More than 100% | 3 | 433 | 436 | 6 | 587 | 593 |
| **Total** | 465 | 1,755 | 2,220 | 731 | 2,090 | 2,821 |

**Government-backed lending**
The table below summarises government-backed lending.

**Table 18: Government-backed lending**

| | 31 December 2023 | | | |
|---|---|---|---|---|
| | No. of loans | Drawn balance £'million | Average loan amount £'000 | % of total business lending |
| Bounce Back Loan Scheme | 22,062 | 524 | 24 | 18.8% |
| Coronavirus Business Interruption Loan Scheme | 240 | 86 | 358 | 3.0% |
| Coronavirus Large Business Interruption Loan Scheme | 2 | 8 | 3,920 | 0.3% |
| Recovery Loan Scheme[1] | 1,304 | 328 | 252 | 11.6% |
| **Total government-backed lending** | 23,608 | 946 | 40 | 33.7% |

| | 31 December 2022 | | | |
|---|---|---|---|---|
| | No. of loans | Drawn balance £'million | Average loan amount £'000 | % of total business lending |
| Bounce Back Loan Scheme | 26,824 | 801 | 30 | 21.7% |
| Coronavirus Business Interruption Loan Scheme | 279 | 127 | 455 | 3.4% |
| Coronavirus Large Business Interruption Loan Scheme | 4 | 26 | 6,580 | 0.7% |
| Recovery Loan Scheme[1] | 1,349 | 385 | 285 | 10.4% |
| **Total government-backed lending** | 28,456 | 1,339 | 47 | 36.2% |

1. Recovery loan scheme includes £71 million acquired from third parties under forward flow arrangements (31 December 2022: £97 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 2023, we had undrawn facilities granted to retail and commercial customers of £718 million (2022: £1,120 million).

As part of our retail and commercial operations, this includes commitments of £327 million (2022: £250 million) for 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.

## 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 2023 we held £4.9 billion (31 December 2022: £5.9 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 19: Investment securities by credit rating (audited)**

| | 31 December 2023 £'million | | | 31 December 2022 £'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 | 3,400 | 256 | 3,656 | 3,649 | 356 | 4,005 |
| AA- to AA+ | 1,003 | 220 | 1,223 | 1,694 | 215 | 1,909 |
| **Total** | 4,403 | 476 | 4,879 | 5,343 | 571 | 5,914 |

We have a robust securities investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2023, 75% of our investment securities were rated as AAA (31 December 2022: 68%) with the remainder rated AA- or higher, the majority of which comprises of UK gilts.

Additionally, we hold £3.9 billion (31 December 2022: £2.0 billion) in cash balances, which is either held by ourselves or at the Bank of England.

## Response

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.

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, 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 2023 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 the Bank's strategy as well as the macroeconomic outlook.

We continue to maintain our climate change risk management capabilities and have policies that 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.

Individual credit decisions are controlled through both quantitative models and review under delegated lending authority depending on the product, materiality, and complexity of the exposure. These assessments take into account the potential for future stress in customers' financial positions. We mitigate credit risk through holding collateral against our retail mortgage and commercial term loan portfolios. 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. Outcome of the scenario based analysis have indicated that we are considered to have sufficient capital to withstand the losses associated with the climate scenarios that have been assessed.

This robust framework continues to support underlying portfolio resilience as cost-of-living and interest rate pressures have materialised.

**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 develop 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 2023, 80% (31 December 2022: 78%) of our loans consisted of retail mortgages and commercial term loans, with average debt to value of 58% (31 December 2022: 56%) and 55% (31 December 2022: 55%) respectively.

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.

**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 the Bank 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 & 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.

## Monitoring/reporting

**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 the 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 the Bank's functions that design, distribute, approve and service credit facilities, referred to in this document as the 'lending functions'. These are the functions under the management of the Managing Director, Corporate and Commercial Banking, Managing Director, Retail and Business Banking, and the Chief Commercial 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 (CCO) who, in turn, reports to the Chief Risk Officer. The CCO, 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, and
- Monitoring and reporting credit risk performance.

**Monitoring**
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 and loss given default, and measures of concentration risk. Stress testing is conducted to assess the impact on ECL and RWAs.

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 include a 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 probability of default and loss given default, 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 the 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 Internal Ratings Based (IRB) models as part of our journey to seek permission to use the IRB approach to calculate risk-weighted exposure amounts for credit risk.

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 warning list categories one to three. Closer Monitoring and Early Warning List categories support IFRS9 stage classification.

We monitor the effectiveness of our policies and management framework through the various credit risk committees outlined above. 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.

**Future focus**
Our overall approach to credit risk management, level of provisions and portfolio shape has put us in a strong position to remain resilient throughout 2024.

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 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.

### Risk definition
The risk that financial resources are not adequate in terms of capital, in order to ensure that these resources can cover the nature and level of the risks to which the Bank is or might be exposed.

### Risk appetite statement
The Bank has a cautious appetite for Capital Risk. The Board has determined that the Bank shall be able to maintain a surplus of regulatory capital resources above its total regulatory capital requirement plus public buffers, as communicated by the regulator, with a buffer to include the amount of capital identified as required through the Bank's ICAAP, utilising an appropriate mix of regulatory capital.

### Exposure and assessment
Capital risk exposures arise from the depletion of our capital resources which may result from:

- Increased risk-weighted assets (RWAs).
- Losses.
- Unfavourable changes to regulatory minima or other regulatory rule changes.

Our capital risk management approach is centred around ensuring we can maintain appropriate levels of capital to meet regulatory minima and support our strategic objectives under both normal and stressed conditions.

Capitalisation is a core component of our annual planning process, involving the creation of our budget and Long Term Plan. This sets the forecast of our capital position through the planning horizon and is further assessed through our ICAAP scenarios, where the scale of risks to capital is fully considered, and allows the Bank to make informed judgements on risks, the adequacy of capital carried to support them and the overall robustness of our capital risk management approach. Management actions to preserve capital are identified and applied, where relevant to those scenarios.

Capital risk is a core focus and our current and forecast capital position is regularly monitored by the ALCO and ExCo and reported to ROC and the Board. This involves the production of reports including capital forecasts for the Board and management, which are compared to our risk appetite and limits for acceptable capitalisation.

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.

**Table 20: Key regulatory metrics and ratios**

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| CET1 ratio | 13.3% | 10.3% |
| Tier 1 ratio | 13.3% | 10.3% |
| Total capital ratio | 15.3% | 13.4% |
| MREL ratio | 22.2% | 17.7% |
| Leverage ratio | 5.4% | 4.2% |

**Capital resources**
The capital raise completed in November saw the Bank issue £150 million of new equity and £175 million in new MREL eligible debt. We ended the year with CET1, Tier 1 and total capital plus MREL ratios of 13.3%, 13.3% and 22.2% respectively (31 December 2022: 10.3%, 10.3% and 17.7%).

In addition to raising new capital, we also refinanced all of our existing regulatory debt. This consisted of £350 million of MREL, which now has a call date of 30 April 2028, providing additional runway for us to deliver our strategy. Alongside this, we replaced our existing £250 million of Tier 2 debt with £150 million of new instruments.

Our capital resources as at 31 December 2023 are summarised below:

**Table 21: Regulatory capital**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Share capital | – | – |
| Share premium | 144 | 1,964 |
| Retained earnings | 997 | (1,015) |
| Other reserves | 12 | 7 |
| Intangible assets | (193) | (216) |
| Other regulatory adjustments | 44 | 79 |
| **Total Tier 1 capital (CET1)** | 1,004 | 819 |
| Debt securities (Tier2) | 150 | 250 |
| **Total Tier 2 capital** | 150 | 250 |
| **Total regulatory capital** | 1,154 | 1,069 |

**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.

**Table 22: Capital requirements**

| | 31 December 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | CET1 | Total capital | CET1 | Total capital |
| Pillar 1 | 4.5% | 8.0% | 4.5% | 8.0% |
| Pillar 2A | 0.2% | 0.4% | 0.3% | 0.5% |
| **Total capital requirement** | 4.7% | 8.4% | 4.8% | 8.5% |
| Capital conservation buffer | 2.5% | 2.5% | 2.5% | 2.5% |
| UK countercyclical buffer | 2.0% | 2.0% | 1.0% | 1.0% |
| **Total (excluding PRA buffer, if applicable)** | 9.2% | 12.9% | 8.3% | 12.0% |

**Capital landscape**

**Basel 3.1**

The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market risk, credit valuation adjustment risk, counterparty credit risk, and operational risk, with the remaining elements of the standards expected to be published in Q2 2024. Discovery sessions are ongoing to develop more precise estimates of the likely impact on the Bank.

**Resolvability regime**

Financial institutions, with total assets greater than £15-25 billion, are subject to stringent MREL 'bail-in' requirements meaning that we will need to continue to hold and issue MREL eligible debt. In order to give further effect to the resolvability regime, the Bank has established a holding company.

**Resolvability assessment framework**

The Bank of England (BoE) introduced its Resolvability Assessment Framework (RAF), 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 conducted an internal resolution readiness assessment during 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. Following a review of our RAF and the successful issuance of MREL, the BoE confirmed that the Bank is resolvable.

**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.

**Risk-weighted assets**

Our RWAs decreased over the course of 2023 to £7,533 million (31 December 2021: £7,990 million).

**Table 23: RWAs**

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Exposure | Risk density | RWAs | Exposure | Risk density | RWAs |
| Loans and advances | 12,297 | 46% | 5,597 | 13,102 | 45% | 5,949 |
| Treasury portfolio | 8,770 | 3% | 242 | 7,870 | 3% | 265 |
| Other assets | 1,181 | 75% | 886 | 1,147 | 75% | 859 |
| **Total Assets** | 22,248 | 30% | 6,725 | 22,119 | 32% | 7,073 |
| Off-balance sheet | | | 79 | | | 169 |
| Credit risk (exc. CCR) | | | 6,804 | | | 7,242 |
| CCR, Market risk and Operational risk | | | 729 | | | 748 |
| **Total RWAs** | | | 7,533 | | | 7,990 |

### Response

Capital risk management 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 managing our RWAs.
- Continuing to assess the raising of external regulatory debt capital, as and when market conditions and opportunities allow.

#### Sustainable profit growth

The main long-term management approach to capital 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.

#### 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 enhance our capital ratios by matching originations to the level of asset run-off.

#### Raising of additional capital

The ability to raise additional capital, as well as the associated cost, is dependent upon market conditions and perceptions and is monitored closely.

### Monitoring/reporting

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 making enhancements to our control environment to ensure we are continuing to produce accurate and reliable capital reporting and deliver against these expectations.

## Liquidity and funding risk

### Risk definition

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).

### Risk appetite statement

**Liquidity** — The Bank has a cautious appetite for Liquidity risk. The Board has determined that the bank shall 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 the Bank's internal risk appetite stress test, utilising the Bank's Liquidity Pool, having identified the Bank's material liquidity risks.

**Funding** — The Bank has a cautious appetite for Funding risk. The Board has determined that the Bank shall maintain a prudent funding profile by using stable funding to fund illiquid assets, without undue reliance on wholesale funding markets, whilst ensuring that funding is not inappropriately concentrated by customer, sector or term, as identified during the Bank's liquidity stress testing.

**Encumbrance** — The Bank has a cautious appetite for Encumbrance risk. The Board has determined that encumbrance of its balance sheet should be no greater than 30% of the Bank's total assets in business-as-usual conditions, and unlimited in relation to any encumbrance relating to repo or use of Bank of England facilities in order to manage through a liquidity stress situation — and to test the adequacy of those facilities from time to time.

### Exposure and assessment

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. At the start of October 2023, speculative media reports contributed to uncertainty around the Bank's capital negotiations and led to an increased outflow of customer deposits. Our strong levels of liquidity and prudent approach meant these outflows were manageable and, as at 31 December 2023 we had returned to broadly the same customer deposit levels as we reported for the third quarter, with strong liquidity and funding regulatory ratios. This was largely achieved by a successful targeted deposit campaign. As at 31 December 2023, our liquidity coverage ratio was 332% (31 December 2022: 213%) and our net stable funding ratio was 145% (31 December 2022: 134%).

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 where we remain above our minimum regulatory requirements. 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 sets appropriate limits and determines the Bank's liquidity risk appetite, and internal liquidity stress scenario. We produce regular reports on the current and forecast level of liquidity and capital, which are tracked against limits both at the operational level in Treasury and at the Executive level at ALCO.

### Response

Our liquidity and funding risk management 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 source of funding.
- 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 monitor encumbrance levels and contingent funding capacity.

### Deposit-funded approach

We aim to attract service-led core deposits which are less sensitive to competition within the deposit market. At 31 December 2023, 43% of our deposits came from commercial customers (31 December 2022: 51%) with the remaining 57% (31 December 2022: 49%) coming from retail customers. Additionally, 36% of deposits at year end 31 December 2022: 49%) 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.

**Table 24: Contractual maturity (audited)**

Table 24 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 remortgaged 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.

| Group | Carrying value | Repayable on demand £'million | Up to 3 months £'million | 3–6 months £'million | 6–12 months £'million | 1–5 years £'million | Over 5 years £'million | No contractual maturity £'million | Total £'million |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2023** | | | | | | | | | |
| Cash and balances with the Bank of England | 3,889 | 3,889 | – | – | – | – | – | – | 3,889 |
| Loans and advances to customers | 12,297 | – | 562 | 486 | 911 | 5,078 | 15,811 | 381 | 23,229 |
| Investment securities | 4,879 | – | 454 | 117 | 397 | 4,110 | 52 | 58 | 5,188 |
| Other assets | 1,202 | – | – | – | – | – | – | 1,202 | 1,202 |
| **Total assets** | 22,267 | 3,889 | 1,016 | 603 | 1,308 | 9,188 | 15,863 | 1,641 | 33,508 |
| Deposits from customers | (15,623) | (13,430) | (391) | (398) | (931) | (484) | – | (67) | (15,701) |
| Deposits from central banks and repurchase agreements | (4,241) | – | (347) | (551) | (67) | (3,621) | – | – | (4,586) |
| Debt securities | (699) | – | – | (35) | (42) | (829) | (160) | – | (1,066) |
| Other liabilities | (551) | – | (6) | (6) | (11) | (107) | (238) | (317) | (685) |
| **Total liabilities** | (21,114) | (13,430) | (744) | (990) | (1,051) | (5,041) | (398) | (384) | (22,038) |
| **Equity** | (1,153) | – | – | – | – | – | – | (1,153) | (1,153) |
| **Total equity and liabilities** | (22,267) | (13,430) | (744) | (990) | (1,051) | (5,041) | (398) | (1,537) | (23,191) |
| Derivative cashflows | | – | 2 | – | (3) | 37 | 1 | – | 37 |
| **Cumulative liquidity gap** | | (9,541) | (9,267) | (9,654) | (9,400) | (5,216) | 10,250 | | |

| Group | Carrying value £'million | Repayable on demand £'million | Up to 3 months £'million | 3 to 6 months £'million | 6 to 12 months £'million | 1 to 5 years £'million | Over 5 years £'million | No contractual maturity £'million | Total £'million |
|---|---|---|---|---|---|---|---|---|---|
| **31 December 2022** | | | | | | | | | |
| Cash and balances with the Bank of England | 1,956 | 1,956 | – | – | – | – | – | – | 1,956 |
| Loans and advances to customers | 13,102 | – | 573 | 507 | 942 | 5,472 | 17,525 | 341 | 25,360 |
| Investment securities | 5,914 | – | 576 | 206 | 951 | 4,312 | 164 | 59 | 6,268 |
| Other assets | 1,147 | – | – | – | – | – | – | 1,147 | 1,147 |
| **Total assets** | 22,119 | 1,956 | 1,149 | 713 | 1,893 | 9,784 | 17,689 | 1,547 | 34,731 |
| Deposits from customers | (16,014) | (15,310) | (139) | (136) | (201) | (162) | – | (75) | (16,023) |
| Deposits from central banks and repurchase agreements | (4,038) | – | (215) | (41) | (147) | (4,147) | – | – | (4,550) |
| Debt securities | (571) | – | – | (272) | (17) | (383) | – | – | (672) |
| Other liabilities | (540) | – | (6) | (6) | (12) | (111) | (263) | (292) | (690) |
| **Total liabilities** | (21,163) | (15,310) | (360) | (455) | (377) | (4,803) | (263) | (367) | (21,935) |
| **Equity** | (956) | – | – | – | – | – | – | (956) | (956) |
| **Total equity and liabilities** | (22,119) | (15,310) | (360) | (455) | (377) | (4,803) | (263) | (1,323) | (22,891) |
| Derivative cashflows | | – | (2) | (1) | (3) | – | – | – | (6) |
| **Cumulative liquidity gap** | | (13,354) | (12,567) | (12,310) | (10,797) | (5,816) | 11,610 | | |

### Monitoring/reporting
We consider the effective and prudent management of liquidity to be fundamental to our ongoing resilience 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 independently monitor our liquidity and funding risk daily including ensuring compliance with the policies we have developed. A regulatory reporting team also monitors compliance with relevant metrics.

## Market risk

### Risk definition
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.

### Risk appetite statement
Our market risk appetite is determined by reference to a number of sub-risk appetites:

**Earning sensitivity** —We have a low appetite for earnings risk, with the Board determining a limit calibrated to ensure net interest income does not exceed 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 sensitivity** — 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.

### Exposure and assessment
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 in making 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 is 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. During 2023, we reached the peak of the current interest rate cycle and at year end remain well within our risk appetite and supervisory outlier tests.

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 in line 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 managing market risk within our market risk policy and strategy. We have a dedicated prudential risk team who independently monitor our market risk daily including ensuring compliance with the policies we have developed. The Prudential risk function runs additional interest rate risk simulations monthly to assess other threats that may not be evident in the standard parallel shock metrics or supervisory outlier tests.

## Response

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.

**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 identified and 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.

## Monitoring/reporting

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 the Bank of England base rate and the Sterling Overnight Index Average (SONIA), which replaced the London Inter-Bank Offered Rate (LIBOR) from January 2022.

**Interest rate risk**

Table 25 sets 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 prepayments 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 25: Repricing analysis (audited)**

| 31 December 2023 | Up to 3 months £'million | 3 to 6 months £'million | 6 to 12 months £'million | 1 to 5 years £'million | Over 5 years £'million | Non-interest bearing £'million | Total £'million |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 3,815 | – | – | – | – | 74 | 3,889 |
| Loans and advances to customers | 3,803 | 860 | 1,499 | 6,063 | 71 | 1 | 12,297 |
| Investment securities | 2,029 | 3 | 154 | 2,642 | 51 | – | 4,879 |
| Other assets | – | – | – | – | – | 1,202 | 1,202 |
| **Total assets** | 9,647 | 863 | 1,653 | 8,705 | 122 | 1,277 | 22,267 |
| Deposits from customers | (6,829) | (734) | (1,607) | (5,897) | (556) | – | (15,623) |
| Deposits from central banks and repurchase agreements | (4,241) | – | – | – | – | – | (4,241) |
| Debt securities | – | – | – | (549) | (150) | – | (699) |
| Other liabilities | – | – | – | – | – | (551) | (551) |
| **Total liabilities** | (11,070) | (734) | (1,607) | (6,446) | (706) | (551) | (21,114) |
| Equity | (24) | (23) | (47) | (374) | – | (685) | (1,153) |
| **Total equity and liabilities** | (11,094) | (757) | (1,654) | (6,820) | (706) | (1,236) | (22,267) |
| Interest rate derivatives | (145) | (2) | – | (3) | 150 | – | - |
| Interest rate sensitivity gap | (1,591) | 104 | (1) | 1,882 | (434) | 41 | 1 |
| **Cumulative gap** | (1,592) | (1,488) | (1,489) | 393 | (41) | – | (4,217) |

| 31 December 2022 | Up to 3 months £'million | 3 to 6 months £'million | 6 to 12 months £'million | 1 to 5 years £'million | Over 5 years £'million | Non-interest bearing £'million | Total £'million |
|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 1,881 | – | – | – | – | 75 | 1,956 |
| Loans and advances to customers | 4,154 | 915 | 2,010 | 5,850 | 173 | – | 13,102 |
| Investment securities (AC & FVOCI) | 2,163 | – | 539 | 3,052 | 160 | – | 5,914 |
| Other assets | – | – | – | – | – | 1,147 | 1,147 |
| **Total assets** | 8,198 | 915 | 2,549 | 8,902 | 333 | 1,222 | 22,119 |
| Deposits from customers | (6,186) | (613) | (1,154) | (7,456) | (605) | – | (16,014) |
| Deposits from BoE and repos | (3,978) | – | (60) | – | – | – | (4,038) |
| Debt | – | (249) | – | (322) | – | – | (571) |
| Other liabilities | – | – | – | – | – | (540) | (540) |
| **Total liabilities** | (10,164) | (862) | (1,214) | (7,778) | (605) | (540) | (21,163) |
| Equity | (760) | (10) | (21) | (165) | – | – | (956) |
| **Total equity and liabilities** | (10,924) | (872) | (1,235) | (7,943) | (605) | (540) | (22,119) |
| Interest rate derivatives | (68) | 40 | (62) | 105 | (15) | – | - |
| Interest rate sensitivity gap | (2,794) | 83 | 1,252 | 1,064 | (287) | 682 | – |
| **Cumulative gap** | (2,794) | (2,711) | (1,459) | (395) | (682) | – | (8,041) |

Table 26 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 26: Interest rate sensitivity (audited)**

| | 200bps increase £'million | 200bps decrease £'million |
|---|---|---|
| **At 31 December 2023** | (13.8) | 14.3 |
| At 31 December 2022 | (8.3) | 8.4 |

# Non-financial risks

## Non-financial risk covers the remaining categories of risk which have the potential to impact the Bank's operations, service quality and ability to operate in a safe and compliant way. Non-financial risks include Financial crime risk, Operational risk, Conduct risk, Regulatory risk, Legal risk, Model risk and Strategic risk.

## Financial crime

### Risk definition

Financial crime risk is the risk that Metro Bank's products and service offerings will be used to facilitate financial crime. Financial crime risks include money laundering, violations of sanctions, bribery and corruption, facilitation of tax evasion and terrorist financing.

### Risk appetite statement

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.

### Exposure and assessment

Failure to prevent financial crime may result in harm to our customers, the Bank and third parties. In addition, non-compliance with regulatory and legal requirements may result in enforcement action which will have an adverse effect on Metro Bank from a financial and reputational perspective.

Our overall inherent financial crime risk remains the same as last year and continues to be medium based on our 2023 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).

### Response

We continue to deliver enhancements to our financial crime control framework to ensure that it remains fit for purpose, identifying and mitigating financial crime risk as well as delivering our financial crime strategy.

#### Investment in our systems and controls

We continued to deliver strategic enhancements to our financial crime systems throughout 2023 with equal focus on embedding previously implemented controls, as well as introducing new controls to strengthen our control framework.

#### 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. All colleagues have a key role to play in the detection and 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. We continue to invest in our sanctions control framework and keep under review the effectiveness of controls we have in place in order to ensure that sanctions risk is managed in line with risk appetite. 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.

#### 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 and ongoing monitoring 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 do we help facilitate tax evasion.

### Monitoring/reporting

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 teams. The results of these reviews and the status of follow up actions are escalated through our governance bodies.

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 and remediation activity is escalated and tracked through our risk committees.

#### Future focus

We are committed to safeguarding the Bank and our customers from 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, and the FCA's enquiries remain ongoing.

## Operational risk

### Risk definition
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.

### Risk appetite statement
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.

### Exposure and assessment
We operate with both a physical and a digital presence and are exposed to a broad range of operational risks across our distribution channels, businesses and functions. Operational incidents and other risk events have the potential to cause service disruption and outages, impacting internal processes, customers, as well as leading to financial losses.

Operational risks arise from day-to-day business activities and the Bank's operational resilience is an outcome that we actively monitor and oversee, including through the identification of important business services and setting of impact tolerances. Our business model, activities and processes have remained broadly consistent with those of last year and as such our material operational risk exposures are largely unchanged.

Our Operational Risk Management Framework sets the approach we take to the management of operational risks including the performance of Risk and Control Self-Assessments, consideration of a variety of disruption scenarios and recording and management of incidents and resultant operational risk losses. Operational risk is overseen by the Chief Risk Officer and teams in the first and second lines of defence, monitored via reporting to Business Risk Committees, the Non-Financial Risk Oversight Committee run by the second line, ERC and ROC.

Top operational risk exposures through the course of 2023 have included:

**Information Security and Cyber** — The risk that the confidentiality, integrity or availability of our information, data and / or systems are compromised or not compliant with regulatory requirements.

**Technology** — The risk of inadequate performance of IT infrastructure.

**Data** — The risk of the inability to identify and maintain data within agreed data standards.

**Fraud** — The risk of loss due to colleagues, customers or third parties carrying out fraud.

**Third Party** — The risk that reliance on third parties impairs the bank's performance/operational resilience, including the ability to provide excellent customer service and to manage risk effectively.

**People** — The risk of the inability to attract, retain or engage colleagues who have the right capabilities to carry out the required roles within the Bank.

### Response
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 incidents and losses are recorded and 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 an assessment of a range of operational risk scenarios.

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.

Responses to our top operational risk exposures have included:

**Information Security and Cyber**
Refreshed this year, our Information Security Policy sets out 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 recognise the dynamic cyber threat landscape in which we operate and the risks that come from increased digitisation, responding by continuing to enhance the control environment and operating advanced tools to identify and resolve potential vulnerabilities.

**Technology**
We continue to invest and improve our key technology capabilities that underpin the Bank's customer service proposition and maintain our operational resilience. The Bank's technology estate is continuously reviewed to ensure it remains fit for purpose and work has been progressed to deliver required and strategic updates, risk and performance reviews of our material third-party technology providers and independent assessment of our technology resilience. We continue to patch and upgrade our systems and platforms and keep an open dialogue with our regulators on actual or potential disruption events.

**Data**
The effective use and maintenance of our data underpins the success of our strategy as well as our ability to deliver good customer outcomes. This year our Data Management Policy has been comprehensively refreshed, reflective of good practice and designed in line with regulatory requirements concerning the creation, storage, distribution, usage and deletion of data. Ownership and accountability for data is defined and controls are in place to safeguard its access and use. A dedicated Data Governance forum is in place to oversee adherence to standards and data management maturity, with representatives from across the three lines of defence.

**Fraud**
The safety and security of our customers and their money 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 push payment fraud remains an increasing threat across the banking industry and we continuously review and enhance our prevention and detection capabilities in response, notably implementing Confirmation of Payee for our customers in 2023. We share fraud prevention trends and best practice via our various communication channels and pay close attention to supporting customers that fall victims of fraud to ensure they receive a good outcome.

**Third Party**
We operate in close collaboration with numerous third parties, with those relationships underpinning many of our operational processes and customer service offering. Our Procurement and Supplier Risk Policy sets out our robust approach for safely managing our third-party relationships, including the potential impacts to our important business processes. Our supplier risk team provides ongoing oversight and monitoring of our material third parties in line with regulatory requirements and undertakes independent assurance as required.

**People**
Our people are central to our community banking strategy, building strong relationships by living our AMAZEING values, meeting and exceeding customer expectations. Our dedicated people team provides business support in resource management, talent identification and training and the Bank has continued to actively manage its resource mix to ensure we have the right colleagues, in the right place, at the right time.

### Monitoring/reporting
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.

Business Risk Committees manage operational risks at business area level, supported by forums and working groups. Key risk indicators are in place to monitor our operational risk exposures against stated risk appetite and these are reported to the Non-Financial Risk Oversight Committee which further escalates to ERC and ROC where appropriate.

**Future focus**
Work to further mature our management of operational risk will continue in 2024. Making use of tooling introduced and embedded over the course of the year, increased use of data driven insights will empower business teams to further refine their risk assessments and enhance and streamline the control environment. Our operational risk profile will remain under close review as the Bank implements its strategy, with particular focus on increased use of technology and automation.

## Conduct risk

### Risk definition
The risk that our behaviours or actions result in poor outcomes or detriment to customers and/or undermines market integrity.

### Risk appetite statement
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 poor outcomes or lead to customer detriment. Where poor outcomes are identified they must be remediated effectively to minimise risk, prevent recurrence, reduce customer harm, and reasonably avoid foreseeable harm.

### Exposure and assessment
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 resulting from 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 following specific life events, or facing financial difficulties due to the cost-of-living pressures, or who may be the victim of fraudulent activity.

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.

### Response
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 in line with the requirements of Consumer Duty.

- 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.

### Monitoring/reporting

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.

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 tracking and challenging adherence to our risk appetite through our Bank 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 frameworks.

#### Future focus

In line with the requirements of Consumer Duty, 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 and avoid foreseeable harm.

## Regulatory risk

### Risk definition

The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.

### Risk appetite statement

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 ensure we comply with future changes to the regulatory landscape.

### Exposure and assessment

We remain exposed to regulatory risk arising from our normal day-to-day business activities, as well as significant ongoing and new regulatory changes. We manage regulatory risk through a combination of clearly defined risk frameworks covering our principal risks, and 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.

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 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.

### Response

#### Investment in our systems and controls

We continue to invest in and develop our core systems and controls to enable us to meet existing and new regulatory requirements. Key areas of focus in 2023 included:

- Financial crime.
- Outsourcing and third-party management.
- Operational resilience.
- Open banking.
- Implementation of the Holding Company.
- Consumer Duty.
- New Payment requirements (confirmation of payee).

### Monitoring/reporting

#### 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. 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 regulator’s strategic priorities, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk appetite measures and Board-approved frameworks.

#### Future focus

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 to ensure that these remain up to date and reflect current regulatory priorities. During 2024, 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.

## Legal risk

### Risk definition
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 the law applies to the Directors, the business, and its relationships, processes, products and services.

### Risk appetite statement
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 exposure
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).

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.

### Response
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.

### Monitoring/reporting
A range of key risk indicators are 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 139.

#### Future focus
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, further refinement to the suite of key risk indicators is planned in 2024.

## Model risk

### Risk definition
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.

### Risk appetite statement
We adopt a cautious appetite for risk due to errors in the development, implementation or use of models, which we mitigate via effective governance over the specification and design, implementation and running of our models and over model input data.

### Assessment and exposure
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 is assessed via our Model Risk Index and underlying key risk indicators, which include monitoring of the materiality and complexity of our models.

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.

### Response

The main mitigant to model risk is the robust governance process, 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 monitor the effectiveness of the Model Risk Management Framework. 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.

### Monitoring/reporting

Our Model Risk Management Framework sets out the roles and responsibilities of the various stakeholders, underpinned by robust governance of model risk supported by model development, monitoring, validation, implementation and risk appetite standards.

Exposure against the key risk indicators is reported to the model risk committees, ERC and ROC on a monthly basis and periodic, more detailed assessments are also reported through the risk governance structure.

#### Future focus

We continue to enhance and evolve governance of model risk. Whilst we are a standardised bank and do not need to comply by the regulatory deadline, we are working towards complying with the principles of the Bank of England Supervisory Statement SS1/23 ‘Model risk management principles for banks’.

## Strategic risk

### Risk definition

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.

### Risk appetite statement

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, including providing a risk review to support Board approval.

### Assessment and exposure

During 2023, we remained focused on the execution of our strategy with the return to profitability in the first half of the year demonstrating the strengths of our community banking strategy. The second half of the year saw a combination of increased capital requirements together with a setback in our ambition to achieve AIRB accreditation for residential mortgages. These factors put pressure on our capital position and restrained the levels to which we were able to grow capital organically. Despite challenging market conditions, we were successful in delivering a £925 million capital package which included the raising of new capital as well as the refinancing of our existing regulatory debt. We now need to successfully execute on the opportunities the capital affords us and meet stakeholder expectations.

### Response

Strategic risk is considered in everything we do, as having a clear and successful strategy is key to the Bank achieving its goals. This includes reporting our success in relation to our competitors, our monitoring and governance of ESG-related issues and requirements and an ongoing assessment of the geopolitical and macroeconomic landscape we operate within.

We continue to oversee the development and execution of our strategy on an ongoing basis through regular in-depth management reviews of business performance and change delivery, oversight of strategic risks through risk governance and regular updates presented to the Board. The Board undertakes an annual review of the Bank’s strategy and Long Term Plan which is supported by risk assessment reviewed at the Risk Oversight Committee. During 2023, we have continued to strengthen our cost management discipline including prioritisation and delivery of technology change through further embedding and optimising Agile ways of working.

### Monitoring/reporting

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. In addition, the emerging risks the Bank faces are assessed on at least a six-monthly basis, including strategic risks.

#### Future focus

We continue to see a high level of volatility in the external environment, with political and economic turbulence in the UK and beyond. The likelihood of a general election, ongoing cost-of-living pressures and a subdued UK economy, as well as continuing conflicts in both Ukraine and the Middle East, provide a challenging backdrop for the execution of strategy.

Monitoring of performance will remain heightened with close Board oversight of the efficacy of the strategy and its implementation. This will be supported by ongoing risk assessment to support active management of the evolving risk profile, with oversight from the Risk Oversight Committee. The Bank continues to conduct horizon scanning against emerging risks which may have a severe impact and will adjust its approach accordingly.

# Financial Statements

**Financial statements**

87 Independent auditors' report to the members of Metro Bank PLC
93 Consolidated statement of comprehensive income
94 Consolidated balance sheet
95 Consolidated statement of changes in equity
96 Consolidated cash flow statement
97 Notes to the financial statements
145 Company balance sheet
146 Company statement of changes in equity
147 Company cash flow statement
148 Notes to the financial statements

# 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 2023 and of the group's profit 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, which comprise: the Consolidated and Company balance sheets as at 31 December 2023; the Consolidated statement of comprehensive income; the Consolidated and Company statements of changes in equity; the Consolidated and Company cash flow statements 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 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 components 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 over 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 (group and parent)

Materiality

- Overall group materiality: £11.6m (2022: £9.6m) based on 1% of Total Equity.
- Overall company materiality: £11.5m (2022: £9.1m) based on 1% of Total Equity.
- Performance materiality: £8.7m (2022: £7.2m) (group) and £8.6m (2022: £6.8m) (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.

#### *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.

Going concern, which was a key audit matter last year, is no longer included because of the capital package announced in October 2023 by the parent company. This led to the investment of new capital into the company, refinancing of existing regulatory debt and consequently an improvement in the capital ratios. Otherwise, the key audit matters below are consistent with last year.

| *Key audit matter* | *How our audit addressed the key audit matter* |
| --- | --- |
| *Determination of allowance for expected credit losses on loans and advances to customers (group and parent)* | |
| Refer to page 46 (Audit Committee report), Note 12: Loans and advances to customers and Note 30: Expected credit losses.<br><br>The calculation of the allowance for expected credit losses (ECL) requires management to make a number of significant judgements and estimates. In 2023, the level of estimation uncertainty and judgement remained high as the UK experienced continued high levels of inflation and increases in interest rates. The uncertainty driven by weak forecast economic growth in 2024 and 2025 is expected to increase the amount of judgement required in determining ECL.<br><br>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 do not capture all relevant 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.<br><br>Across the in-scope portfolios, we identified heightened audit risk in determining the ECL for the following portfolios: Retail Mortgages, Consumer unsecured (specifically for RateSetter loans) and Commercial (excluding the small asset finance and invoice finance portfolios, and government backed loans).<br><br>Our work focused on the following key assumptions and judgements:<br>• Forward-looking economic assumptions used in the models, and the weightings selected by management. Management uses a third-party expert to determine the economic assumptions;<br>• 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 and higher interest rates;<br>•Judgements relevant to the only individually material overlay related to a Commercial post-model overlay which addressed the impact of inflation and macroeconomic uncertainty;<br>• 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<br>• Judgements applied in estimating stage 3 individual impairment allowances, specifically in relation to the valuation of collateral. | We evaluated the design and implementation of key controls but did not test the operating effectiveness of controls as we did not plan to rely on them. We performed a fully substantive audit.<br><br>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.<br><br>**Forward looking information and multiple economic scenarios**<br><br>We used our economic analysis tool developed by our economic and modelling experts utilising data from the Bank of England, HM Treasury and Consensus Economics. This tool assessed the reasonableness of management's economic scenarios and associated weightings, giving specific consideration to the current economic environment.<br><br>Where economic inputs fell outside of a reasonable range, we ensured that this was appropriately considered, including through the use of post model overlays.<br><br>We evaluated whether the scenario weights appropriately captured the economic uncertainty created by the economic risks, high inflation and interest rates, and the weak growth of the UK economy.<br><br>**Model methodology and post model overlays**<br><br>We critically assessed the methodology used in the in-scope impairment models and evaluated compliance with IFRS 9 requirements. We also tested the key assumptions and judgements which comprise the PDs, LGDs and EADs used in the calculation of provisions.<br><br>We tested the input of certain data elements into impairment models and management judgemental adjustments, including credit reviews that determine credit risk ratings for commercial customers. 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 the other in-scope portfolios our modelling specialists performed an independent code review to validate that the models were implemented in line with the group's methodology. Our credit modelling specialists also assessed the results of model monitoring performed by management, and independently re-performed the key tests.<br><br>We critically assessed and tested the expert judgements applied by management to address the credit risk in the portfolios that were not reflected in modelled outputs. We evaluated and challenged the methodologies, the accuracy of application and the completeness of overlays. Where appropriate, we ran a series of independent scenarios based on alternative assumptions, and compared the results to the ECL results produced by management.<br><br>**Significant increase in credit risk (SICR) – Commercial loans**<br><br>To test the judgements in determining whether SICR events have occurred, we evaluated the appropriateness of the SICR criteria being used. For a sample of loans across the Commercial stage 1 and 2 populations, we independently assessed the stage allocation against SICR criteria.<br><br>**Individually assessed stage 3 loans**<br><br>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 and collateral valuations, and ranges of potential outcomes, were appropriate given the borrowers' circumstances. |
| *Carrying values of non-financial assets (group and parent)*<br>Refer to page 46 (Audit Committee report), Note 14: Property, Plant and Equipment and Note 15: Intangible assets.<br>The group's tangible fixed assets 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 market value of the parent company and the 2023 operating performance of the bank indicated that the investment might be impaired.<br>Management evaluated the above non-financial assets for impairment, and estimated the recoverable amounts of those assets. As 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 non-financial assets is the 'retail bank CGU' within Metro Bank PLC.<br>The determination of the recoverable amount requires management to estimate the higher of value in use and fair value less costs to sell the retail bank CGU. This assessment is complex and involves subjective judgements. The value in use is estimated using forecast cash flows included in management's 5 year Long Term Plan ('LTP), a decreasing growth rate from years 6 to 10, a terminal growth rate and a discount rate. There are methodology judgements required in determining a value in use in compliance with IAS 36 'Impairment of assets'. The LTP is also supported by various assumptions relating to compliance with regulatory capital requirements.<br>Management concluded that no impairment existed as at 31 December 2023. The forecast cash flows in the LTP, in particular relating to net interest income, 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.<br>Our work included the following substantive tests:<br>• Tested the mathematical integrity of the impairment model and agreed the relevant inputs to the Board approved LTP;<br>• Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements;<br>• Reviewed the forecasts in the LTP and evaluated these for reasonableness. We made inquiries of management, inspected business plans and critically assessed management's growth assumptions, including those relating to net interest income, using third party evidence where relevant.<br>• 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; and<br>• Engaged our valuation specialists in assessing the reasonableness of the discount rate and terminal growth rate. |

### *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 of Metro Bank PLC. 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 70, 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 within Metro Bank PLC, which we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the Biennial Exploratory Scenario climate stress testing performed in 2021. As a result of their assessment, an immaterial model overlay was recognised in 2021, and continues to be held as at 31 December 2023.

The group comprises three components. Any components which were considered individually financially significant in the context of the group's consolidated financial statements 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 Metro Bank PLC (the company).

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 and SME Invoice 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* | £11.6m (2022: £9.6m). | £11.5m (2022: £9.1m). |
| *How we determined it* | 1% of Total Equity | 1% of Total Equity |
| *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. | 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. |

For each component in the scope of our group audit, we allocated a materiality that is 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% (2022: 75%) of overall materiality, amounting to £8.7m (2022: £7.2m) for the group financial statements and £8.6m (2022: £6.8m) 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) (2022: £0.5m) and £0.5m (company audit) (2022: £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:

- Understanding the Directors' going concern assessment process, including the preparation and approval of the budget and LTP. We obtained management's Board approved forecast covering the period of the going concern assessment to 30 June 2025. 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 Group 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 2023 budget and the actual results to assess the accuracy of the budgeting process;
- Evaluation of the appropriateness of management's severe but plausible scenario 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 achievable 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 Metro Bank PLC's liquidity position to its regulatory liquidity reporting returns;
- Reviewing correspondence between the bank and its regulators and we met with the PRA during the audit and understood the PRA's perspectives on the bank's risks and its capital and liquidity 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 29 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.

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. 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 2023 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.

### Corporate governance statement

ISAs (UK) 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, which the Company has voluntarily adopted as if it were a premium listed company subject to the Listing Rules of the Financial Conduct Authority. 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.

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 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. 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;
- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers and the assessment of the carrying value of non-financial assets (see related key audit matters); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those related to significant one off or unusual transactions, year-end provisions or write downs, 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 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 14 years, covering the years ended 31 December 2010 to 31 December 2023.

Jonathan Holloway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 April 2024

# Consolidated statement of comprehensive income

For the year ended 31 December 2023

| | Notes | Years ended 31 December 2023 £'million | 2022 £'million |
|---|---|---|---|
| Interest income | 2 | 855.7 | 563.7 |
| Interest expense | 2 | (443.8) | (159.6) |
| **Net interest income** | | 411.9 | 404.1 |
| Fee and commission income | 3 | 95.0 | 84.4 |
| Fee and commission expense | 3 | (4.6) | (2.6) |
| **Net fee and commission income** | | 90.4 | 81.8 |
| Net gains on sale of assets | 4 | 2.7 | – |
| Other income[1] | 5 | 143.9 | 37.6 |
| **Total income** | | 648.9 | 523.5 |
| General operating expenses | 6 | (484.1) | (467.6) |
| Depreciation and amortisation | 14, 15 | (77.7) | (77.0) |
| Impairment and write-offs of property, plant, equipment and intangible assets | 14, 15 | (4.6) | (9.7) |
| **Total operating expenses** | | (566.4) | (554.3) |
| Expected credit loss expense | 30 | (33.2) | (39.9) |
| **Profit/(loss) before tax** | | 49.3 | (70.7) |
| Taxation | 9 | (1.0) | (2.0) |
| **Profit/(loss) for the year** | | 48.3 | (72.7) |
| **Other comprehensive income/(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 | 2.4 | (7.6) |
| **Total other comprehensive income/(expense)** | | 2.4 | (7.6) |
| **Total comprehensive profit/(loss) for the year** | | 50.7 | (80.3) |

1. Other income includes a £100m gain on debt extinguishment.

The accompanying notes form an integral part of these financial statements.

# Consolidated balance sheet

As at 31 December 2023

| | Notes | Years ended 31 December 2023 £'million | 2022 £'million |
|---|---|---|---|
| Cash and balances with the Bank of England | 11 | 3,889 | 1,956 |
| Loans and advances to customers | 12 | 12,297 | 13,102 |
| Investment securities held at fair value through other comprehensive income | 13 | 476 | 571 |
| Investment securities held at amortised cost | 13 | 4,403 | 5,343 |
| Financial assets held at fair value through profit and loss | | – | 1 |
| Derivative financial assets | 21 | 36 | 23 |
| Property, plant and equipment | 14 | 723 | 748 |
| Intangible assets | 15 | 193 | 216 |
| Prepayments and accrued income | 16 | 118 | 85 |
| Assets classified as held for sale | 14 | – | 1 |
| Other assets | 17 | 132 | 73 |
| **Total assets** | | 22,267 | 22,119 |
| Deposits from customers | 18 | 15,623 | 16,014 |
| Deposits from central banks | 19 | 3,050 | 3,800 |
| Debt securities | 20 | 699 | 571 |
| Repurchase agreements | 10 | 1,191 | 238 |
| Derivative financial liabilities | 21 | – | 26 |
| Lease liabilities | 22 | 234 | 248 |
| Deferred grants | 23 | 16 | 17 |
| Provisions | 24 | 23 | 7 |
| Deferred tax liability | 9 | 13 | 12 |
| Other liabilities | 25 | 265 | 230 |
| **Total liabilities** | | 21,114 | 21,163 |
| Called-up share capital | 26 | – | – |
| Share premium | 26 | 144 | 1,964 |
| Retained earnings | 27 | 997 | (1,015) |
| Other reserves | 28 | 12 | 7 |
| **Total equity** | | 1,153 | 956 |
| **Total equity and liabilities** | | 22,267 | 22,119 |

The accompanying notes form an integral part of these financial statements. They were approved by the Board of Directors on 23 April 2024 and signed on its behalf by:

**Robert Sharpe**
Chair

**Daniel Frumkin**
Chief Executive Officer

# Consolidated statement of changes in equity

For the year ended 31 December 2023

| | Called-up share capital £'million | Share premium £'million | Retained earnings £'million | FVOCI reserve £'million | Share option reserve £'million | Deemed capital contribution £'million | Total equity £'million |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2023** | – | 1,964 | (1,015) | (13) | 20 | – | 956 |
| Profit for the year | – | – | 48 | – | – | – | 48 |
| Other comprehensive income (net of tax) relating to investment securities designated at FVOCI | – | – | – | 2 | – | – | 2 |
| Total comprehensive income | – | – | 48 | 2 | – | – | 50 |
| Net share option movements | – | – | – | – | 3 | – | 3 |
| Transfer of share option reserve upon insertion of new holdings company | – | – | – | – | (23) | 23 | – |
| Cancellation of Metro Bank PLC share capital and share premium[1] | – | (1,964) | 1,964 | – | – | – | – |
| Shares issued | – | 144 | – | – | – | – | 144 |
| **Balance as at 31 December 2023** | – | 144 | 997 | (11) | – | 23 | 1,153 |
| **Balance as at 1 January 2022** | – | 1,964 | (942) | (5) | 18 | – | 1,035 |
| Loss for the year | – | – | (73) | – | – | – | (73) |
| Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI | – | – | – | (8) | – | – | (8) |
| Total comprehensive loss | – | – | (73) | (8) | – | – | (81) |
| Net share option movements | – | – | – | – | 2 | – | 2 |
| **Balance as at 31 December 2022** | – | 1,964 | (1,015) | (13) | 20 | – | 956 |
| Notes | | 26 | 27 | 28 | 28 | – | |

1. The cancelled called up share capital of Metro Bank PLC and new share capital of Metro Bank PLC amount to £172 and as such have been rounded to £nil.

The accompanying notes form an integral part of these financial statements.

# Consolidated cash flow statement

For the year ended 31 December 2023

| | Notes | Years ended 31 December 2023 £'million | 2022 £'million |
|---|---|---|---|
| **Reconciliation of profit/(loss) before tax to net cash flows from operating activities:** | | | |
| **Profit/(loss) before tax** | | 49 | (71) |
| Adjustments for non-cash items | 36 | (377) | (273) |
| Interest received | | 834 | 553 |
| Interest paid | | (370) | (124) |
| Changes in other operating assets | | 721 | (852) |
| Changes in other operating liabilities | | (236) | (418) |
| **Net cash inflows/(outflows) from operating activities** | | 621 | (1,185) |
| **Cash flows from investing activities** | | | |
| Sales, redemptions and paydowns of investment securities | | 1,870 | 857 |
| Purchase of investment securities | | (816) | (1,206) |
| Purchase of property, plant and equipment | 14 | (12) | (29) |
| Purchase and development of intangible assets | 15 | (26) | (24) |
| **Net cash inflows/(outflows) from investing activities** | | 1,016 | (402) |
| **Cash flows from financing activities** | | | |
| Repayment of capital element of leases | 22 | (23) | (25) |
| Issuance of new shares | 26 | 144 | – |
| Issuance of debt securities | 20 | 175 | – |
| **Net cash inflows/(outflows) from financing activities** | | 296 | (25) |
| Net increase/(decrease) in cash and cash equivalents | | 1,933 | (1,612) |
| Cash and cash equivalents at start of year | 11 | 1,956 | 3,568 |
| **Cash and cash equivalents at end of year** | 11 | 3,889 | 1,956 |

The accompanying notes form an integral part of these financial statements.

# Notes to the consolidated 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') provides retail and commercial banking services in the UK. Metro Bank PLC (the 'Company') is a private limited liability company which provides retail and commercial banking services in the UK. Incorporated and domiciled in England and Wales under the Companies Act 2006 (Company number 06419578) and subsidiary to Metro Bank Holdings PLC which is listed on the London Stock Exchange (LON:MTRO). The address of its registered office is One Southampton Row, London, WC1B 5HA.

### 1.2 Basis of preparation

The consolidated financial statements of the Company together with its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK, interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements of the Group and Company were authorised by the Board for issue on 23 April 2024.

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 56 to 85. Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditor's report.

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 severe but plausible downside scenarios. The 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 do not consider 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 page 28.

**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 7 to the Company financial statements on page 151). 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. This means we have chosen not to present a Company statement of comprehensive income and related notes as part of these financial statements.

**Insertion of Metro Bank Holdings PLC**

To meet the Bank of England's resolution requirements, on 19 May 2023, Metro Bank Holdings PLC was inserted as the new ultimate holding company and listed entity of the Group. Prior to this date Metro Bank PLC was both a banking entity and the ultimate parent company of the Group, but has subsequently become a 100% subsidiary of Metro Bank Holdings PLC. In addition to the insertion of a new holding company the Group undertook a reduction in capital to provide the Group with distributable reserves.

Further details on the insertion of Metro Bank Holdings PLC can be found in the Metro Bank Holdings PLC ARA on our website.

### 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 policies and presentational amendments

During the period there have not been any changes in any accounting policies 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 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 2023 are appropriate and that these consolidated financial statements therefore present our financial position and results 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<br>Use of PMOs and PMAs | Note 30 |
| Impairment of non-financial assets | n/a | Key assumptions used for VIU calculations | Note 15 |

## 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**

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Cash and balances held with the Bank of England | 120.9 | 33.0 |
| Loans and advances to customers | 599.9 | 462.2 |
| Investment securities held at amortised cost | 118.6 | 62.9 |
| Investment securities held at FVOCI | 6.8 | 4.7 |
| **Interest income calculated using the effective interest rate method** | 846.2 | 562.8 |
| Derivatives in hedge relationships | 9.5 | 0.9 |
| **Total interest income** | 855.7 | 563.7 |

**Interest expense**

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Deposits from customers | 147.8 | 32.9 |
| Deposits from central banks | 161.3 | 55.5 |
| Debt securities | 55.7 | 48.7 |
| Lease liabilities | 13.1 | 14.4 |
| Repurchase agreements | 50.1 | 3.4 |
| **Interest expense calculated using the effective interest rate method** | 428.0 | 154.9 |
| Derivatives in hedge relationships | 15.8 | 4.7 |
| **Total interest expense** | 443.8 | 159.6 |

## 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 the 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.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Service charges and other fee income | 36.8 | 30.9 |
| Safe deposit box income | 18.2 | 16.5 |
| ATM and interchange fees | 40.0 | 37.0 |
| **Fee and commission income** | 95.0 | 84.4 |
| Fee and commission expense | (4.6) | (2.6) |
| **Total net fee and commission income** | 90.4 | 81.8 |

## 4. Net gains on sale of assets

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Investment securities held at amortised cost | 2.9 | – |
| Loan portfolios | (0.2) | – |
| **Total net gains on sale of assets** | 2.7 | – |

### Disposal of investment securities

During the year some of our investment securities held at amortised cost were called early by the issuers resulting in a gain being recognised on these assets.

### Loan portfolio sales

During the year we sold a small portfolio of non-performing unsecured loans, which resulted in net losses of £0.2m being recognised.

## 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 ineffectiveness, foreign currency differences arising on translation and movements in financial assets and liabilities held at fair value through profit and loss. |

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Foreign currency transactions | 34.0 | 34.1 |
| Rental income | 1.1 | 0.7 |
| Deferred grant income | 2.4 | 1.5 |
| Gain on debt extinguishment | 100.0 | – |
| Other | 6.4 | 1.3 |
| **Total other income** | **143.9** | **37.6** |

### Gain on debt extinguishment

As part of the capital package (see note 20), which completed in November 2023, a 40% haircut was agreed with bondholders on our Tier 2 debt securities, which saw their £250 million of existing notes replaced with £150 million of new notes. This resulted in a gain of £100 million.

The acceleration of unamortised issuance costs as well as the impacts from the breaking of the hedge relationships of the refinanced debt has been shown within costs associated with capital raise and refinancing in note 6, to better reflect the nature of the transaction.

## 6. General operating expenses

| | 2023 £'million | 2022 £'million |
|---|---|---|
| People costs (note 7) | 241.2 | 236.6 |
| Information technology costs | 59.5 | 62.2 |
| Occupancy costs | 31.7 | 30.8 |
| Money transmission and other banking-related costs | 49.2 | 48.7 |
| Transformation costs | 20.3 | 3.3 |
| Remediation costs | – | 5.3 |
| Capability and Innovation Fund costs[1] | 2.4 | 1.3 |
| Legal and regulatory fees | 7.0 | 7.0 |
| Professional fees[2] | 23.2 | 38.4 |
| Printing, postage and stationery costs | 7.2 | 6.2 |
| Travel costs | 1.5 | 1.6 |
| Marketing costs | 7.7 | 5.0 |
| Costs associated with capital raise and refinancing | 8.7 | – |
| Holding company insertion costs | 1.8 | 1.8 |
| Other | 22.7 | 19.4 |
| **Total general operating expenses** | 484.1 | 467.6 |

1. C&I costs represent the non-capitalisable costs of delivering the C&I digital commitments. It includes £1.9 million (2022: £0.9 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.

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 licences, 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 £7.3 million (2022: £15.0 million) of R&D 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 £25.1 million (2022: £47.5 million) on R&D costs not capitalised.

Included within legal and regulatory fees is £0.1 million (2022: £0.1 million) in respect of the Financial Services Compensation Scheme (FSCS) levy.

## 7. People costs

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Wages and salaries[1] | 201.7 | 196.8 |
| Social security costs[1] | 21.8 | 23.7 |
| Pension costs[1] | 14.5 | 13.7 |
| Equity-settled share-based payments | 3.2 | 2.4 |
| **Total people costs** | 241.2 | 236.6 |

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 £10.0 million (2022: £5.3 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 4,286 (2022: 4,040).

| | 2023 | 2022 |
|---|---|---|
| Customer-facing | 1,985 | 1,886 |
| Non-customer-facing | 2,301 | 2,154 |
| **Total number of persons employed** | 4,286 | 4,040 |

### 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 £15.4 million (2022: £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:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Audit of the Group and Company financial statements | 2,236 | 2,553 |
| Audit of the financial statements of the Company's subsidiaries | 73 | 73 |
| Audit-related assurance services | 17 | 203 |
| Other assurance services | 0 | 115 |
| **Total fees payable to our auditors** | **2,326** | **2,944** |

Other assurance services of £555k in relation to the capital raise and restructure have been attributed to the parent company and disclosed in its accounts.

## 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. We consider the history of recent losses and the extent to which there is convincing other evidence that sufficient taxable profits will be available which the unused tax losses or unused tax credits can be utilised.

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:

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **Current tax** | | |
| Current tax | (0.1) | – |
| Total current tax expense | (0.1) | – |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (0.5) | (1.5) |
| Effect of changes in tax rates | (0.4) | (0.7) |
| Adjustment in respect of prior years | – | 0.2 |
| Total deferred tax expense | (0.9) | (2.0) |
| **Total tax expense** | (1.0) | (2.0) |

## 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 profit/(loss) multiplied by the UK corporation tax rate is as follows:

| | 2023 £'million | Effective tax rate % | 2022 £'million | Effective tax rate % |
|---|---|---|---|---|
| Accounting profit/(loss) before tax | 49.3 | | (70.7) | |
| Tax expense at statutory tax rate of 23.5% (2022: 19%) | (11.6) | 23.5% | 13.4 | 19.0% |
| **Tax effects of:** | | | | |
| Non-deductible expenses – depreciation on non-qualifying fixed assets | (2.5) | 5.1% | (2.5) | (3.5%) |
| Non-deductible expenses – investment property impairment | – | – | (0.1) | (0.1%) |
| Non-deductible expenses – remediation | – | – | (0.6) | (0.8%) |
| Non-deductible expenses – other | (0.8) | 1.6% | (0.4) | (0.6%) |
| Impact of intangible asset write-off on research and development deferred tax liability | 0.1 | (0.2%) | 0.3 | 0.4% |
| Share-based payments | (1.2) | 2.4% | 0.1 | 0.1% |
| Adjustment in respect of prior years | – | – | 0.2 | 0.2% |
| Current year losses for which no deferred tax asset has been recognised | (11.0) | 22.3% | (11.7) | (16.5%) |
| Losses offset against current year profits | 1.1 | (2.2%) | – | – |
| Movement in recognised DTA for unused tax losses | 1.8 | (3.7%) | – | – |
| Effect of changes in tax rates | (0.4) | 0.8% | (0.7) | (1.0%) |
| Income not taxable | 23.5 | (47.7%) | – | – |
| **Tax expense reported in the consolidated income statement** | (1.0) | 2.0% | (2.0) | (2.8%) |

The effective tax rate for the period is 2.0% (2022: -2.8%). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

Losses for which no deferred tax asset has been recognised

The tax effected value of current year losses for which no deferred tax asset has been recognised is £11.0 million (2022: £11.7 million).

Income not taxable

The credit arising from the haircut on the Tier 2 Instrument issued by Metro Bank PLC meets the conditions set out in section 323A of CTA 2009 exempting the transaction from taxation.

## 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 2023 | | | | | | 31 December 2022 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 14 | 2 | 1 | – | – | 17 | 12 | 3 | 1 | – | – | 16 |
| Deferred tax liabilities | – | 5 | – | (29) | (6) | (30) | – | 4 | – | (26) | (6) | (28) |
| Deferred tax liabilities (net) | 14 | 7 | 1 | (29) | (6) | (13) | 12 | 7 | 1 | (26) | (6) | (12) |
| **1 January** | 12 | 7 | 1 | (26) | (6) | (12) | 13 | 5 | – | (23) | (7) | (12) |
| Income statement | 2 | – | – | (3) | – | (1) | (1) | – | 1 | (3) | 1 | (2) |
| Other comprehensive income | – | – | – | – | – | – | – | 2 | – | – | – | 2 |
| **31 December** | 14 | 7 | 1 | (29) | (6) | (13) | 12 | 7 | 1 | (26) | (6) | (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 balance sheets on page 94. This is on the basis that all our deferred tax assets and liabilities relate to taxes levied by HMRC 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 140.

**Unrecognised deferred tax assets**
We have total unused tax losses of £893 million of which a deferred tax asset has not been recognised on £839 million. Accordingly, a deferred tax asset of £210 million has not been recognised on unused tax losses. The impact of recognising the deferred tax asset in the future would be material.

Although there is an expectation for future profits in the near future, as we have a recent history of operating losses for tax purposes, we have taken the decision not to recognise a deferred tax asset in respect of these losses at 31 December 2023. We will continue to reassess this decision as we move into 2024.

Due to unrealised investment property impairments of £11 million there is an unrecognised deferred tax asset of £2.7 million (2022: £2.6 million).

## 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 they 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 56 to 85.

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 2023 | | | |
|---|---|---|---|---|
| | Fair value through profit and loss £'million | FVOCI £'million | Amortised cost £'million | Total £'million |
| **Assets** | | | | |
| Loans and advances to customers | – | – | 12,297 | 12,297 |
| Investment securities | – | 476 | 4,403 | 4,879 |
| Derivative financial assets | 36 | – | – | 36 |
| **Liabilities** | | | | |
| Deposits from customers | – | – | 15,623 | 15,623 |
| Deposits from central bank | – | – | 3,050 | 3,050 |
| Debt securities | – | – | 699 | 699 |
| Repurchase agreements | – | – | 1,191 | 1,191 |

| | 31 December 2022 | | | |
|---|---|---|---|---|
| | 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 |

**Financial assets pledged as collateral**
We have pledged £6,110 million (2022: £5,286 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £1,311 million (2022: £2,131 million) is made up of high-quality securities and £4,799 million (2022: £3,141 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 2023 all of our market-facing derivative flows are executed against SONIA, however we continue to hold £47 million (31 December 2022: £64 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.

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Unrestricted balances with the Bank of England | 3,642 | 1,761 |
| Cash and unrestricted balances with other banks | 189 | 136 |
| Money market placements | 58 | 59 |
| **Total cash and balances with the Bank of England** | 3,889 | 1,956 |

The expected credit loss held against cash and balances with the Bank of England is £0.1 million (31 December 2022: less than £0.1 million).

## 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 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million |
| Consumer lending | 1,297 | (108) | 1,189 | 1,480 | (75) | 1,405 |
| Retail mortgages | 7,817 | (19) | 7,798 | 7,649 | (20) | 7,629 |
| Commercial lending | 3,382 | (72) | 3,310 | 4,160 | (92) | 4,068 |
| **Total loans and advances to customers** | 12,496 | (199) | 12,297 | 13,289 | (187) | 13,102 |

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:

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Overdrafts | 40 | 60 |
| Credit cards | 28 | 19 |
| Term loans | 1,219 | 1,401 |
| Consumer auto-finance | 10 | – |
| **Total consumer lending** | 1,297 | 1,480 |
| Residential owner occupied | 5,851 | 5,507 |
| Retail buy-to-let | 1,966 | 2,142 |
| **Total retail mortgages** | 7,817 | 7,649 |
| **Total retail lending** | 9,114 | 9,129 |
| Professional buy-to-let | 465 | 731 |
| Bounce back loans | 524 | 801 |
| Coronavirus business interruption loans | 86 | 127 |
| Recovery loan scheme[1] | 328 | 385 |
| Other term loans | 1,341 | 1,578 |
| Commercial term loans | 2,744 | 3,622 |
| Overdrafts and revolving credit facilities | 172 | 122 |
| Credit cards | 4 | 4 |
| Asset and invoice finance | 462 | 412 |
| **Total commercial lending** | 3,382 | 4,160 |
| **Gross loans and advances to customers** | 12,496 | 13,289 |
| | | |
| **Amounts include:** | | |
| Repayable at short notice | 244 | 156 |

1. Recovery loan scheme includes £70 million acquired from third parties under forward flow arrangements (31 December 2022: £97 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).

## 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.

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Investment securities held at FVOCI | 476 | 571 |
| Investment securities held at amortised cost | 4,403 | 5,343 |
| **Total investment securities** | 4,879 | 5,914 |

**Investment securities held at FVOCI**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Sovereign bonds | 220 | 215 |
| Residential mortgage-backed securities | – | 38 |
| Covered bonds | 112 | 152 |
| Multi-lateral development bank bonds | 144 | 166 |
| **Total investment securities held at FVOCI** | 476 | 571 |

**Investment securities held at amortised cost**

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Sovereign bonds | 938 | 1,717 |
| Residential mortgage-backed securities | 954 | 1,095 |
| Covered bonds | 594 | 542 |
| Multi-lateral development bank bonds | 1,729 | 1,821 |
| Asset backed securities | 188 | 168 |
| **Total investment securities held at amortised cost** | 4,403 | 5,343 |

Further information on the ECL recognised on investment securities can be found in note 30.

# 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.

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 2023 | 12 | 261 | 372 | 22 | 8 | 283 | 958 |
| Additions | – | – | 9 | 1 | 2 | – | 12 |
| Disposals | – | – | – | – | – | (4) | (4) |
| Transfers | – | (5) | 5 | – | – | – | – |
| **31 December 2023** | 12 | 256 | 386 | 23 | 10 | 279 | 966 |
| **Accumulated depreciation** | | | | | | | |
| 1 January 2023 | 8 | 69 | 34 | 20 | 2 | 77 | 210 |
| Depreciation charge | – | 13 | 5 | 1 | 2 | 13 | 34 |
| Disposals | – | – | – | – | – | (1) | (1) |
| Transfers | – | (3) | 3 | – | – | – | – |
| **31 December 2023** | 8 | 79 | 42 | 21 | 4 | 89 | 243 |
| **Net book value** | 4 | 177 | 344 | 2 | 6 | 190 | 723 |

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |

**Fair value of 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 2023 our investment property had a fair value of £4 million (31 December 2022: £4 million). The fair value has been provided by a qualified independent valuer.

**Impairments**

During the year impairment indicators were 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.

**Transfers**

Transfers represent costs associated with the improvements made to the one (2022: two) previously leased stores which have been purchased during the year.

**Contractual commitment for the acquisition of property, plant and equipment**

As at 31 December 2023 we had no contractual commitments relating to the acquisition of property, plant and equipment that are not reflected in the tables (31 December 2022: £nil).

# 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 consist 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 |
| 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.

| | 2023 | | | |
|---|---|---|---|---|
| | Goodwill £'million | Brands £'million | Software £'million | Total £'million |
| **Cost** | | | | |
| 1 January 2023 | 10 | 2 | 338 | 350 |
| Additions | – | – | 26 | 26 |
| Write-offs | – | – | (9) | (9) |
| **31 December 2023** | 10 | 2 | 355 | 367 |
| **Accumulated amortisation** | | | | |
| 1 January 2023 | – | – | 134 | 134 |
| Amortisation charge | – | 1 | 43 | 44 |
| Write-offs | – | – | (4) | (4) |
| **31 December 2023** | – | 1 | 173 | 174 |
| **Net book value** | 10 | 1 | 182 | 193 |

| | 2022 | | | |
|---|---|---|---|---|
| | 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 |

**Software**
Software consists of both internally generated and externally acquired assets. As at 31 December 2023 externally acquired licences had a net book value of £9 million (31 December 2022: £9 million). Out of our total intangible assets, £34 million of software assets were under the course of construction at 31 December 2023 (31 December 2022: £39 million).

**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 2023 we had no contractual commitments relating to the acquisition of intangible assets that are not reflected in the tables (31 December 2022: £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 2023 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 2023 £'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 in accordance with IAS 36 impairment of assets. The application of the methodology, as described below, is a critical accounting judgement. The VIU was higher than their carrying value and therefore no impairment charge has been recognised for the current year (2022: £nil). The VIU calculation is based on our Board-approved Long Term Plan which covers the five-year period from 2024 to 2028 inclusive. Our Long-Term Plan is constructed using our best estimate of the future performance of the business, adjusted for execution risk 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 page 28.

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 2022: 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 14.7% (31 December 2022: 15.3%) 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), based on the cost of equity and long term debt.

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.

## 16. Prepayments and accrued income

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Prepayments | 42 | 32 |
| Accrued income[1] | 75 | 52 |
| VAT receivable | 1 | 1 |
| **Total prepayments and accrued income** | 118 | 85 |
| Current portion | 118 | 85 |
| Non-current portion | – | – |

1. Includes accrued interest receivable.

## 17. Other assets

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Cash pledged as collateral | 50 | 39 |
| Other[1] | 58 | 34 |
| Amounts due by parent undertaking | 24 | – |
| **Total other assets** | 132 | 73 |
| Current portion | 79 | 45 |
| Non-current portion | 53 | 28 |

1. Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

## 18. Deposits from customers

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Deposits from retail customers | 8,943 | 7,851 |
| Deposits from commercial customers | 6,680 | 8,163 |
| **Total deposits from customers** | 15,623 | 16,014 |

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Demand: current accounts | 5,696 | 7,888 |
| Demand: savings accounts | 7,827 | 7,501 |
| Fixed term: savings accounts | 2,100 | 625 |
| **Total deposits from customers** | 15,623 | 16,014 |

## 19. Deposits from central banks

Deposits from central banks consist of amounts drawn down under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Amounts drawn down under TFSME | 3,050 | 3,800 |
| **Deposits from central banks** | 3,050 | 3,800 |

TFSME was closed to further drawdowns in October 2021 and our drawdowns will mature in 2025 and 2027 in the amounts of £1,860 million and £1,390 million respectively.

## 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.

We assess the criteria for the modification and extinguishment of debt securities in accordance with IFRS 9. A substantial modification of the terms of an existing financial liability or part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial ability. We determine a substantial modification by performing a qualitative and quantitative prospective assessment.

| Name | Issue date | Currency | Amount issued £'million | Coupon rate | Call date | Maturity date |
|---|---|---|---|---|---|---|
| Fixed rate reset callable (MREL) notes | 30/11/2023 | GBP | 525 | 12.00% | 30/04/28 | 30/04/29 |
| Fixed rate reset callable subordinated (Tier 2) notes | 30/11/2023 | GBP | 150 | 14.00% | 30/04/29 | 30/04/34 |

| | 2023 £'million | 2022 £'million |
|---|---|---|
| 1 January | 571 | 588 |
| Issuances | 1025 | – |
| Transfer of MREL-eligible debt to parent company | (350) | – |
| Redemption of Tier 2 notes and internal MREL instrument | (500) | – |
| Haircut | (100) | – |
| Movements in micro hedging | 50 | (19) |
| Unwind of issuance costs | 3 | 2 |
| 31 December | 699 | 571 |

At 31 December 2022, Metro Bank PLC had two debt instruments in issue: £350 million of MREL notes and £250 million of Tier 2 notes. These notes had a coupon rate of 9.50% and 5.50% respectively, with the latter repricing to 9.14% in June 2023.

Following the insertion of the holding company in May 2023, the MREL-eligible debt held by Metro Bank PLC was transferred to Metro Bank Holdings PLC. Metro Bank Holdings PLC was substituted as the new principal debtor under the trust deed dated 17 September 2019 in place of Metro Bank PLC. Metro Bank PLC issued an internal MREL instrument to Metro Bank Holdings PLC, with terms equal to that of the external MREL notes. The Tier 2 debt remained within Metro Bank PLC.

In November 2023, a new capital package was completed by the Metro Bank Holdings PLC which included the raising of £175 million of new MREL notes, in addition to refinancing the existing debt securities. The refinancing comprised:

- The exchange of the existing £350 million of MREL notes for £350 million of new MREL instruments.
- The exchange of the Metro Bank PLC existing £250 million Tier 2 notes for £150 million of new Tier 2 instruments issued by Metro Bank Holdings PLC. The £100m haircut agreed with bondholders has been recognised within other income in note 5.

Both existing debt securities in Metro Bank PLC were extinguished as the criteria for derecognition under IFRS 9 was met and replaced by new debt securities.

Metro Bank PLC issued MREL-eligible debt and Tier 2 notes to Metro Bank Holdings PLC with terms equal to the externally issued securities. Both debt securities have bail in clauses. Hedge accounting is applied to manage interest rate risk on this intercompany lending.

## 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 often chose to 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.

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 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | | Carrying amount | | | Carrying amount | |
| | Nominal contract amount £'million | Asset £'million | Liability £'million | Notional Contract amount £'million | Asset £'million | Liability £'million |
| Interest rate swaps – Designated as hedging instruments | 1,205 | 36 | – | 902 | 21 | (26) |
| Interest rate swaps – Designated as fair value through profit and loss | 1,200 | 31 | (31) | – | – | – |
| Foreign currency swaps – Designated as held at fair value through profit and loss | 63 | – | – | 291 | 2 | – |
| **Total** | 2,468 | 67 | (31) | 1,193 | 23 | (26) |
| Offsetting derivatives | (1,200) | (31) | 31 | – | – | – |
| **Total** | 1,268 | 36 | – | 1,193 | 23 | (26) |

**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.

**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 a 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.

**Events during 2023**

As described in Note 20, during the year, MREL debt held by Metro Bank PLC was passed to its parent company, Metro Bank Holdings PLC. An internal MREL instrument was then lent onwards to Metro Bank PLC by Metro Bank Holdings PLC, with terms equal to that of the external MREL notes. The external MREL debt was previously designated as the hedged item in a fair value hedge relationship to manage exposure to interest rate risk; on passing to the parent company, the hedge relationship was derecognised. The new internal MREL instrument was entered into a new hedge relationship with the existing swap. The Tier 2 debt held at the start of the year was also designated as the hedged item in a fair value hedge relationship to manage exposure to interest rate risk.

Following the renegotiation of our debt in November 2023, these hedge relationships were de-designated. We entered into equal and opposite interest rate swaps with a notional of £600 million to fully offset the interest rate swaps used to hedge the old internal MREL and Tier 2 debt securities. Cash flows are offset at a central clearing party, and both set of swaps will mature at the same time. Further details are included in note 33.

As described in Note 20, the MREL-eligible debt and Tier 2 notes issued by Metro Bank Holdings PLC were lent onwards to Metro Bank PLC. Hedge accounting is applied to manage interest rate risk on the internal MREL-eligible debt and Tier 2 notes, with new interest rate swaps acting as the hedging instruments.

**Master netting arrangement and collateral**

We either receive or provide collateral related to our hedging arrangements. As at 31 December 2023 we received collateral of £11.4 million.

**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 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Notional | Carrying amount | | Notional | Carrying amount | |
| | contract amount £'million | Asset £'million | Liability £'million | contract amount £'million | Asset £'million | Liability £'million |
| Interest rate swaps | 1,205 | 36 | – | 902 | 21 | (26) |
| Total derivatives designated as fair value hedges | 1,205 | 36 | – | 902 | 21 | (26) |

**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 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | 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 |
| | Assets £'million | Liabilities £'million | £'million | Assets £'million | Liabilities £'million | £'million |
| Fixed rate mortgages[1] | – | – | – | 129 | – | – |
| Fixed rate debt issuance[2] | – | (699) | (24) | – | (424) | 26 |
| Fixed rate investment securities at FVOCI[3] | 238 | – | (7) | 236 | – | (20) |
| Fixed rate investment securities at amortised cost[4] | 271 | – | 1 | 59 | – | (1) |
| Fixed rate loans[1] | 3 | – | – | 5 | – | – |
| **Total derivatives designated as fair value hedges** | 512 | (699) | (30) | 429 | (424) | 5 |

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 are 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 a gain of £5.6 million (2022: £nil).

## 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 it 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

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | 248 | 269 |
| Additions and modifications | – | 1 |
| Disposals | (4) | (11) |
| Lease payments made | (23) | (25) |
| Interest on lease liabilities | 13 | 14 |
| **31 December** | 234 | 248 |
| Current | 22 | 23 |
| Non-current | 212 | 225 |

**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 one store (2022: two stores) where we purchased the freehold during the year. Following the purchase both the lease liabilities and right-of-use assets relating to the stores were derecognised.

**Minimum lease payments**
Future undiscounted minimum payments under lease liabilities, exclusive of VAT, as at 31 December are as follows:

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Within one year | 22 | 24 |
| Due in one to five years | 83 | 88 |
| Due in more than five years | 145 | 172 |
| **Total** | 250 | 284 |

**Low value and short leases**
During the year ended 31 December 2023 £0.3 million (2022: £0.2 million) was recognised in the income statement with respect to assets of low value or a lease of less than 12 months.

**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 | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Within one year | 1 | 1 |
| Due in one to five years | 3 | 3 |
| Due in more than five years | 3 | 4 |
| **Total** | 7 | 8 |

**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.

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | 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 | 6 | (1) | 5 |
| Due in one to five years | 10 | (1) | 9 | 9 | (1) | 8 |
| Due in more than five years | – | – | – | – | – | – |
| **Total** | 16 | (2) | 14 | 15 | (2) | 13 |

## 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.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | 17 | 19 |
| Released to the income statement | (1) | (2) |
| **31 December** | 16 | 17 |

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.

## 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.<br>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.<br>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. |
| 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. |
| 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. |
| Restructuring | Restructuring provisions are recognised at the point we have developed a detailed formal plan and we have raised a valid expectation that it will be implemented. This is typically at the point the plan is announced to affected colleagues. |
| Other provisions | Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business. |

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Customer remediation £'million | Dilapidations £'million | Legal and regulatory £'million | Onerous contracts £'million | Restructuring £'million | Other provisions £'million | Total £'million |
| **1 January 2023** | 1 | 1 | – | 2 | – | 3 | 7 |
| Additions | 2 | – | – | – | 15 | – | 17 |
| Released | – | – | – | – | – | (1) | (1) |
| Utilised | – | – | – | – | – | – | – |
| **31 December 2023** | 3 | 1 | – | 2 | 15 | 2 | 23 |

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Customer remediation £'million | Dilapidations £'million | Legal and regulatory £'million | Onerous contracts £'million | Restructuring £'million | Other provisions £'million | Total £'million |
| **1 January 2022** | 1 | 3 | 5 | 5 | – | 1 | 15 |
| Additions | – | – | 5 | – | – | 2 | 7 |
| Released | – | (2) | – | (1) | – | – | (3) |
| Utilised | – | – | (10) | (2) | – | – | (12) |
| **31 December 2022** | 1 | 1 | – | 2 | – | 3 | 7 |

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 32.

All additions for both the current and prior year have been recognised in the income statement.

**Restructuring provision**
The restructuring provision provided for during the year relates the decision taken during the year to reduce the number of colleagues across the business by 1,000. Affected colleagues left the business in early 2024, with the associated provision being utilised.

## 25. Other liabilities

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Trade creditors | 1 | 1 |
| Taxation and social security costs | 8 | 9 |
| Accruals[1] | 144 | 99 |
| Deferred income | 37 | 57 |
| Other liabilities | 75 | 64 |
| **Total other liabilities** | 265 | 230 |
| Current portion | 251 | 205 |
| Non-current portion | 14 | 25 |

1. Includes accrued interest payable.

## 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.

As at 31 December 2023, we had 672.7 million ordinary shares of 0.0001p (31 December 2022: 172.5 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 2023 our called-up share capital was £672.68 (31 December 2022: £172.54).

**Share premium**
The share premium reserve is used to record the excess consideration of any shares we have issued over the nominal share value.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| 1 January | 1,964 | 1,964 |
| Cancellation of Metro Bank PLC share premium | (1,964) | – |
| Share issuance | 144 | – |
| **31 December** | 144 | 1,964 |

**New holding company**
As set out in note 1, on 19 May 2023, Metro Bank Holdings PLC became the listed entity and new holding company of Metro Bank PLC. As part of the insertion of Metro Bank Holdings PLC, the existing listed share capital and share premium of Metro Bank PLC was cancelled and the share capital and share premium amounts transferred to retained earnings. Metro Bank PLC subsequently issued the same number of new unlisted 0.0001p ordinary shares to Metro Bank Holdings PLC. Each existing holder of Metro Bank PLC shares was issued with an equivalent number of new shares in Metro Bank Holdings PLC, with the nominal value of 0.0001p, as part of a share for share exchange.

**Equity raise**
In November 2023, we issued 500 million ordinary shares for consideration of £144 million.

## 27. Retained earnings

Retained earnings records our cumulative earnings since our formation, including the accumulated earnings of our subsidiaries since they were acquired.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | (1,015) | (942) |
| Profit/(loss) for the year | 48 | (73) |
| Cancellation of Metro Bank PLC share capital and share premium | 1,964 | – |
| **31 December** | 997 | (1,015) |

No dividends were paid or declared during the year (2022: none).

As at 31 December 2023 all of our retained earnings are distributable.

## 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. The share option reserve was transferred to Metro Bank Holdings PLC on insertion as the holding company.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | 20 | 18 |
| Equity-settled share-based payment charges | 2 | 2 |
| Transfer on implementation of holding company | (22) | |
| **31 December** | – | 20 |

### 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.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | (13) | (5) |
| Changes in fair value | 3 | (10) |
| Deferred tax movements | (1) | 2 |
| **31 December** | (11) | (13) |

### Deemed capital contribution reserve
The deemed capital contribution reserve is used to record movements in relation to share options awarded under our Deferred Variable Reward and Long Term Incentive Plans following the implementation of our holding company.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | – | – |
| Transfer on implementation of holding company | 23 | – |
| **31 December** | 23 | – |

## 29. Share-based payments

### Accounting policy

The Group has two award plans designed to compensate colleagues for services provided. Following the establishment of Metro Bank Holdings PLC, the parent company now grants the awards to the Group's colleagues and is the issuer of the shares on vesting and exercise of options. The Company, which benefits from the services of the colleagues, does not compensate the parent company for settling the awards. The plans are therefore accounted for as equity share based payment arrangements. The existing share based payment reserve was transferred to a capital contribution reserve (note 28).

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, with a corresponding entry to the Deemed capital contribution reserve. 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.

**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 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 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:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number of options '000 | Weighted average exercise price £ | Number of options '000 | Weighted average exercise price £ |
| **Outstanding at 1 January** | 13,326 | 6.61 | 10,477 | 8.72 |
| Granted | 3,429 | 0.00[1] | 4,787 | 0.00[1] |
| Exercised | (259) | 0.03 | (222) | 0.00[1] |
| Lapsed | (261) | 10.46 | (1,716) | 1.96 |
| **Outstanding at 31 December** | 16,235 | 5.24 | 13,326 | 6.61 |
| **Exercisable at 31 December** | 7,931 | 10.54 | 6,658 | 12.35 |

1. Nominal price awards with exercise price of 0.0001p.

The average share price during 2023 was 94p (2022: 88p). For share options exercised during the period, the weighted average share price at the date of exercise was 118p (2022: 93p).

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 £3.2 million in the year ended 2023 (2022: £2.4 million)

.

### Fair value of options granted

The number of options outstanding at year end was as follows:

| Exercise price | 2023 Number of options '000 | 2023 Weighted average remaining contractual life years | 2022 Number of options '000 | 2022 Weighted average remaining contractual life years |
|---|---|---|---|---|
| £0.00[1] | 10,255 | 8.7 | 6,997 | 9.0 |
| £0.93 | 2,011 | 6.3 | 2,116 | 7.3 |
| £7.94 | 654 | 5.2 | 660 | 6.2 |
| £12.00 | – | 0.0 | 235 | 0.8 |
| £13.00 | 60 | 0.2 | 60 | 1.2 |
| £13.50 | 616 | 0.8 | 616 | 1.8 |
| £14.00 | 194 | n/a | 194 | n/a |
| £16.00 | 611 | n/a | 611 | n/a |
| £20.00 | 444 | 2.2 | 444 | 3.2 |
| £32.73 | 633 | 3.2 | 633 | 4.2 |
| £35.36 | 757 | 4.2 | 760 | 5.2 |
| **Total** | 16,235 | 7.3 | 13,326 | 7.3 |

1. Nominal price awards with exercise price of 0.0001p.

The total fair value of options granted in 2023 was £3.4 million (2022: £4.3 million), based on the following assumptions:

| | 2023 awards |
|---|---|
| Risk-free interest rate | 3.44% to 4.03% |
| Expected life | 1 to 7 years |
| Volatility | 166% |
| Expected dividend yield | nil |
| Share price at grant date | £1.06 |
| 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 post 2022, as these were only made to members of the ExCo and other Material Risk Takers, 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 actual lapses. For all other schemes the lapse assumption is updated annually.

## 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 the 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**<br>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**<br>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.<br>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**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.<br>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**<br>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. |

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.

**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.
- 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 four scenarios. These represent a 'most likely outcome', (the 'Baseline' scenario) and three, less likely, 'Outer' scenarios, referred to as an 'Upside', a 'Downside' and a severe downside scenario respectively. The Baseline scenario captures the most likely economic future; the Downside and severe downside scenarios reflect adverse economic conditions; and the Upside scenario presents more favourable economic conditions.

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 2023 and 31 December 2022:

- 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.

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 2023 is 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 2023 were Baseline – 50%, Upside – 20%, Downside – 25% and Severe downside scenario – 5% (31 December 2022: Baseline – 50%, Upside – 20%, Downside – 25% and Severe downside scenario – 5%).

**Economic variable assumptions**
The period-end assumptions used for the ECL estimate as at 31 December 2023 and 31 December 2022 are as follows:

| | | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2024 | 2025 | 2026 | 2027 | 2023 | 2024 | 2025 | 2026 |
| Interest rates (%) – five-year mortgage rate | Baseline | 5.1% | 4.7% | 4.3% | 4.2% | 5.5% | 4.4% | 4.0% | 4.0% |
| | Upside | 5.3% | 4.7% | 4.3% | 4.2% | 5.3% | 4.3% | 4.0% | 4.0% |
| | Downside | 3.7% | 2.7% | 2.6% | 2.6% | 5.5% | 4.4% | 3.6% | 3.1% |
| | Severe downside | 3.3% | 2.2% | 2.2% | 2.2% | 5.8% | 4.0% | 3.4% | 3.0% |
| UK unemployment (%) | Baseline | 4.6% | 4.7% | 4.7% | 4.8% | 4.3% | 4.5% | 4.5% | 4.6% |
| | Upside | 4.1% | 3.8% | 3.9% | 4.2% | 3.9% | 3.6% | 3.7% | 4.0% |
| | Downside | 6.5% | 7.4% | 7.4% | 7.0% | 6.2% | 7.2% | 7.2% | 6.8% |
| | Severe downside | 7.7% | 8.5% | 8.4% | 8.1% | 7.4% | 8.3% | 8.2% | 7.9% |
| UK HPI – % change year-on-year | Baseline | (6.2%) | 3.1% | 4.7% | 2.6% | (4.4%) | 2.3% | 4.8% | 2.9% |
| | Upside | 7.0% | 6.3% | 2.1% | (1.5%) | 9.0% | 5.4% | 2.1% | (1.2%) |
| | Downside | (16.5%) | (6.3%) | 4.0% | 5.4% | (14.9%) | (7.0%) | 4.0% | 5.7% |
| | Severe downside | (22.2%) | (10.3%) | 4.4% | 4.1% | (20.7%) | (10.9%) | 4.4% | 4.3% |
| UK GDP – % change year-on-year | Baseline | 0.4% | 1.0% | 1.3% | 1.4% | (0.8%) | 1.2% | 1.4% | 1.2% |
| | Upside | 3.9% | 1.2% | 1.3% | 1.4% | 1.9% | 1.2% | 1.1% | 1.2% |
| | Downside | (5.6%) | 1.3% | 2.6% | 1.4% | (6.9%) | 1.3% | 2.5% | 1.2% |
| | Severe downside | (7.1%) | (0.2%) | 4.2% | 2.4% | (8.3%) | (0.3%) | 3.5% | 2.1% |
| UK commercial real estate index, year-on-year – % change | Baseline | (4.2%) | 0.8% | 1.7% | (0.4%) | (8.2%) | (6.0%) | 2.0% | 1.4% |
| | Upside | 10.1% | 3.3% | (1.3%) | (4.3%) | 3.2% | (3.6%) | (0.3%) | (2.2%) |
| | Downside | (18.7%) | (5.3%) | 3.0% | 3.4% | (23.2%) | (11.9%) | 5.1% | 4.2% |
| | Severe downside | (26.9%) | (7.4%) | 4.9% | 2.6% | (30.5%) | (14.8%) | 6.9% | 3.5% |

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.

## 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 46).

**ECL assessment**

We have applied Post Model Adjustments (PMAs) and Post Model Overlays (PMOs) in the assessment of ECL. PMAs supplement the models to account for where there are limitations in model methodology or data inputs and PMOs accounts for downsides risks which are not fully captured through the economic scenarios. The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by our Model Governance, Impairment Committee and Audit Committee.

The level of PMAs and PMOs has reduced in 2023 with the total percentage of ECL stock standing at 12% as at 31 December 2023 (31 December 2022: 16%).

No PMAs have been held as at 31 December 2023 as outstanding IFRS9 models have been implemented in production in 2023 resulting in previously held PMAs being removed:

- IFRS 9 retail mortgage secured LGD model (31 December 2023: £nil ; 31 December 2022: £0.1 million).
- IFRS 9 commercial business loans lifetime PD model scope extended to commercial Revolving facilities (31 December 2023: £nil ; 31 December 2022: £0.3 million).

PMOs have been reassessed during the period to ensure an appropriate level of ECL to account for the high level of macroeconomic uncertainty, following the cost of living pressures and stable yet high interest rates, and anticipated property price falls.

PMOs make up £23.4 million of the ECL stock as at 31 December 2023 (31 December 2022: £30.5 million) and comprise:

- High inflation environment and cost-of-living risks – Management overlays were 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 2023: £16.0 million; 31 December 2022: £22.5 million). The reduction in 2023 is driven by underlying credit risk profile movements on some individual cases resulting in previously held overlays now being released. This reflects the associated risks across the consumer and commercial portfolios. For commercial, the inflation PMO has been assessed based on potential future individual customer migration of current Stage 1 lending migrating into Stage 2 and 3, based on an inflationary stress scenario. The overlay assigned for the mortgage portfolio has been removed as it is now reflected in the new IFRS9 model as part of the model enhancement overlay mentioned below.
- Significant increase in credit risk (SICR) adjustment overlay – A negative overlay introduced in 2022 is still being held at December 2023. The SICR model for these portfolios is resulting in a significant overstatement of stage 2 assets and the negative PMO is in place to account for this. These overlays will be removed once the IFRS9 PD Annual Model Reviews for both portfolios are validated and implemented into production (scheduled in H1 2024) (31 December 2023: £7.4 million; 31 December 2022: £3.4 million).
- HPI and CRE adjustment – An overlay raised in 2022 is still being held at 31 December 2023 to reflect further downside risk in property price indices beyond the latest scenarios for the retail mortgage and commercial property portfolios (31 December 2023: £3.4 million; 31 December 2022: £6.1 million). This overlay has been reduced in 2023 to offset the observed reduction in HPI. However, management has continued to maintain an overlay to reflect the risk of further deterioration in property price falls (across HPI and CRE) as high base rates continue to be held flat by the Bank of England.
- Climate change impact – An expert judgement overlay originally raised in 2021 has been revised for FY 2023 and reflects the impact of climate change on property values for the mortgage and commercial portfolios (31 December 2023: £3.2 million; 31 December 2022: £3.5 million). The slight reduction in the overlay since December 2022 is due to the updated balance movements for all portfolios across the period.
- Mortgage model enhancements – A PMO has been introduced in FY 2023 to reflect the new IFRS9 Mortgage PD and Staging models. This overlay will be removed once the IFRS9 PD and Staging Annual Model Reviews are validated and implemented into production (scheduled in Q1 2024) (31 December 2023: £4.7 million; 31 December 2022: £nil).
- Commercial model enhancements – An overlay is held in anticipation of remaining model adjustments for the commercial portfolio (31 December 2023: £3.5 million; 31 December 2022: £1.2 million). The increase in the overlay over the period is to reflect the impact from the anticipated new IFRS9 Commercial PD model and the Enhanced Business Overdrafts portfolio which utilises the IFRS9 Commercial models as a proxy for ECL assessment.

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.

## 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.

The weightings applied to each scenario at 31 December 2023 and 31 December 2022 are:

| | 31 December 2023 | 31 December 2022 |
|---|---|---|
| Baseline | 50% | 50% |
| Upside | 20% | 20% |
| Downside | 25% | 25% |
| Severe downside | 5% | 5% |

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 | 57 | 37 | 93 | 187 |
| Upside | 49 | 31 | 92 | 172 |
| Downside | 79 | 57 | 98 | 234 |
| Severe downside | 90 | 72 | 100 | 262 |
| Weighted | 63 | 43 | 93 | 199 |

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.

**Expected credit loss expense**

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Retail mortgages[1] | (1) | 1 |
| Consumer lending[1] | 33 | 33 |
| Commercial lending[1] | (20) | (16) |
| Investment securities | 1 | 1 |
| Write-offs and other movements | 20 | 21 |
| **Total expected credit loss expense** | 33 | 40 |

1. Represents the movement in ECL allowance during the year and therefore excludes write-offs which are shown separately.

**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 2023, the loss allowance included within the FVOCI reserve is £0.1 million (31 December 2022: £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 2023 is £0.9 million (31 December 2022: £0.7 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 2023, 80% (31 December 2022: 79%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average DTV of 58% (31 December 2022: 56%) and 55% (31 December 2022: 55%) respectively. A further 4% (31 December 2022: 6%) of our lending portfolio consists of BBLS, which although they 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.

**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.

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 2023 | 10,849 | 2,088 | 352 | – | 13,289 | (66) | (51) | (70) | – | (187) | 10,783 | 2,037 | 282 | – | 13,102 |
| Transfers to/(from) Stage 1[1] | 872 | (857) | (15) | – | – | (15) | 15 | – | – | – | 857 | (842) | (15) | – | – |
| Transfers to/(from) Stage 2 | (581) | 589 | (8) | – | – | 4 | (6) | 2 | – | – | (577) | 583 | (6) | – | – |
| Transfers to/(from) Stage 3 | (170) | (71) | 241 | – | – | 3 | 4 | (7) | – | – | (167) | (67) | 234 | – | – |
| Net remeasurement due to transfers[2] | – | – | – | – | – | 12 | (13) | (38) | – | (39) | 12 | (13) | (38) | – | (39) |
| New lending[3] | 2,060 | 239 | 16 | – | 2,315 | (18) | (6) | (6) | – | (30) | 2,042 | 233 | 10 | – | 2,285 |
| Repayments, additional drawdowns and interest accrued | (685) | (172) | (40) | – | (897) | – | – | – | – | – | (685) | (172) | (40) | – | (897) |
| Derecognitions[4] | (1,749) | (305) | (157) | – | (2,211) | 13 | 10 | 26 | – | 49 | (1,736) | (295) | (131) | – | (2,162) |
| Changes to model assumptions[5] | – | – | – | – | – | 4 | 4 | – | – | 8 | 4 | 4 | – | – | 8 |
| **31 December 2023** | 10,596 | 1,511 | 389 | – | 12,496 | (63) | (43) | (93) | – | (199) | 10,533 | 1,468 | 296 | – | 12,297 |
| Off-balance sheet items | | | | | | | | | | | | | | | |
| Commitments and guarantees[6] | | | | | 718 | | | | | – | | | | | 718 |

| | 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 |

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.

**Retail mortgages**

| £'million | Gross carrying amount Stage 1 | Stage 2 | Stage 3 | POCI | Total | Loss allowance Stage 1 | Stage 2 | Stage 3 | POCI | Total | Net carrying amount Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 January 2023 | 6,195 | 1,343 | 111 | – | 7,649 | (6) | (11) | (3) | – | (20) | 6,189 | 1,332 | 108 | – | 7,629 |
| Transfers to/(from) Stage 1 | 745 | (737) | (8) | – | – | (6) | 6 | – | – | – | 739 | (731) | (8) | – | – |
| Transfers to/(from) Stage 2 | (193) | 199 | (6) | – | – | – | – | – | – | – | (193) | 199 | (6) | – | – |
| Transfers to/(from) Stage 3 | (38) | (29) | 67 | – | – | – | – | – | – | – | (38) | (29) | 67 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 5 | (2) | (2) | – | 1 | 5 | (2) | (2) | – | 1 |
| New lending | 1,195 | 147 | 1 | – | 1,343 | (1) | (1) | – | – | (2) | 1,194 | 146 | 1 | – | 1,341 |
| Repayments, additional drawdowns and interest accrued | (177) | (18) | – | – | (195) | – | – | – | – | – | (177) | (18) | – | – | (195) |
| Derecognitions | (840) | (121) | (19) | – | (980) | 1 | 1 | – | – | 2 | (839) | (120) | (19) | – | (978) |
| Changes to model assumptions | – | – | – | – | – | – | 1 | (1) | – | – | – | 1 | (1) | – | – |
| **31 December 2023** | 6,887 | 784 | 146 | – | 7,817 | (7) | (6) | (6) | – | (19) | 6,880 | 778 | 140 | – | 7,798 |

| £'million | Gross carrying amount Stage 1 | Stage 2 | Stage 3 | POCI | Total | Loss allowance Stage 1 | Stage 2 | Stage 3 | POCI | Total | Net carrying amount 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 |

**Consumer lending**

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2023 | 1,180 | 250 | 50 | – | 1,480 | (21) | (12) | (42) | – | (75) | 1,159 | 238 | 8 | – | 1,405 |
| Transfers to/(from) Stage 1 | 34 | (34) | – | – | – | (2) | 2 | – | – | – | 32 | (32) | – | – | – |
| Transfers to/(from) Stage 2 | (182) | 182 | – | – | – | 2 | (2) | – | – | – | (180) | 180 | – | – | – |
| Transfers to/(from) Stage 3 | (35) | (9) | 44 | – | – | 1 | 2 | (3) | – | – | (34) | (7) | 41 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 2 | (6) | (28) | – | (32) | 2 | (6) | (28) | – | (32) |
| New lending | 311 | 78 | 7 | – | 396 | (9) | (4) | (6) | – | (19) | 302 | 74 | 1 | – | 377 |
| Repayments, additional drawdowns and interest accrued | (217) | (111) | (10) | – | (338) | – | – | – | – | – | (217) | (111) | (10) | – | (338) |
| Derecognitions | (185) | (42) | (14) | – | (241) | 3 | 2 | 12 | – | 17 | (182) | (40) | (2) | – | (224) |
| Changes to model assumptions | – | – | – | – | – | (2) | 2 | 1 | – | 1 | (2) | 2 | 1 | – | 1 |
| **31 December 2023** | 906 | 314 | 77 | – | 1,297 | (26) | (16) | (66) | – | (108) | 880 | 298 | 11 | – | 1,189 |

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |

### Commercial lending (excluding asset and invoice finance)

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 2023 | 3,072 | 488 | 188 | – | 3,748 | (33) | (27) | (24) | - | (84) | 3,039 | 461 | 164 | - | 3,664 |
| Transfers to/(from) Stage 1 | 92 | (85) | (7) | – | – | (7) | 7 | - | - | - | 85 | (78) | (7) | - | - |
| Transfers to/(from) Stage 2 | (199) | 201 | (2) | – | – | 2 | (4) | 2 | - | - | (197) | 197 | - | - | - |
| Transfers to/(from) Stage 3 | (89) | (31) | 120 | – | – | 2 | 2 | (4) | - | - | (87) | (29) | 116 | - | - |
| Net remeasurement due to transfers | – | – | – | – | – | 5 | (5) | (7) | - | (7) | 5 | (5) | (7) | - | (7) |
| New lending | 361 | 10 | 8 | – | 379 | (7) | 1 | - | - | (6) | 354 | 11 | 8 | - | 373 |
| Repayments, additional drawdowns and interest accrued | (199) | (41) | (26) | – | (266) | - | - | - | - | - | (199) | (41) | (26) | - | (266) |
| Derecognitions | (677) | (140) | (124) | – | (941) | 8 | 7 | 14 | - | 29 | (669) | (131) | (110) | - | (912) |
| Changes to model assumptions | – | – | – | – | – | 4 | 1 | - | - | 5 | 4 | 1 | - | - | 5 |
| **31 December 2023** | 2,361 | 402 | 157 | – | 2,920 | (26) | (18) | (19) | - | (63) | 2,335 | 384 | 138 | - | 2,857 |

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |

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 2023 | 402 | 7 | 3 | – | 412 | (6) | (1) | (1) | – | (8) | 396 | 6 | 2 | – | 404 |
| Transfers to/(from) Stage 1 | 1 | (1) | – | – | – | – | – | – | – | – | 1 | (1) | – | – | – |
| Transfers to/(from) Stage 2 | (7) | 7 | – | – | – | – | – | – | – | – | (7) | 7 | – | – | – |
| Transfers to/(from) Stage 3 | (8) | (2) | 10 | – | – | – | – | – | – | – | (8) | (2) | 10 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | – | – | (1) | – | (1) | – | – | (1) | – | (1) |
| New lending | 193 | 4 | – | – | 197 | (1) | (2) | – | – | (3) | 192 | 2 | – | – | 194 |
| Repayments, additional drawdowns and interest accrued | (92) | (2) | (4) | – | (98) | – | – | – | – | – | (92) | (3) | (3) | – | (98) |
| Derecognitions | (47) | (2) | – | – | (49) | 1 | – | – | – | 1 | (46) | (1) | (1) | – | (48) |
| Changes to model assumptions | – | – | – | – | – | 2 | – | – | – | 2 | 2 | – | – | – | 2 |
| **31 December 2023** | 442 | 11 | 9 | | 462 | (4) | (3) | (2) | – | (8) | 437 | 8 | 7 | – | 453 |

| | 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 |

**Credit risk exposures**
Total lending

| | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Up to date | 10,553 | 1,342 | 123 | 12,018 | 10,819 | 1,943 | 103 | 12,865 |
| 1 to 29 days past due | 43 | 54 | 15 | 112 | 30 | 59 | 12 | 101 |
| 30 to 89 days past due | – | 115 | 43 | 158 | – | 86 | 40 | 126 |
| 90+ days past due | – | – | 208 | 208 | – | – | 197 | 197 |
| **Gross carrying amount** | 10,596 | 1,511 | 389 | 12,496 | 10,849 | 2,088 | 352 | 13,289 |

Retail mortgages

| | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Up to date | 6,885 | 695 | 37 | 7,617 | 6,194 | 1,289 | 33 | 7,516 |
| 1 to 29 days past due | 2 | 28 | 10 | 40 | 1 | 21 | 7 | 29 |
| 30 to 89 days past due | – | 61 | 16 | 77 | – | 33 | 15 | 48 |
| 90+ days past due | – | – | 83 | 83 | – | – | 56 | 56 |
| **Gross carrying amount** | 6,887 | 784 | 146 | 7,817 | 6,195 | 1,343 | 111 | 7,649 |

Consumer lending

| | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Up to date | 900 | 297 | 3 | 1,200 | 1,172 | 235 | 3 | 1,410 |
| 1 to 29 days past due | 6 | 2 | – | 8 | 8 | 2 | – | 10 |
| 30 to 89 days past due | – | 15 | 7 | 22 | – | 13 | 5 | 18 |
| 90+ days past due | – | – | 67 | 67 | – | – | 42 | 42 |
| **Gross carrying amount** | 906 | 314 | 77 | 1,297 | 1,180 | 250 | 50 | 1,480 |

Commercial lending (excluding asset and invoice finance)

| | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Up to date | 2,328 | 340 | 74 | 2,742 | 3,052 | 412 | 64 | 3,528 |
| 1 to 29 days past due | 33 | 24 | 5 | 62 | 20 | 36 | 5 | 61 |
| 30 to 89 days past due | – | 39 | 20 | 58 | – | 40 | 20 | 60 |
| 90+ days past due | – | – | 58 | 58 | – | – | 99 | 99 |
| **Gross carrying amount** | 2,361 | 403 | 157 | 2,920 | 3,072 | 488 | 188 | 3,748 |

Asset and invoice finance

| | 31 December 2023 | | | | 31 December 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Up to date | 440 | 11 | 9 | 460 | 401 | 7 | 3 | 411 |
| 1 to 29 days past due | 2 | – | – | 2 | 1 | – | – | 1 |
| 30 to 89 days past due | – | – | – | – | – | – | – | – |
| 90+ days past due | – | – | – | – | – | – | – | – |
| **Gross carrying amount** | 442 | 11 | 9 | 462 | 402 | 7 | 3 | 412 |

## 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 2023, we had undrawn facilities granted to retail and commercial customers of £718 million (31 December 2022: £1,120 million).

As part of our retail and commercial operations, this includes commitments of £327 million (31 December 2022: £250 million) for 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. 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, and the FCA's enquiries remain ongoing.

### 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.

## 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 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Effects of offsetting on the balance sheet | | | Effects of offsetting on the balance sheet | | |
| | Gross amount | Gross amounts offset in the balance sheet | Net amounts presented in the balance sheet | Gross amount | Gross amounts offset in the balance sheet | Net amounts presented in the balance sheet |
| Assets | £'million | £'million | £'million | £'million | £'million | £'million |
| Loans and advances to customers[1] | 12,297 | – | 12,297 | 13,102 | – | 13,102 |
| Investment securities[1] | 4,879 | – | 4,879 | 5,914 | – | 5,914 |
| Derivative financial assets | 67 | (31) | 36 | – | – | – |
| Deferred tax assets | 17 | (17) | – | 16 | (16) | – |
| Other assets[2] | 132 | – | 132 | 73 | – | 73 |
| Liabilities | | | | | | |
| Derivative financial liabilities | 31 | (31) | – | 26 | – | 26 |
| Repurchase agreements[1] | 1,191 | – | 1,191 | 238 | – | 238 |
| Deposits from central banks[1] | 3,050 | – | 3,050 | 3,800 | – | 3,800 |
| Deferred tax liabilities | 30 | (17) | 13 | 28 | (16) | 12 |

1. We have pledged £6,110 million (2022: £5,286 million) against repos, deposits from central banks and other assets as encumbered collateral which can be called upon in the event of default
2. Includes £50 million (2022: £39 million) pledged as cash collateral. None of the cash collateral has been offset in the Balance Sheet.

## 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, and 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 inputs that are significant to the measurement as whole.

| | 31 December 2023 | | | | | 31 December 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 12,297 | – | – | 12,156 | 12,156 | 13,102 | – | – | 12,321 | 12,321 |
| Investment securities held at fair value through other comprehensive income | 476 | 476 | – | – | 476 | 571 | 533 | 38 | – | 571 |
| Investment securities held at amortised cost | 4,403 | 3,143 | 1,072 | – | 4,215 | 5,343 | 3,834 | 1,135 | 40 | 5,009 |
| Financial assets held at fair value through profit and loss | – | – | – | – | – | 1 | – | – | 1 | 1 |
| Derivative financial assets | 36 | – | 36 | – | 36 | 23 | – | 23 | – | 23 |
| **Liabilities** | | | | | | | | | | |
| Deposits from customers | 15,623 | – | – | 15,622 | 15,622 | 16,014 | – | – | 16,004 | 16,004 |
| Deposits from central bank | 3,050 | – | – | 3,050 | 3,050 | 3,800 | – | – | 3,800 | 3,800 |
| Debt securities | 699 | – | - | 585 | 585 | 571 | 423 | – | – | 423 |
| Derivative financial liabilities | – | – | – | – | – | 26 | – | 26 | – | 26 |
| Repurchase agreements | 1,191 | – | – | 1,191 | 1,191 | 238 | – | – | 238 | 238 |

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.

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
Debt securities are on terms equal to the externally issued debt held by the parent company. This debt has a quoted market price. This price has been used as a proxy for determining the fair value of the debt securities held by Metro Bank PLC.

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 assets and liabilities
The fair values of derivatives are obtained from discounted cash flow models as appropriate.

## 35. Related parties

### Related persons

**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.

**Controlling shareholder**

Following the completion of our capital raise in November 2023, Jaime Gilinski Bacal, via Spaldy Investments Limited, a company of which he is the sole director and shareholder, became the controlling shareholder of Metro Bank Holdings PLC and therefore the Group. Given his control over the Group, Jaime Gilinski Bacal, Spaldy Investments Limited and persons connected to them are also considered to be related parties as at 31 December 2023. We have a relationship agreement with our controlling shareholder which can be viewed on our website. Further information on the independence of our controlling shareholder can be found in the Metro Bank PLC Holdings accounts on our website.

### Key management compensation

Total compensation cost for key management personnel for the year by category of benefit was as follows:

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Short-term benefits | 4.6 | 6.2 |
| Post-employment benefits | 0.1 | 0.1 |
| Share-based payment costs | 0.7 | 1.8 |
| Termination benefits | 0.8 | 0.3 |
| **Total compensation for key management personnel** | 6.2 | 8.4 |

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.

Termination benefits includes the costs associated with the exit of key management personnel agreed and fully provided for as at the year-end, even where this was paid after the balance sheet date.

### 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 2023 and 31 December 2022 were as follows:

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **Deposits held at 1 January** | 1.5 | 1.5 |
| Deposits relating to persons and companies newly considered related parties | – | 0.2 |
| Deposits relating to persons and companies no longer considered related parties | (0.5) | (0.3) |
| Net amounts deposited/(withdrawn) | – | 0.1 |
| **Deposits held as at 31 December** | 1.0 | 1.5 |

Loan transactions during the year and the balances outstanding as at 31 December 2023 and 31 December 2022 were as follows:

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **Loans outstanding at 1 January** | 2.1 | 3.2 |
| Loans issued during the year | – | 0.2 |
| Net repayments during the year | – | (1.3) |
| **Loans outstanding as at 31 December** | 2.1 | 2.1 |
| **Interest received on loans (£'000)** | 35 | 60 |

There were two (31 December 2022: two) loans outstanding at 31 December 2023 totalling £2.1 million (31 December 2022: £2.1 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 2023 and 31 December 2022 were as follows:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Credit cards outstanding as at 31 December** | 3 | 7 |

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 2023 the only ECL recognised on the balances above was our standard modelled ECL with no individual impairments recognised (31 December 2022: £nil). We have not written off any balances to key management personnel in either 2022 or 2023.

### Transactions with Metro Bank Holdings PLC

Details of debt securities issued by Metro Bank PLC to Metro Bank Holdings PLC are included in Note 20. Metro Bank PLC also provides Metro Bank Holdings PLC with a small amount of operational funding. The amounts outstanding at 31 December 2023 primarily relate to the costs of the capital raise in November 2023 which were paid by Metro Bank PLC on behalf of its parent company. As at 31 December 2023, Metro Bank PLC had £7 million of accrued interest payable to the Company on the internal debt instruments used for downstreaming the regulatory debt. The timing of interest payments on these internal instruments is aligned to the interest payment dates on the external debt securities.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Amounts owed by Metro Bank PLC to Metro Bank Holdings PLC | 7 | – |
| Amounts owed to Metro Bank PLC by Metro Bank Holdings PLC | 24 | – |

## 36. Non-cash items

The table below sets out the non-cash items included in profit/(loss) before tax. These have been adjusted for in the cash flow statements on page 96.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| Interest receivable | (856) | (564) |
| Interest paid | 444 | 160 |
| Depreciation and amortisation | 77 | 77 |
| Impairment and write-offs of property, plant, equipment and intangible assets | 5 | 10 |
| Expected credit loss expense | 33 | 40 |
| Share option charge | 3 | 2 |
| Grant income recognised in the income statement | (1) | (2) |
| Amounts provided for (net of amounts released) | 16 | 4 |
| Haircut on Tier 2 debt | (100) | – |
| Gain on sale of assets | 2 | – |
| **Total adjustments for non-cash items** | (377) | (273) |

## 37. Post balance sheet events

There have been no material post balance sheet events.

# Company balance sheet

As at 31 December 2023

| | Notes | Years ended 31 December 2023 £'million | 2022 £'million |
|---|---|---|---|
| Cash and balances with the Bank of England | | 3,889 | 1,953 |
| Loans and advances to customers | 2 | 11,844 | 12,698 |
| Investment securities held at FVOCI | | 476 | 571 |
| Investment securities held at amortised cost | | 4,403 | 5,343 |
| Financial assets held at fair value through profit and loss | | – | 1 |
| Derivative financial assets | | 36 | 23 |
| Property, plant and equipment | | 723 | 748 |
| Investment in subsidiaries | | 15 | 31 |
| Intangible assets | | 188 | 204 |
| Prepayments and accrued income | | 111 | 80 |
| Assets classified as held for sale | | – | 1 |
| Other assets | 4 | 572 | 473 |
| **Total assets** | | 22,257 | 22,126 |
| Deposits from customers | | 15,623 | 16,014 |
| Deposits from central banks | | 3,050 | 3,800 |
| Debt securities | | 699 | 571 |
| Repurchase agreements | | 1,191 | 238 |
| Derivative financial liabilities | | – | 26 |
| Lease liabilities | | 234 | 248 |
| Deferred grants | | 16 | 17 |
| Provisions | | 23 | 7 |
| Deferred tax liability | | 13 | 12 |
| Other liabilities | 5 | 256 | 236 |
| **Total liabilities** | | 21,105 | 21,169 |
| Called-up share capital | | – | – |
| Share premium | | 144 | 1,964 |
| Retained earnings | 6 | 996 | (1,014) |
| Other reserves | | 12 | 7 |
| **Total equity** | | 1,152 | 957 |
| **Total equity and liabilities** | | 22,257 | 22,126 |

1. The Company profit for the year was £46.1 million (2022: loss of £73.1 million).

The accompanying notes form an integral part of these financial statements. They were approved by the Board of Directors on 23 April 2024 and signed on its behalf by:

**Robert Sharpe**
Chair

**Daniel Frumkin**
Chief Executive Officer

# Company statement of changes in equity

For the year ended 31 December 2023

| | Called up share capital £'million | Share premium £'million | Retained earnings £'million | Share option reserve £'million | FVOCI £'million | Deemed capital contribution £million | Total equity £'million |
|---|---|---|---|---|---|---|---|
| **Balance as at 1 Janaury 2023** | – | 1,964 | (1,014) | 20 | (13) | – | 957 |
| Profit for the year | – | – | 46 | – | – | – | 46 |
| Other comprehensive income (net of tax) relating to investment securities designated at FVOCI | – | – | – | – | 2 | | 2 |
| Total comprehensive profit | – | – | 46 | – | 2 | – | 48 |
| Net share option movements | – | – | – | 3 | – | – | 3 |
| Transfer of share option reserve | – | – | – | (23) | – | 23 | – |
| Cancellation of Metro Bank PLC share capital and share premium | – | (1,964) | 1,964 | – | – | – | – |
| Shares issued | – | 144 | – | – | – | – | 144 |
| **Balance as at 31 December 2023** | – | 144 | 996 | – | (11) | 23 | 1,152 |
| **Balance as at 1 January 2022** | – | 1,964 | (941) | 18 | (5) | – | 1,036 |
| Loss for the year | – | – | (73) | – | – | – | (73) |
| Other comprehensive income (net of tax) relating to investment securities designated at FVOCI | – | – | – | – | (8) | – | (8) |
| Total comprehensive loss | – | – | (73) | – | (8) | – | (81) |
| Net share option movements | – | – | – | 2 | – | – | 2 |
| **Balance as at 31 December 2022** | | 1,964 | (1,014) | 20 | (13) | – | 957 |
| Notes | | | 6 | | | | |

The accompanying notes form an integral part of these financial statements.

# Company cash flow statement

For the year ended 31 December 2023

| | Year ended 31 December | |
|---|---|---|
| | 2023<br>£'million | 2022<br>£'million |
| **Reconciliation of profit/(loss) before tax to net cash flows from operating activities** | | |
| **Profit/(loss) before tax** | 46 | (71) |
| Non-cash items | (376) | (259) |
| Interest receivable | 834 | 538 |
| Interest paid | (370) | (124) |
| Changes in other operating assets | 729 | (842) |
| Changes in other operating liabilities | (251) | (409) |
| **Net cash inflows/(outflows) from operating activities** | 612 | (1,167) |
| **Cash flows from investing activities** | | |
| Sales of investment securities | 1,870 | 857 |
| Purchase of investment securities | (816) | (1,206) |
| Purchase of property, plant and equipment | (12) | (29) |
| Purchase and development of intangible assets | (26) | (24) |
| Dividends received from subsidiaries | 12 | – |
| **Net cash inflows/(outflows) from investing activities** | 1,028 | (402) |
| **Cash flows from financing activities** | | |
| Repayment of capital elements of leases | (23) | (25) |
| Issuance of new shares | 144 | – |
| Issuance of medium-term notes/subordinated debt (net of costs) | 175 | – |
| **Net cash inflows/(outflows) from financing activities** | 296 | (25) |
| Net increase in cash and cash equivalents | 1,936 | (1,594) |
| Cash and cash equivalents at start of year | 1,953 | 3,547 |
| **Cash and cash equivalents at end of year** | 3,889 | 1,953 |

The accompanying notes form an integral part of these financial statements.

# Notes to the company financial statements

## 1. Basis of preparation and significant accounting policies

### 1.1 General information

The separate financial statements of the Company are presented as required by the Companies Act 2006. The basis of preparation and principal accounting policies adopted are the same as those set out in within the Group's consolidated financial statements. We have chosen to only show notes to the financial statements where they differ materially to the Group's.

### 1.2 Critical accounting 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 2023 are appropriate and that these financial statements therefore present our financial position and results fairly. Areas which involve 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 aligned to the Group accounts and are detailed within note 1.9 to the consolidated financial statements.

## 2. Loans and advances to customers

| | 31 December 2023 | | | 31 December 2022 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million |
| Consumer lending | 1,297 | (108) | 1,189 | 1,480 | (75) | 1,405 |
| Retail mortgages | 7,817 | (19) | 7,798 | 7,649 | (20) | 7,629 |
| Commercial lending | 2,920 | (63) | 2,857 | 3,748 | (84) | 3.664 |
| **Total loans and advances to customers** | 12,034 | (190) | 11,844 | 12,877 | (179) | 12,698 |

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:

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Overdrafts | 40 | 60 |
| Credit cards | 28 | 19 |
| Term loans | 1,219 | 1,401 |
| Consumer auto-finance | 10 | – |
| **Total consumer lending** | 1,297 | 1,480 |
| Residential owner occupied | 5,851 | 5,507 |
| Retail buy-to-let | 1,966 | 2,142 |
| **Total retail mortgages** | 7,817 | 7,649 |
| **Total retail lending** | 9,114 | 9,129 |
| Professional buy-to-let | 465 | 731 |
| Bounce back loans | 524 | 801 |
| Coronavirus business interruption loans | 86 | 127 |
| Recovery loan scheme[1] | 328 | 385 |
| Other term loans | 1,341 | 1,578 |
| Commercial term loans | 2,744 | 3,622 |
| Overdrafts and revolving credit facilities | 172 | 122 |
| Credit cards | 4 | 4 |
| **Total commercial lending** | 2,920 | 3,748 |
| **Gross loans and advances to customers** | 12,034 | 12,877 |

| | | |
|---|---|---|
| **Amounts include:** | | |
| Repayable at short notice | 244 | 156 |

1. Recovery loan scheme includes £70 million acquired from third parties under forward flow arrangements (31 December 2022: £97 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).

## 3. Prepayments and accrued income

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Prepayments | 36 | 27 |
| Accrued income[1] | 74 | 52 |
| VAT receivable | 1 | 1 |
| **Total prepayments and accrued income** | 111 | 80 |
| Current portion | 111 | 80 |
| Non-current portion | – | – |

1. Includes accrued interest receivable.

## 4. Other assets

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Cash pledged as collateral | 50 | 39 |
| Other[1] | 58 | 34 |
| Amounts owed by Group undertakings | 464 | 400 |
| **Total other assets** | 572 | 473 |
| Current portion | 519 | 445 |
| Non-current portion | 53 | 28 |

1. Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

## 5. Other liabilities

| | 31 December 2023 £'million | 31 December 2022 £'million |
|---|---|---|
| Trade creditors | 1 | 1 |
| Taxation and social security costs | 8 | 8 |
| Accruals[1] | 144 | 99 |
| Deferred income | 36 | 57 |
| Amounts payable to group undertaking | – | 16 |
| Other liabilities | 67 | 55 |
| **Total other liabilities** | 256 | 236 |
| Current portion | 242 | 211 |
| Non-current portion | 14 | 25 |

1. Includes accrued interest payable.

## 6. Retained earnings

Retained earnings records our cumulative earnings since our formation, including the accumulated earnings of our subsidiaries since they were acquired.

| | 2023 £'million | 2022 £'million |
|---|---|---|
| **1 January** | (1,014) | (941) |
| Profit/(loss) for the year | 46 | (73) |
| Cancellation of Metro Bank PLC share capital and share premium | 1,964 | – |
| **31 December** | 996 | (1,014) |

No dividends were paid or declared during the year (2022: none).

As at 31 December 2023 all of our retained earnings are distributable.

## 7. Investment in Subsidiaries

The Company had the following subsidiaries at 31 December 2023:

| 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 | UK | Invoice financing | 100% | – |
| SME Asset Finance Limited | UK | Asset financing | – | 100% |
| RDM Factors Limited | UK | Dormant | – | 100% |

All of the Company's subsidiaries have their registered address at One Southampton Row, London, WC1B 5HA.

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.

**Investment in Subsidiaries**

| | Company 2023 £'million | Company 2022 £'million |
|---|---|---|
| 1 January | 31 | 31 |
| Dissolution of subsidiaries | (16) | – |
| 31 December | 15 | 31 |

During the year we dissolved Retail Money Market Ltd and Vehicle Credit Limited.

**Transactions between the Company and Group subsidiaries**

| | Company 2023 £'million | Company 2022 £'million |
|---|---|---|
| Interest on inter-company loan with SME Asset/Invoice Finance | 20.7 | 9.5 |

| | Company 2023 £'million | Company 2022 £'million |
|---|---|---|
| Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance | 440.1 | 397.0 |
| Amounts outstanding as at 31 December owed to RateSetter | – | 3 |

The expected credit loss recognised within the Company's financial statements in respect of the intercompany loan facility is less than £0.1 million (31 December 2022: less than £0.1 million).

The transactions above are eliminated upon consolidation.

Metro Bank PLC is exempt from publishing information required by The Capital Requirements Country-by-Country Reporting Regulations 2013, as this information is published by its ultimate parent, Metro Bank Holdings PLC. The Country-by-Country information can be found on our website.

# Abbreviation

| | |
|---|---|
| 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 |
| RWA | 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 |