People-people banking

Pillar 3 2022

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Forward-looking Statements

This Pillar 3 contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as ‘believes’, ‘projects’, ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘may’, ‘will’, ‘would’, ‘could’ or ‘should’ or similar terminology. Any forward-looking statements in this Pillar 3 are based on our current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance. No assurances can be given that the forward-looking statements in this Pillar 3 will be realised. We undertake no obligation to release the results of any revisions to any forward-looking statements in this Pillar 3 that may occur due to any change in its expectations or to reflect events or circumstances after the date **of this announcement and we disclaim any such obligation.**

1. Executive Summary

This Pillar 3 disclosure complements and expands on information disclosed in Metro Bank PLC's ("Metro Bank" or "the Bank") 2022 Annual Report and Accounts. It provides information on Metro Bank's regulatory capital resources and requirements, including a reconciliation of financial capital to regulatory capital, credit risk, market risk and operational requirements, and key ratios as required by Capital Requirements Regulations ('CRR'). In particular articles 431 to 455 of CRR specify the requirements of the Pillar 3 framework. The regulations came into force on 1 January 2022 and were implemented by the PRA through the PRA Rulebook.

Whilst we continue to operate in capital buffers we have remained above regulatory minima throughout 2022. In Q4 we took active measures to stabilize the capital ratio by reducing losses and constraining asset origination to around replacement levels. As a result, our year end position for CET1, Tier 1 and MREL ratios were 10.3%, 10.3% and 17.7% respectively (December 2021 12.6%, 12.6% and 20.5%).

Common Equity Tier 1 ('CET1') Ratio

10.3%

(2021: 12.6%)

Tier 1 Capital Ratio

10.3%

(2021: 12.6%)

Total Capital Ratio ('TCR')

13.4%

(2021: 15.9%)

UK Leverage Ratio

4.2%

(2021: 5.2%)[1]

Liquidity Coverage Ratio ('LCR')

213%[2]

(2021: 281%)

Risk Weighted Assets ('RWAs') (£'million)

7,990

(2021: 7,454)

Total assets as per published financial statements (£'million)

22,119

(2021: 22,587)

1. Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.
2. LCR position as at 31 December 2022.

1. Executive Summary Continued

Application of the Basel Framework

Pillar 3 disclosure requirements apply to banks, building societies and investment banks. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The framework consists of three pillars:

- **Pillar 1:** Defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.
- **Pillar 2:** This builds on Pillar 1 and incorporates the bank's own assessment of additional capital resources needed in order to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process ('SREP') and is used to determine the overall capital resources required by the Bank.
- **Pillar 3:** Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

Metro Bank PLC has five subsidiaries, of which one is dormant. Metro Bank PLC is regulated by the Prudential Regulatory Authority ('PRA'). Metro Bank has applied for, and been granted, permission to use the individual consolidation method when producing prudential returns. There are no differences between the basis of consolidation for accounting and regulatory purposes. Further details on the bank's subsidiaries can be found in note 37 of the 2022 Annual Report and Accounts.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among our parent undertaking and our subsidiaries.

We do not have any joint ventures.

Scope

Metro Bank PLC is a UK based bank that provides services to retail and commercial clients. It is authorised and regulated by the PRA and is required to comply with regulatory rules implemented by the PRA. These rules are enforced in the UK by the PRA and introduce consistent capital adequacy standards governing how much capital banks must hold to protect their depositors and shareholders.

This Pillar 3 report is prepared in accordance with the CRR. The report is also prepared in accordance with the PRA Rulebook which includes a number of new and revised disclosure requirements through the implementation of Policy Statement 22/21 applicable from 1 January 2022.

This document sets out our 2022 Pillar 3 Disclosure in accordance with the rules laid out in the CRR (Part 8) and our Pillar 3 Policy Document. In meeting the regulatory requirements, this document provides information on Metro Bank's capital and liquidity position, risk management processes, regulatory methodologies, and disclosure. The purpose of these disclosures is to give information based on calculating Basel III capital requirements and on the management of the risks that we face.

Basis of disclosure

We are required to report on the basis of our consolidated financial situation. Unless otherwise stated, all figures are as at 31 December 2022, our financial year end, with comparative figures for 31 December 2021 where relevant.

The disclosures may differ from similar information in our Annual Report and Accounts prepared in accordance with International Financial Reporting Standards ('IFRS'); therefore, the information in these disclosures may not be directly comparable. For the year ended 31 December 2022 we used the Standardised Approach to credit risk and market risk and the Basic Indicator Approach ('BIA') to operational risk.

Frequency of disclosures

Our Pillar 3 Disclosures are published semi-annually in conjunction with the date of publication of our financial statements.

Exemption from disclosure

1 Materiality

In accordance with CRR Article 432 on materiality, confidentiality and proprietary and on disclosure frequency, firms may omit one or more disclosures if the information provided by such disclosures is not, in the light of the criterion, regarded as material.

We consider that information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

1. Executive Summary Continued

We have omitted the following disclosures specified in CRR as they are not material:

Abbreviation	Template Name	Reason for omission
UK CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries	NPE <5% threshold to disclose not met
UK CQ2	Quality of forbearance	NPE <5% threshold to disclose not met
UK CQ6	Collateral valuation – loans and advances	NPE <5% threshold to disclose not met
UK CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Materiality, less than 1% of total RWAs
UK CCR5	Composition of collateral for CCR exposures	Materiality, less than 1% of total RWAs
UK CCR6	Credit derivatives exposures	Materiality, less than 1% of total RWAs
UK MR1	Market risk under the standardised approach	Threshold to disclose not met

2 Proprietary or confidential information

In accordance with CRR Article 432 on materiality, confidentiality and proprietary and on disclosure frequency, firms may omit one or more disclosures if the information provided by such disclosures is regarded as proprietary or confidential.

We consider information to be proprietary if sharing that information with the public would undermine our competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render our investments therein less valuable. We consider information to be confidential if there are obligations to customers or other counterparty relationships which bind us to confidentiality.

No disclosures have been omitted because they are proprietary or confidential.

3 Non-applicable disclosures

We have omitted the following disclosures specified in CRR as they are not applicable:

Abbreviation	Template Name	Reason for omission
UK INS1	Insurance participations	The Bank does not hold any insurance undertakings and hold any RWA or Capital
UK INS2	Financial conglomerates information on own funds and capital adequacy ratio	The Bank does not hold any conglomerates and hold any RWA or Capital
UK LI3	Outline of the differences in the scopes of consolidation (entity by entity)	The Bank only has one consolidation view
UK PV1	Prudent valuation adjustments (PVA)	The Bank adopts simple method
UK CQ7	Collateral obtained by taking possession and execution processes	The Bank does not take possession of collateral and recognise as an asset
UK CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	The Bank does not take possession of collateral and recognise as an asset
UK CR6	Credit risk exposures by exposure class and PD range	The Bank uses Standardised Approach for all exposures
UK CR6-A	Scope of the use of IRB and SA approaches	The Bank uses Standardised Approach for all exposures
UK CR7	Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank uses Standardised Approach for all exposures
UK CR7-A	Disclosure of the extent of the use of CRM techniques	The Bank uses Standardised Approach for all exposures
UK CR8	RWEA flow statements of credit risk exposures under the IRB approach	The Bank uses Standardised Approach for all exposures
UK CR9	Back-testing of PD per exposure class (fixed PD scale)	The Bank uses Standardised Approach for all exposures
UK CR9.1	Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Bank uses Standardised Approach for all exposures
UK CR10	Specialised lending and equity exposures under the simple risk weighted approach	The Bank uses Standardised Approach for all exposures
UK CCR4	IRB approach – CCR exposures by exposure class and PD scale	The Bank uses Standardised Approach for all exposures
UK CCR7	RWEA flow statements of CCR exposures under the IMM	The Bank uses Standardised Approach for all exposures
UK SEC2	Securitisation exposures in the trading book	The Bank does not have a trading book

1. Executive Summary Continued

Abbreviation	Template Name	Reason for omission
UK SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as originator or as sponsor	The Bank does not originate or sponsor
UK SEC5	Exposures securitised by the institution – Exposures in default and specific credit risk adjustments	The Bank does not originate or sponsor
UK MR2-A	Market risk under the internal Model Approach (IMA)	The Bank does not have a trading book
UK MR2-B	RWA flow statements of market risk exposures under the IMA	The Bank does not have a trading book
UK MR3	IMA values for trading portfolios	The Bank does not have a trading book
UK MR4	Comparison of VaR estimates with gains/losses	The Bank does not have a trading book

Comparatives
Comparatives are not provided where there has been a change in the guidelines for disclosures that were reportable for 31 December 2021. Any new disclosures and data points will have no comparatives.

Regulatory considerations
In October 2021, the PRA published Policy Statement 22/21 'Implementation of Basel standards: Final rules', effective from 1 January 2022. The finalised requirements included the introduction of the Standardised Approach for Counterparty Credit Risk (SA-CCR). The PRA also confirmed to revert to the previous treatment of 100% CET1 capital deduction for qualifying software assets.

PS 22/21 included several new Pillar 3 disclosures which have been introduced in line with the updated PRA rulebook. These include Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Credit Quality, Counterparty Credit Risk (CCR) and Interest Rate Risk in the Banking Book (IRRBB).

PS 21/21 also included changes to the UK leverage ratio framework. The changes are effective from 1 January 2022 and state that UK banks are now subject to a single UK leverage ratio framework, meaning CRR leverage ratio no longer applies. The changes allow certain claims on central banks to be excluded. Also, UK banks are subject to a 3.25% leverage ratio requirement.

In November 2022, the PRA published a consultation paper on Basel 3.1. The proposed implementation date of the final rules on 1 January 2025, subject to a 5 year transition period. The proposals include amendments to the standardised approaches to credit and operational risk, risk parameter floors under the IRB approach to credit risk and introduction of an RWA output floor.

Summary of risk profile and governance
The Bank has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Bank. This is focused on providing oversight of the new regulatory reporting system which went live in 2022; the preparedness for the introduction of the new Capital Requirements Directive (CRD); as well as overseeing the bank's IRB application for residential mortgages.

The new regulatory reporting system, provided by Moody's, has been implemented in a phased approach starting with COREP from Q1 2022. Initial reporting will be under the standardised approach, the new system is capable of reporting under IRB as required.

Further details on our approach to risk management can be found on pages 28 to 71

The Risk Oversight Committee ('ROC') meet throughout the year. Details can be found in the Board Activities and stakeholder engagement section of ARA on pages 106 to 107.

Review by Board
Metro Bank is committed to a robust internal controls framework in order to ensure that external reports and disclosures are subject to adequate verification and comply with the relevant standards and regulations. As an external publication, the Pillar 3 disclosures have been subject to internal verification across the three lines of defence and are reviewed by the ROC on behalf of the Board. The governance in place allows for sufficient challenge and oversight prior to publication.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of our Annual Report and Accounts.

"We attest to the best of our knowledge that the Metro Bank Pillar 3 disclosures comply with the updated regulatory requirements around Pillar 3 and have been prepared in compliance with our internal controls framework."

James Hopkinson
Chief Financial Officer

Kirsten McLeod
Chief Risk Officer
15 March 2023

2. Scope of Application

Table 1: LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

This table outlines the differences in the basis of consolidation for accounting and regulatory purposes. It provides an allocation of the balance sheet line items reported under the scope of regulatory consolidation between the different regulatory risk frameworks.

		31 December 2022						
		Carrying values as reported in published financial statements £'million	Carrying values under scope of regulatory consolidation £'million	Subject to the credit risk framework £'million	Subject to the CCR framework £'million	Subject to the securitisation framework £'million	Subject to the market risk framework £'million	Not subject to own funds requirements or subject to deduction from own funds £'million
	Assets							
1	Cash and balances with the Bank of England	1,956	1,956	1,956	–	–	–	–
2	Loans and advances to customers	13,102	13,102	13,102	–	–	–	–
3	Investment securities held at FVOCI	571	571	533	–	38	–	–
4	Investment securities held at amortised cost	5,343	5,343	4,081	–	1,262	–	–
5	Financial assets held at fair value through profit and loss	1	1	1	–	–	–	–
6	Derivative financial assets	23	23	–	23	–	–	–
7	Property, plant and equipment	748	748	748	–	–	–	–
8	Investment in subsidiaries	–	–	–	–	–	–	–
9	Intangible assets	216	216	–	–	–	–	216
10	Prepayments and accrued income	85	85	85	–	–	–	–
11	Assets classified as held for sale	1	1	1	–	–	–	–
12	Other assets	73	73	58	15	–	–	–
13	**Total assets**	**22,119**	**22,119**	**20,564**	**38**	**1,301**	**–**	**216**
	Liabilities							
13	Deposits from customers	16,014	16,014	–	–	–	–	16,014
14	Deposits from central banks	3,800	3,800	–	–	–	–	3,800
15	Debt securities	571	571	–	–	–	–	571
16	Repurchase agreements	238	238	–	238	–	–	–
17	Derivative financial liabilities	26	26		26			
18	Lease liabilities	248	248	–	–	–	–	248
19	Deferred grants	17	17	–	–	–	–	17
20	Provisions	7	7	–	–	–	–	7
21	Deferred tax liability	12	12	–	–	–	–	12
22	Other liabilities	230	230	–	–	–	–	230
23	**Total liabilities**	**21,163**	**21,163**	**–**	**264**	**–**	**–**	**20,899**

There are no differences between carrying values as reported in published financial statements and carrying values under the scope of regulatory consolidation. No entities are derecognised from the accounting balance sheet for regulatory purposes.

2. Scope of Application Continued

Table 2: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

This table provides a reconciliation between assets carrying values under the regulatory scope of consolidation as per Table 1 and the exposures used for regulatory purposes, split as per the regulatory risk framework

		31 December 2022				
			Items subject to			
		Total £'million	Credit risk framework £'million	Securitisation framework £'million	CCR framework £'million	Market risk framework £'million
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	**21,903**	**20,564**	**1,301**	**38**	**–**
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	**264**	**–**	**–**	**264**	**–**
3	**Total net amount under the regulatory scope of consolidation**	**21,639**	**20,564**	**1,301**	**(226)**	**–**
4	**Off-balance-sheet amounts**	**1,120**	**1,120**	**–**	**–**	
5	*Differences in valuations*	**–**	–	–	–	
6	*Differences due to different netting rules, other than those already included in row 2*	***79***	*79*	–	–	
7	*Differences due to consideration of provisions*	**–**	–	–	–	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	***232***	*78*	*(78)*	*232*	
9	*Differences due to credit conversion factors*	***(868)***	*(868)*	–	–	
10	*Differences due to Securitisation with risk transfer*	**–**	–	–	–	
11	*Other differences*	***129***	*89*	–	*40*	
12	**Exposure amounts considered for regulatory purposes**	**22,332**	**21,064**	**1,222**	**46**	**–**

Exposure amounts considered for regulatory purposes as a starting point for risk-weighted asset calculations shown in template UK LI2 differ to the carrying values under the regulatory scope of consolidation for the following reasons:

- As shown in row 6 of UK LI2, differences relating to balance sheet netting; and
- As shown in row 8 of UK LI2, off-balance sheet amounts are reduced by applicable credit risk mitigation techniques; and
- As shown in row 9 of UK LI2, off-balance sheet amounts are reduced by applicable credit conversion factors; and
- As shown in row 11, other differences are primarily driven by transitional arrangements in relation to IFRS 9 (credit risk framework) and exposures to Central Clearing Party (CCP) (CCR framework).

3. Key Metrics and Risk Weighted Assets (RWAS)

Table 3: UK KM1 – Key metrics

		31 December 2022 £'million	30 June 2022 £'million	31 December 2021 £'million
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	**819**	816	936
2	Tier 1 capital	**819**	816	936
3	Total capital	**1,069**	1,065	1,184
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount	**7,990**	7,702	7,454
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	**10.3%**	10.6%	12.6%
6	Tier 1 ratio (%)	**10.3%**	10.6%	12.6%
7	Total capital ratio (%)	**13.4%**	13.8%	15.9%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	**0.3%**	0.3%	
UK 7b	Additional AT1 SREP requirements (%)	**0.1%**	0.1%	
UK 7c	Additional T2 SREP requirements (%)	**0.1%**	0.1%	
UK 7d	Total SREP own funds requirements (%)	**8.5%**	8.5%	
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	**2.5%**	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	**1.0%**	0.0%	0.0%
11	Combined buffer requirement (%)	**3.5%**	2.5%	2.5%
UK 11a	Overall capital requirements (%)	**12.0%**	11.0%	11.6%
12	CET1 available after meeting the total SREP own funds requirements (%)	**5.5%**	5.8%	
	Leverage ratio[1]			
13	Total exposure measure excluding claims on central banks	**19,348**	18,809	17,869
14	Leverage ratio excluding claims on central banks (%)	**4.2%**	4.3%	5.2%
	Liquidity Coverage Ratio[2]			
15	Total high-quality liquid assets (HQLA) (Weighted value – average)	**6,051**	6,687	6,900
UK 16a	Cash outflows – Total weighted value	**2,729**	2,623	
UK 16b	Cash inflows – Total weighted value	**264**	249	
16	Total net cash outflows (adjusted value)	**2,465**	2,374	2,169
17	Liquidity coverage ratio (%)	**246%**	282%	318%
	Net Stable Funding Ratio[3]			
18	Total available stable funding	**18,903**		
19	Total required stable funding	**13,225**		
20	NSFR ratio (%)	**143%**		

1. Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.
2. LCR is based on 12-month average.
3. NSFR is based on 4-quarter average.

3. Key Metrics and Risk Weighted Assets (RWAS) Continued

Table 4: UK KM2 – Key metrics: MREL

This table below shows the key metrics for the bank's capital resources and eligible liabilities.

		31 December 2022 £'million	31 December 2021 £'million
1	Total capital resources	**1,069**	1,184
2	Eligible senior unsecured instruments issued	**347**	343
3	Total MREL resources	**1,416**	1,527
4	Total risk-weighted assets	**7,990**	7,454
5	Total MREL resources as a percentage of total risk-weighted assets (%)	**17.7%**	20.5%
6	UK leverage exposure measure	**19,348**	17,869
7	Total MREL resources as a percentage of UK leverage exposure measure (%)	**7.3%**	8.5%

3. Key Metrics and Risk Weighted Assets (RWAS) Continued

Table 5: UK OV1 – Overview of risk weighted exposure amounts

This table below shows a breakdown of RWAs and minimum capital requirement by risk type and approach.

		RWAs		Minimum capital requirements	
		31 December 2022 £'million	31 December 2021 £'million	**31 December 2022 £'million**	31 December 2021 £'million
1	**Credit risk (excluding counterparty credit risk (CCR))**	**7,071**	**6,444**	**566**	**516**
2	*Of which the standardised approach*	*7,071*	*6,444*	*566*	*516*
6	**Counterparty credit risk**	**9**	**6**	**1**	**–**
7	*Of which the standardised approach*	*7*	*3*	*0*	*–*
8b	*Of which CVA*	*2*	*3*	*0*	*–*
16	**Securitisation exposures in the banking book (after the cap)**	**166**	**261**	**13**	**21**
18	*Of which SEC-ERBA (including IAA)*	*166*	*261*	*13*	*21*
20	**Market Risk**	**–**	**9**	**–**	**1**
21	*Of which foreign currency risk*	*–*	*9*	*–*	*1*
23	**Operational risk**	**739**	**729**	**59**	**58**
23a	*Of which basic indicator approach*	*739*	*729*	*59*	*58*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	5	5	–	–
29	**Total**	**7,990**	**7,454**	**639**	**596**

The Internal Capital Adequacy Assessment Process (ICAAP)

We manage our capital risk via our Capital Adequacy Framework which includes policies, strategy, limit setting, continuous monitoring and stress testing. Our ICAAP is a key component of this framework and provides an internal assessment of the bank's capital requirements and adequacy. This includes Pillar 2 assessments, which cover risks unique to the bank and not adequately covered by Pillar 1. In addition, our considers our capital adequacy in various stressed conditions which informs the sizing of our internal capital management buffer.

Metro Bank's Pillar 2A requirement as at 31 December 2022 was 0.5% of RWAs bringing the bank's TCR to 8.5% (12% including buffers) of RWAs. In December 2022 the PRA communicated to the bank that it's Pillar 2A capital requirement would be 0.36% from 1 January 2023 bringing the bank's TCR down to 8.36%.

4. Own Funds

Required levels of Own Funds

CRR Article 92 describes the calculation of capital ratios and the use of different tiers of capital resource. Throughout 2022, Metro Bank remained compliant with the minimum capital requirements that were in force as set out in UK legislation.

Tier 1 Capital

As at 31 December 2022, our capital base was made up of £819 million (31 December 2021: £936 million) of Tier 1 capital. Tier 1 capital consists of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA Rulebook, and audited reserves.

Tier 2 Capital

Tier 2 capital is £250 million (31 December 2021: £249 million). Tier 2 capital consists of Fixed Rate Reset Callable Subordinated Notes due in 2028.

4. Own Funds Continued

Table 6: CC1 – Composition of regulatory own funds

The table below summarises the composition of regulatory capital.

		Reference	31 December 2022 £'million	31 December 2021 £'million
	Capital Resources			
1	Capital instruments and the related share premium accounts	a	**1,964**	1,964
	Of which: ordinary shares		–	–
2	Retained earnings	b	**(942)**	(942)
3	Accumulated other comprehensive income (and other reserves)	c	**7**	13
6	**Statutory Total Equity per Financial Statements**		**1,029**	1,035
	Regulatory Capital adjustments			
7	Additional value adjustments (negative amount)		**(1)**	(2)
8	Intangible assets (net of related deferred tax liability)	d	**(210)**	(235)
	Add-back of software assets		**-**	64
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	e	**(12)**	(13)
25a	Losses for the current financial year (negative amount)	b	**(73)**	
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)		**85**	87
28	**Total regulatory adjustments to CET1**		**(209)**	(99)
29	**Total Regulatory CET1 capital**		**819**	936
45	**Tier 1 capital**		**819**	936
	Tier 2 capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	f	**250**	249
51	**Tier 2 capital before regulatory adjustments**		**250**	249
58	**Tier 2 capital**		**250**	249
59	**Total capital**		**1,069**	1,184
60	**Total risk weighted assets**		**7,990**	7,454
	Capital ratios and buffers			
61	CET1		**10.3%**	12.6%
62	Tier 1		**10.3%**	12.6%
63	Total capital		**13.4%**	15.9%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)		**8.3%**	
65	*of which: capital conservation buffer requirement*		*2.5%*	*2.5%*
66	*of which: countercyclical buffer requirement*		*1.0%*	*0.0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		**4.5%**	
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		**89**	

4. Own Funds Continued

Table 7: UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Reference	Balance sheet as in published financial statements £'million	Under regulatory scope of consolidation £'million
	Assets			
1	Cash and balances with the Bank of England		1,956	1,956
2	Loans and advances to customers		13,102	13,102
3	Investment securities held at FVOCI		571	571
4	Investment securities held at amortised cost		5,343	5,343
5	Financial assets held at fair value through profit and loss		1	1
6	Derivative financial assets		23	23
7	Property, plant and equipment		748	748
8	Investment in subsidiaries		–	–
9	Intangible assets	**d**	216	216
10	Prepayments and accrued income		85	85
11	Assets classified as held for sale		1	1
12	Other assets		73	73
13	**Total assets**		**22,119**	**22,119**
	Liabilities			
14	Deposits from customers		16,014	16,014
15	Deposits from central banks		3,800	3,800
16	Debt securities	**f**	571	571
17	Repurchase agreements		238	238
18	Derivative financial liabilities		26	26
19	Lease liabilities		248	248
20	Deferred grants		17	17
21	Provisions		7	7
22	Deferred tax liability	**e**	12	12
23	Other liabilities		230	230
24	**Total liabilities**		**21,163**	**21,163**
	Equity			
25	Called-up share capital		–	–
26	Share premium	**a**	**1,964**	**1,964**
27	Retained earnings	**b**	**(1,015)**	**(1,015)**
28	Other reserves	**c**	**7**	**7**
29	**Total shareholders' equity**		**956**	**956**

4. Own Funds Continued

Metro Bank has elected to apply IFRS 9 transitional arrangements and for 2022 the rules allowed for an add-back to obtain a capital relief equal to 25% of the impairment provisions recognised on 1 January 2018. The COVID-19 regulatory measures finalised in June 2020, which allowed for 100% relief of stage 1 and stage 2 impairment provisions recognised since 1 January 2020 during 2021, falls to 75% on 1 January 2022 and subsequently 50% and 25% in the two years following.

Table 8: IFRS 9 – Impact of IFRS 9 transitional arrangements and temporary treatment

The table below is a comparison of the bank's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs in accordance with CRR Article 468.

		31 December 2022 £'million	31 December 2021 £'million
	Available capital (amounts)		
1	CET1 capital	**819**	936
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**730**	850
3	Tier 1 capital	**819**	936
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**730**	850
5	Total capital	**1,069**	1,184
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**980**	1,099
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	**7,990**	7,454
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	**7,901**	7.379
	Capital ratios		
9	CET1 (as a percentage of risk exposure amount)	**10.3%**	12.6%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	**9.2%**	11.5%
11	Tier 1 (as a percentage of risk exposure amount)	**10.3%**	12.6%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	**9.2%**	11.5%
13	Total capital (as a percentage of risk exposure amount)	**13.4%**	15.9%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	**12.4%**	14.9%
	Leverage ratio[1]		
15	Leverage ratio total exposure measure	**19,348**	17,869
16	Leverage ratio	**4.2%**	5.2%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3.8%**	4.8%

1 Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.

4. Own Funds Continued

Table 9: UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments

The table below shows details of the main features of these capital and eligible liability instruments.

	Capital Instruments main features			
1	Issuer	Metro Bank PLC	Metro Bank PLC	Metro Bank PLC
2	Unique identifier	GB00BZ6STL67	XS1844097987	XS2063492396
2a	Public or private placement	Public	Public	Public
3	Governing law(s) of the instrument	English	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	Yes	Yes
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Eligible Liabilities
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2	Eligible Liabilities
6	Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Dated Subordinated Debt	Senior Unsecured
8	Amount recognised in regulatory capital (£)	97.42	249,864,531	347,194,422
9	Nominal amount of instrument (£)	97.42	250,000,000	350,000,000
9a	Issue price	0.0001p	Par value	Par value
9b	Redemption price	n/a	100%	100%
10	Accounting classification	Equity	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	26/06/2018	08/10/2019
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	n/a	26/06/2028	08/10/2025
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	26/06/2023	08/10/2024
16	Subsequent call dates, if applicable	n/a	None	None
	Coupons/dividends			
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed
18	Coupon rate and any related index	n/a	5.50%	9.50%
19	Existence of a dividend stopper	n/a	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory

4. Own Funds Continued

20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No
22	Non-cumulative or cumulative	Non-cumulative	n/a	n/a
	Capital Instruments main features			
23	Convertible or non-convertible	n/a	Non-convertible	Convertible
24	If convertible, conversion trigger(s)	n/a	n/a	Statutory bail-in by the UK Resolution Authority
25	If convertible, fully or partially	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument in converts into	n/a	n/a	n/a
30	Write-down features	n/a	None contractual, statutory via bail-in	Yes
31	If write-down, write-down trigger(s)	n/a	n/a	Statutory bail-in by the UK Resolution Authority
32	If write-down, full or partial	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	Contractual	Contractual
34b	Ranking of the instrument in normal insolvency proceedings		Dated Subordinated Debt	Unsecured and Unsubordinated Debt
35	Position in subordination hierarchy in liquidation	n/a	Dated Subordinated Debt	Preferred Liabilities
36	Non-compliant transitioned features	n/a	n/a	n/a
37	If yes, specify non-compliant features	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	https://www.metrobankonline.co.uk/investor-relations/	https://www.metrobankonline.co.uk/investor-relations/	https://www.metrobankonline.co.uk/investor-relations/

5. Countercyclical Buffer

Table 10: UK CcyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

31 December 2022

		General credit exposures			Own fund requirements					
		Exposure value under the standardised approach £'million	Securitisation exposures Exposure value for non-trading book £'million	Total exposure value £'million	Relevant credit risk exposures – Credit risk £'million	Relevant credit exposures – Securitisation positions in the non-trading book £'million	Total £'million	Risk-weighted exposure amounts £'million	Own fund requirements weights (%)	Countercyclical buffer rate (%)
1	United Kingdom	14,008	1,200	15,208	562	13	575	72	99.3%	1.0%
2	Other Countries	62	23	85	4	0	4	0	0.7%	0.0%
3	Total	14,070	1,223	15,293	566	13	579	72	100.0%	

31 December 2021

		General credit exposures			Own fund requirements					
		Exposure value under the standardised approach £'million	Securitisation exposures Exposure value for non-trading book £'million	Total exposure value £'million	Relevant credit risk exposures – Credit risk £'million	Relevant credit exposures – Securitisation positions in the non-trading book £'million	Total £'million	Risk-weighted exposure amounts £'million	Own fund requirements weights (%)	Countercyclical buffer rate (%)
1	United Kingdom	12,486	1,804	14,290	513	21	0	21	99.8%	0.0%
2	Other Countries	85	0	85	1	0	0	0	0.0%	0-1%
3	Total	12,571	1,804	14,375	514	21	0	21	100.0%	

Table 11: UK CcyB2 – Amount of institution-specific countercyclical capital buffer

		31 December 2022 £'million
1	Total risk exposure amount	**7,990**
2	Institution specific countercyclical capital buffer rate	**1.0%**
3	Institution specific countercyclical capital buffer requirement	**79**

6. Leverage

The leverage ratio measures the relationship between our capital resources and total assets, as well as certain off-balance sheet exposures. The purpose of monitoring and managing this metric is to enable regulators to limit the build-up of excessive leverage in the banking systems and at individual institutions. It is calculated as Tier 1 capital divided by adjusted balance sheet exposure.

We actively monitor and manage excessive leverage:

- we take into account the leverage exposure when forming business plans;
- we actively assess the overall level of leverage when determining the long-term plans for our growth and capital resources; and
- leverage is regularly reported to the Board and included within all business plans.

Our leverage ratio at 31 December 2022 was 4.2% (31 December 2021: 5.2%). Tables 12 to 14 provide more detail on the components of the exposure measure used to calculate our leverage ratio, disclosed in accordance with the templates prescribed by the PRA.

The movement in the leverage ratio in the year reflected a decrease in Tier 1 capital due to loss made by the Bank during 2022.

Table 12: UK LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures[1]

		31 December 2022 £'million	31 December 2021 £'million
1	**Total assets as per published financial statements**	**22.119**	**22,587**
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	**–**	–
4	Adjustment for exemption of exposures to central banks	**(1,774)**	(3,361)
8	Adjustments for derivative financial instruments	**22**	8
9	Adjustments for securities financing transactions ('SFTs')[2]	**4**	3
10	Adjustments for off-balance sheet items	**270**	321
12	Other adjustments	**(1,292)**	(1,689)
13	**Total leverage ratio exposure**	**19,348**	**17,869**

1. Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.
2. SFTs are any transaction where securities are used to borrow cash, or vice versa. Practically, this mostly includes repurchase agreements (repos), securities lending activities, and sell/buy-back transactions.

6. Leverage Continued

Table 13: UK LR2 – LRCom: Leverage ratio common disclosure[1]

		31 December 2022 £'million	31 December 2021 £'million
	On-balance sheet exposures (excluding derivative and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**20,942**	21,146
6	(Asset amounts deducted in determining Tier 1 capital)	**(137)**	(247)
7	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**20,805**	20,899
	Derivative Exposures		
8	Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin)	**30**	
9	Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions	**13**	
13	**Total derivatives exposures**	**43**	8
	Securities financing transaction (SFT) exposures		
16	Counterparty credit risk exposure for SFT assets	**4**	
18	**Total securities financing transaction exposures**	**4**	3
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**1,120**	1,246
20	(Adjustments for conversion to credit equivalent amounts)	**(850)**	(925)
22	**Off-balance sheet exposures**	**270**	321
	Capital and total exposure measure		
23	Tier 1 capital	**819**	936
24	Total exposure measure including claims on central banks	**21,123**	21,230
UK 24a	(-) Claims on central banks excluded	**(1,774)**	(3,361)
UK24b	**Total exposure measure excluding claims on central banks**	**19,348**	17,869
	Leverage ratio[1]		
25	Leverage ratio excluding claims on central banks (%)	**4.2%**	5.2%
UK-25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	**3.8%**	4.8%
UK-25c	Leverage ratio including claims on central banks (%)	**3.9%**	4.4%

1. Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.

6. Leverage Continued

Table 14: UK LR3 – LRSpl: Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)[1]

		UK leverage ratio exposures 31 December 2022 £'million	UK leverage ratio exposures 31 December 2021 £'million
1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**19,031**	17,537
3	Banking book exposures, of which:	**19,031**	17,537
4	Covered bonds	**693**	597
5	Exposures treated as sovereigns	**1,023**	1,846
6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	**1,663**	1,327
7	Institutions	**7**	167
8	Secured by mortgages of immovable property	**9,326**	8,889
9	Retail exposures	**2,556**	1,248
10	Corporate	**1,000**	413
11	Exposures in default	**280**	209
12	Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	**2,483**	2,841

1. Restated UK Leverage Ratio for comparison. Recalculated based on changes in PRA Policy Statement 21/21 to exclude claims on central banks.

7. Liquidity

The Bank considers the effective and prudent management of liquidity to be fundamental to the ongoing strength and viability of the Bank. The Board has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of the Bank's Liquidity Risks and Funding Risks. Metro Bank is committed to ensuring that it has, at all times, sufficient liquidity resources – in terms of both quantity and quality – to ensure it can meet payments as they fall due.

The purpose of the bank's Internal Liquidity Adequacy Assessment Process (ILAAP), as defined by the Bank's Liquidity Policy, is to fulfil the following objectives:

- Ensure the Bank has adequate liquidity now and over the horizon of its forecast
- Identify the bank's material liquidity risks
- Articulate the management of material liquidity risks
- Determine the Board's risk appetite.

The ILAAP represents an overview of the firm's approach to liquidity risk management, confirmation of the firm's prudent funding profile, and the Board's assessment of the prudent level of liquidity resources that the bank should hold in order to meet the bank's liquidity risk appetite, which is deemed necessary to ensure that the Bank holds liquidity resources that are adequate in terms of both quantity and quality.

The Board is responsible for ensuring that the Bank meets the regulatory Overall Liquidity Adequacy Rule. ALCO has been established as the executive management committee which is responsible for managing the bank's balance sheet and all associated balance sheet risks therein, including Liquidity and Funding Risk.

Treasury is responsible for managing the liquidity position of the Bank on a day-to-day basis to ensure compliance with the PRA's overall liquidity adequacy rule and any Metro Bank-specific limits and risk appetites and is the first line of defence at Metro Bank. The Bank operates a Three Lines of Defence model to provide challenge, oversight, and assurance of the management of liquidity by Treasury. ALCO has been established as the executive management committee which is responsible for managing the bank's balance sheet and all associated balance sheet risks therein, including Liquidity and Funding Risk.

The Group has a single operating entity, and a single bank, Metro Bank Plc, which manages liquidity on behalf of the Group. There are no impediments (legal or otherwise) to the transferability of liquidity and funding between Group entities as and when required. All of the Group's funding and liquidity resides within the single operating entity, Metro Bank Plc. The Group intends on restructuring to contain a holding company during 2023, but anticipates that the operating entity (Metro Bank Plc) will continue to manage liquidity on behalf of the Group.

Our asset and liability management system is used to capture all positions across the Bank and evaluate their liquidity. We calculate our LCR and perform stress testing of our liquidity daily. Forward-looking short-range forecasts are produced at least monthly. Early warning indicators are set out in the bank's Recovery Plan. A cost of funds model is used to help colleagues account for liquidity, capital and interest rate risk when making product pricing decisions. The Bank's liquidity position is reported to the PRA on a regular basis, in line with regulatory requirements, using the regulatory reporting system.

The bank's liquidity risk appetite stress scenario ensures that a quantum of high-quality liquid assets is maintained to meet internal and regulatory (i.e. LCR) requirements over 30 days. The Bank to meet its internal 90-day liquidity requirement, also use additional assets that can be pre-positioned in the Bank of England Sterling Monetary Framework. The Bank has also identified additional recovery options, set out in its Recovery Plan which generate additional liquidity, and has demonstrated its ability to execute them.

The bank's contingency funding plans are contained within the bank's Recovery Plan.

The Recovery Plan defines the set of indicators which if triggered, activates the Recovery Plan which includes a set of management actions approved by the Board that could be invoked by the Recovery committee, to manage a wide range of potential or actual liquidity or capital stress events. The Recovery Plan is supported by scenario analysis to test recovery capacity and calibrate recovery indicators.

7. Liquidity Continued

Stress testing and scenario analysis are integral components of the bank's ILAAP and are used as key tools to ensure the adequacy of the bank's liquidity resources. The objectives of bank's liquidity stress testing process are to:

- Determine the quantum of liquidity the bank requires for severe stress events
- Support bank wide liquidity planning and management
- Explore funding sensitivities in the long-term plan
- Assess how the bank's liquidity needs might change over time

The primary objective is to determine the quantum of liquidity that the Bank should hold to withstand an extreme but plausible stress scenario – which is the basis the Board's Risk Appetite stress. The ILAAP is supported by a firm-wide stress testing framework.

The Bank considers that it has established a robust approach to liquidity management, defined by the Board's Liquidity Policy, which ensures that the Bank adheres to the PRA's Overall Liquidity Adequacy Rule, by linking the bank's Liquidity Objectives – which contains the Board's appetites for liquidity, funding and encumbrance – to the bank's ILAAP. Through the annual ILAAP exercise, the Bank has determined that it has adequate liquidity resources, both short-term and throughout its forecast.

The Bank aims to survive a combined name-specific and market-wide liquidity stress event for at least three months, at a level of severity determined by ILAAP stress testing, utilising our Liquidity Pool of high-quality liquid assets. Equally, the Bank aims to 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 our liquidity stress testing. Finally, the Bank considers that encumbrance of assets be monitored closely and maintained at levels sufficient to support additional secured funding that may be required during a liquidity stress.

The bank's liquidity risk and related appetites are monitored and controlled by a range of regulatory and internal liquidity and funding metrics which measure liquidity adequacy, funding concentration and encumbrance.

7. Liquidity Continued

Table 15: UK LIQ1 – Quantitative information of LCR

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	**31 December 2022**	30 September 2022	30 June 2022	31 March 2022	**31 December 2022**	30 September 2022	30 June 2022	31 March 2022
UK 1a									
UK 1b	Number of data points used in the calculation of averages	**12**	12	12	12	**12**	12	12	12
	High-quality liquid assets								
		(£'million)	(£'million)	(£'million)	(£'million)	**(£'million)**	(£'million)	(£'million)	(£'million)
1	Total high-quality liquid assets (HQLA)					**6,051**	6,454	6,687	6,897
	Cash – outflows								
2	Retail deposits and deposits from small business customers, of which:	**12,816**	12,874	12,920	12,979	**978**	969	955	937
3	*Stable deposits*	***7,395***	*7,462*	*7,486*	*7,486*	***370***	*373*	*374*	*374*
4	*Less stable deposits*	***5,003***	*4,887*	*4,759*	*4,611*	***608***	*595*	*580*	*561*
5	Unsecured wholesale funding	**3,431**	3,415	3,333	3,254	**1,433**	1,443	1,429	1,424
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	***1,111***	*1,021*	*904*	*787*	***278***	*255*	*226*	*197*
7	*Non-operational deposits (all counterparties)*	***2,320***	*2,394*	*2,429*	*2,468*	***1,155***	*1,188*	*1,204*	*1,228*
8	*Unsecured debt*	**–**	–	–	–	**–**	–	–	–
9	*Secured wholesale funding*					*2*	*2*	*2*	*1*
10	Additional requirements	**137**	142	146	148	**20**	22	23	23
11	*Outflows related to derivative exposures and other collateral requirements*	***7***	*8*	*10*	*9*	***7***	*8*	*10*	*9*
12	*Outflows related to loss of funding on debt products*	**–**	–	–	–	**–**	–	–	–
13	*Credit and liquidity facilities*	***130***	*134*	*137*	*139*	***13***	*13*	*14*	*14*
14	Other contractual funding obligations	**87**	95	80	77	**11**	12	11	11
15	Other contingent funding obligations	**1,130**	1,036	849	735	**284**	255	202	165
16	**Total cash outflows**					**2,729**	2,703	2,622	2,561
	Cash – inflows								
17	Secured lending (e.g. reverse repos)	**–**	–	–	–	**–**	–	–	–
18	Inflows from fully performing exposures	**256**	249	235	218	**200**	196	187	177
19	Other cash inflows	**312**	321	280	219	**63**	70	62	49
UK-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					**0**	0	0	0
UK-19b	(Excess inflows from a related specialised credit institution)					**0**	0	0	0
20	**Total cash inflows**	**568**	570	515	437	**264**	266	249	226
UK-20a	*Fully exempt inflows*	***0***	*0*	*0*	*0*	***0***	*0*	*0*	*0*
UK-20b	*Inflows subject to 90% cap*	***0***	*0*	*0*	*0*	***0***	*0*	*0*	*0*
UK-20c	*Inflows subject to 75% cap*	***568***	*570*	*515*	*437*	***264***	*266*	*249*	*226*
	Total adjusted value								
UK-21	**Liquidity buffer**					**6,051**	6,454	6,687	6,897
22	**Total net cash outflows**					**2,465**	2,437	2,373	2,334
23	**Liquidity coverage ratio**					**246%**	266%	282%	296%

7. Liquidity Continued

The LCR is driven by the size and composition of high-quality liquid assets and the liquidity requirement generated by net stressed outflows. The bank's high-quality liquid assets are primarily Level 1-eligible in LCR. The primary source of liquidity requirement is deposits from retail and SME customers for which outflows are calculated based on regulatory LCR rules. Additional outflows include committed lending to customers and other lending facilities. Outflows are offset by inflows such as customer loan repayment, leading to net stressed outflows.

The bank's LCR has been significantly higher since the sale of residential mortgages to NatWest in 2021, which increased LCR due to sale proceeds held as cash (December 2021: 281%; 2021 12-month average: 318%). The LCR has reduced over time as excess liquidity has supported customer lending (December 2022: 213%; 2022 12-month average: 246%).

In line with the bank's strategy to be a leading community bank, Metro Bank is a deposit funded Bank concentrated in retail and business current account and instant access deposits. The Bank has drawn £3.8 billion from the Bank of England TFSME scheme which it will begin to repay in 2024. The Bank monitors metrics which ensure that concentration of funding sources and maturity concentration remain within risk appetite.

The bank's liquidity buffer, known internally as its Liquidity Pool, is primary comprised of Level 1-eligible securities and cash reserve (c80% of total Liquidity Pool). Level 1 securities held consist of Gilts, AAA-rated covered bonds, and sovereign, supranational and agency (SSA) bonds. The remaining portfolio is predominantly Level 2 UK RMBS which are senior tranche and AAA-rated.

The Bank actively manages its derivative exposures and potential collateral calls and assesses exposure management through the ILAAP. Derivative outflows are captured within the Historical Look Back Approach, which considers the impact of market movements on derivative exposures. Potential contractual collateral calls under a 3-notch credit rating downgrade, including the impacts on derivative initial margin requirements, are also captured. The Bank has no contractual downgrade triggers.

The LCR is calculated and reported in GBP as no other currencies are significant in accordance with the PRA Rulebook.

There are no other relevant items identified in the LCR calculated that are not captured in Table 15.

7. Liquidity Continued

Table 16: UK LIQ2 – Net Stable Funding Ratio

		31 December 2022				
		Unweighted value by residual maturity				
		No maturity (£'million)	< 6 months (£'million)	6 months to < 1yr (£'million)	≥ 1yr (£'million)	Weighted value (£'million)
	Available stable funding (ASF) Items					
1	Capital items and instruments	894	–	–	249	1,144
2	*Own funds*	*894*	–	–	*249*	*1,144*
3	*Other capital instruments*		–	–	–	–
4	Retail deposits		12,698	147	66	12,010
5	*Stable deposits*		*7,545*	*116*	*51*	*7,330*
6	*Less stable deposits*		*5,153*	*31*	*15*	*4,680*
7	Wholesale funding:		3,453	37	3,832	5,407
8	*Operational deposits*		*1,107*	–	–	*554*
9	*Other wholesale funding*		*2,346*	*37*	*3,832*	*4,853*
10	Interdependent liabilities		–	–	–	–
11	Other liabilities:	20	597	–	343	343
12	*NSFR derivative liabilities*	*20*				
13	*All other liabilities and capital instruments not included in the above categories*		*597*	–	*343*	*343*
14	**Total available stable funding (ASF)**					18,903
15	Total high-quality liquid assets (HQLA)					1,637
UK-15a	Assets encumbered for more than 12m in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	*Performing loans and securities:*		*510*	*400*	*12,063*	*10,423*
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		–	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*178*	*9*	*87*	*109*
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*205*	*212*	*3,630*	*3,294*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*0*	–	*0*	*0*
22	*Performing residential mortgages, of which:*		*107*	*130*	*7,912*	*6,593*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*97*	*102*	*7,446*	*6,167*
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		–	*49*	*435*	*428*
25	Interdependent assets		–	–	–	–
26	Other assets:		925	23	592	1,105
27	*Physical traded commodities*				–	–
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		*1*	–	–	*0*
29	*NSFR derivative assets*		–			–
30	*NSFR derivative liabilities before deduction of variation margin posted*		*20*			*1*
31	*All other assets not included in the above categories*		*904*	*23*	*592*	*1,104*
32	Off-balance sheet items		1,186	–	–	59
33	**Total RSF**					13,225
34	**Net Stable Funding Ratio (%)**					143%

8. Risk Management

Increased risk | No change | Reduced risk

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

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

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

Definitions of each of these risks can be found on pages 36 to 41.

Changes in principal risks and risk profile

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

An overview of our principal risks and how they have changed over the year is set out to the right and on page 31. Although the threat presented by COVID-19 has diminished over the year, macroeconomic and geopolitical headwinds have been driven by the war in the Ukraine, UK domestic factors and inflationary pressures. We have taken steps to respond to these changes via our governance structure and strong risk culture.

Credit risk

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

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

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

Capital risk

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

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

Financial crime risk

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

Operational risk

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

8. Risk Management Continued

Regulatory risk

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

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

Conduct risk

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

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

Strategic risk

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

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

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

Model risk

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

Liquidity and funding risk

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

Market risk

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

Legal risk

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

8. Risk Management Continued

Emerging risks

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

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

Rapidly changing macroeconomic and geopolitical environment

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

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

Mitigating actions

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

Cyber risk

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

Mitigating actions

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

Technological change

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

Mitigating actions

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

8. Risk Management Continued

Regulatory change

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

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

Fraud risk

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

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

ESG risk

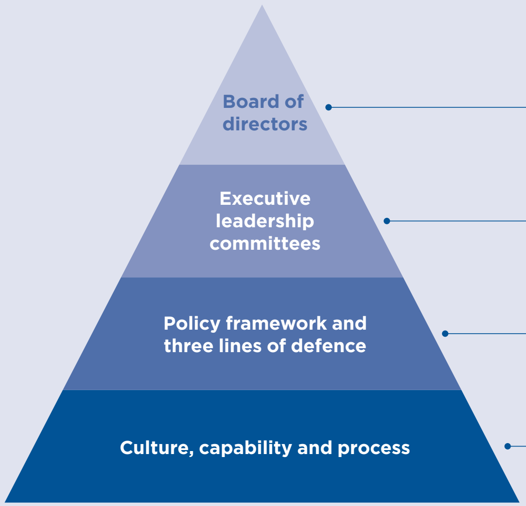
There remain significant uncertainties around the time horizon over which climate risks will materialise, as well as the exact nature and impact of climate change on our strategy, performance and operating model. There are also risks associated with changing societal and political requirements from a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

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

8. Risk Management Continued

Risk management framework

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



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

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

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

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

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

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

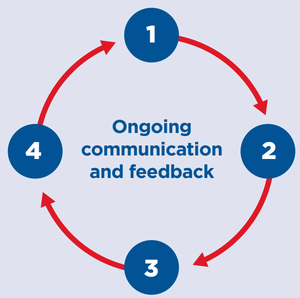
Alongside our risk appetite statements, a Policy Governance Framework is in place to provide structure and governance for the consistent and effective management of the policies we develop in order to manage risk within our risk appetite. These policies define the minimum control requirements that we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

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

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

Risk management process and governance overview

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



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

8. Risk Management Continued

Risk governance and oversight

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

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

8. Risk Management Continued

Board

Sets risk appetite and strategy

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

Risk Oversight Committee

Oversees risk governance and management

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

Audit Committee

Oversees financial reporting

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

Executive-level committees

Oversee the risk management framework

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

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

Credit Approval Committee
- Approves higher value lending requests.

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

8. Risk Management Continued

Risk culture

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

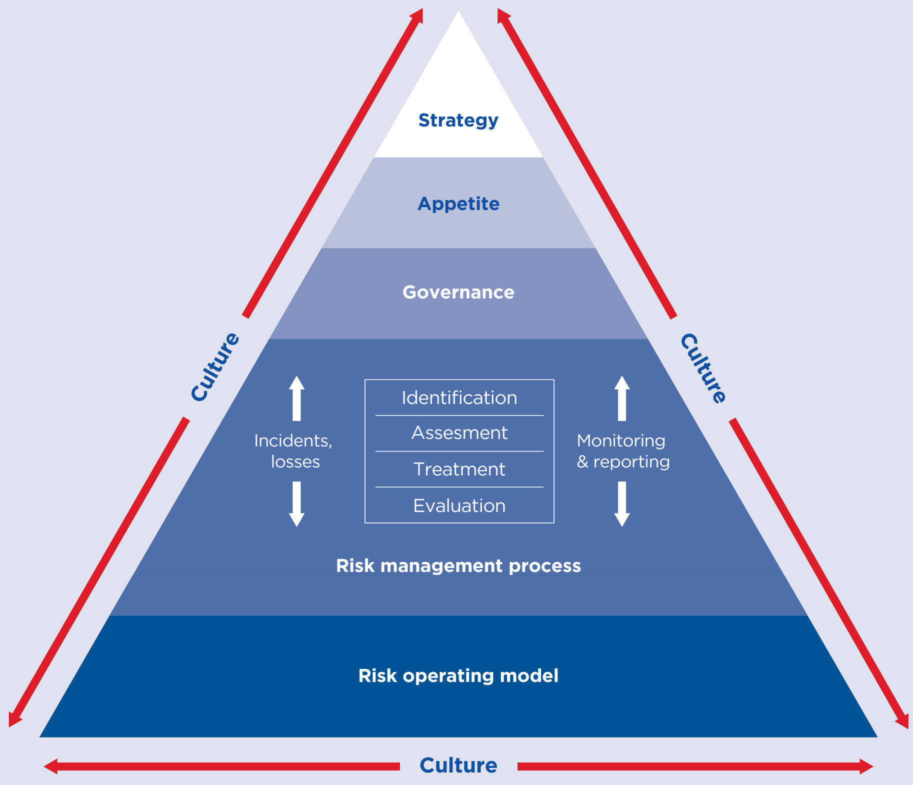
This culture begins with our executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation. Enabled through operation of the Senior Managers and Certification Regime, personal accountability is at the heart of our risk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

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

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

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

Risk culture



8. Risk Management Continued

Risk management overview

Principal risks

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

Increased risk | No change | Reduced risk

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

8. Risk Management Continued

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

8. Risk Management Continued

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

8. Risk Management Continued

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

8. Risk Management Continued

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

8. Risk Management Continued

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

8. Risk Management Continued

Credit risk

Risk appetite

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

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

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

Assessment and monitoring

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

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

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

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

8. Risk Management Continued

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

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

Governance

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

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

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

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

Mitigation

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

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

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

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

8. Risk Management Continued

Supporting our customers

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

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

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

Forbearance

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

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

Measurement

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

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

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

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

8. Risk Management Continued

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

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

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

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

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

8. Risk Management Continued

In light of the classifications set out on page 47, our stage allocation criteria must include:

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

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

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

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

Non-performing loans

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

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

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

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

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

Credit exposure summary

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

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

Table 1: Total expected credit losses by portfolio

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

8. Risk Management Continued

Table 2: Total portfolio credit performance

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

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

New business risk profile

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

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

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

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

Non-performing loans

The below table provides information on NPLs by portfolio.

Table 3: Non-performing loans

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

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

Expected credit loss

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

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

8. Risk Management Continued

Credit risk exposure by internal PD rating

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

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

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

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

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

8. Risk Management Continued

Cost of risk

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

Table 5: Cost of risk

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

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

Stage 2 balances

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

Table 6: Stage 2 balances

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

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

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

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

8. Risk Management Continued

Portfolio level analysis – Retail mortgages

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

Table 7: Retail mortgage credit performance

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

Portfolio and credit risk profile

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

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

Impairment

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

Payment performance

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

Interest-only lending

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

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

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

Table 8: Retail mortgage lending by repayment type

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

8. Risk Management Continued

Geographic exposure

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

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

Table 9: Retail mortgage lending by geographic exposure

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

Collateral

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

Table 10: Retail mortgage lending by DTV

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

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

Portfolio growth and credit quality

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

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

8. Risk Management Continued

Portfolio level analysis – Consumer

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

Table 11: Consumer credit performance

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

Portfolio and credit risk profile

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

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

Impairment

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

Portfolio level analysis – Commercial

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

Table 12: Commercial credit performance

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

Portfolio and credit risk profile

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

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

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

8. Risk Management Continued

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

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

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

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

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

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

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

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

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

8. Risk Management Continued

Sector exposure

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

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

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

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

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

Collateral

The following table shows distribution of the commercial portfolio DTV.

Table 16: Commercial term lending – excluding BBLS by DTV

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

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

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

8. Risk Management Continued

Supporting our commercial customers

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

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

Government-backed lending

The table below summarises government-backed lending.

Table 17: Government-backed lending

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

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

Undrawn commitments

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

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

Investment securities

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

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

Table 18: Investment securities by credit rating

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

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

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

8. Risk Management Continued

IFRS 9 macroeconomic scenarios and use of expert judgement

Macroeconomic scenarios and probability weightings

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

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

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

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

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

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

Table 19: Macroeconomic Scenario Weightings

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

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

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

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

8. Risk Management Continued

Macroeconomic variables

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

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

Table 20: Macroeconomic variable assumptions

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

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

Key assumptions underpinning the baseline December 2022 scenarios:

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

The following variables are the key drivers of ECL:

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

Sensitivity analysis

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

Use of post model adjustments and overlays

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

8. Risk Management Continued

Capital risk

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

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

Capitalisation is a core component of our annual planning process, involving the creation of our budget and multi-year Long Term Plan. This sets our forecast of our capital position and considers adequacy both a 'base' and 'downside' (stressed) scenarios. Mitigating actions to preserve capital are identified and applied, where necessary. Further details on this process are set out in our Viability statement on pages 70 and 71.

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

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

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

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

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

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

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

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

8. Risk Management Continued

Table 21: Key regulatory metrics and ratios

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

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

Capital resources

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

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

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

Table 22: Regulatory capital

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

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

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

Table 23: Transitional arrangements

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

Capital requirement

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

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

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

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

8. Risk Management Continued

Table 24: Capital requirements

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

Capital landscape

Basel 3.1

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

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

Resolvability regime

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

Resolvability Assessment Framework

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

Ring-fencing

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

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

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

Risk-weighted assets

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

Table 25: Risk-weighted assets

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

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

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

8. Risk Management Continued

Financial crime risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Risk Management Continued

Operational risk

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

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

Mitigation
We have put in place detailed policies, standards and controls to mitigate the variety of operational risks to which we are exposed. These are designed to both minimise impacts suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

Information Security and Cyber
We recognise that all colleagues have an important responsibility to safeguard the systems and sensitive information we hold. We continuously invest in our cyber and information security infrastructure to identify and respond to threats, protect customer data and minimise the risk of disruption. We also take pre-emptive actions to safeguard the end-to-end resilience of critical processes. We continue to enhance the control environment, recognising the rapidly changing cyber landscape, increased importance of digital channels and reliance on home working, as well as the changing risk profile of the business.

Operational resilience
Operational resilience is an outcome of our ability to proactively prevent, adapt, respond, recover, and learn from operational disruption events. By identifying and monitoring our important business services, we continue to ensure that adequate controls remain in place, including management of the technology upon which they rely, to minimise disruption and avoid causing intolerable harm to our customers.

Fraud
The safety and security of our customers and their funds is of the highest importance. Our dedicated teams monitor the rapidly-evolving threats posed to both ourselves and our customers and quickly respond by deploying a range of preventative and detective measures. Authorised and unauthorised payment fraud attempts and scams continue to present a threat. We share fraud prevention trends and best practice via our various communication channels to help protect our customers against such attacks.

People
Our ambition is to be the number one community bank will be delivered by our people. Similar to our peers, this year has presented risks related to the recruitment and retention of colleagues driven in large part by post-COVID dynamics and inflationary pressures. This is turn has put pressure on our operational capabilities. In response, our dedicated people team provides business support in resource management, talent identification, training and development to ensure that we have the right colleagues, in the right place, at the right time with the right skillset to create FANS.

Measurement
Material operational risk events are identified, reviewed and escalated in line with criteria set out in the Enterprise and Operational Risk Management Frameworks. Incidents and losses are recorded and root-cause analysis is undertaken with action plans implemented to prevent recurrence and continually improve our processes. Quantitative metrics are used to measure our material operational risks and assess our exposure against our stated risk appetite. We conduct regular operational risk scenario workshops to identify severe yet plausible events which could impact us. This enables us to quantify the potential losses that such events could cause and hold sufficient capital against them, as well as highlighting potential areas for ongoing enhancements to our operational risk capabilities.

8. Risk Management Continued

Regulatory risk

Appetite

We have a low appetite for regulatory risk and seek to minimise this risk by maintaining robust systems and controls that are designed to meet existing regulatory requirements and to ensuring we comply with future changes to the regulatory landscape.

Assessment and monitoring

Regulatory Risk is considered by all three lines of defence as part of their oversight and assurance activities. Our Combined Risk Assurance plan independently assesses areas of the control framework underpinning compliance with laws and regulations.

Additionally, a clear governance structure is in place which enables escalation of regulatory risks from the first line risk committees through to the relevant second line oversight committees, including track and challenge of adherence to our risk appetite through our Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on maintaining regulatory compliance. As well as our Risk Report, this also includes periodic reporting on regulatory themes and key focus areas aligned to the regulators strategic priorities, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk appetite measures and Board-approved frameworks.

Mitigation

Investment in our systems and controls

We continue to invest in and develop are core systems that allow us to meet regulatory requirements, including in the regulatory reporting space where we have implemented a new system during the year.

The PRA expects our regulatory reporting, which includes capital and liquidity reporting, to be as rigorous as that for financial reporting. In achieving this we have continued to enhance our control environment to ensure we are continuing to produce accurate and reliable reporting and deliver against these expectations. Alongside this we have enhanced our first, second and third line oversight. We are currently preparing for the proposed enhancements to internal control requirements under the revised UK Corporate Governance Code requirements which will see us continue to invest in our controls across the Bank.

Horizon scanning

We undertake ongoing horizon scanning to identify and address upcoming regulatory change. As part of this process we engage proactively with our regulatory authorities as well as industry bodies in respect of any proposed changes.

Measurement

Regulatory risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against material regulatory initiatives and our relationship with our regulators, as well as a defined set of Board-approved risk appetite metrics relating to our key principal risks. This includes measures around major/critical regulatory, financial crime and operational impacts, impairment provisioning, credit, model and capital risk exposure, regulatory breaches, high risk assurance and audit findings, incidents and implementation of material regulatory change.

8. Risk Management Continued

Conduct risk

Appetite

We are built around a culture of supporting our customers, offering them a range of relatively simple retail products. We have a low appetite for conduct risk and seek to minimise risks which may result in unfair outcomes or lead to customer detriment. Where unfair outcomes are identified we ensure these are remediated effectively to minimise risk, prevent recurrence and reduce customer harm.

Assessment and monitoring

Conduct risk is considered by all three lines of defence as part of their oversight and assurance activities. A Combined Risk Assurance plan, approved by the Audit Committee on an annual basis, independently assesses our ability to appropriately mitigate this risk.

Additionally, a clear governance structure is in place which enables escalation of conduct risks from the first line risk committees through to the relevant second line oversight committees, including track and challenge of adherence to our risk appetite through our Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on managing appetite against this risk. As well as the Bank Risk Report, this also includes periodic reporting on key conduct themes, alongside supporting key risk appetite measures and Board-approved frameworks.

Mitigation

The following controls and procedures help to mitigate conduct risk:

- A Conduct Risk Framework (with supporting policy and standards), sets out our Conduct Risk Appetite Statement, key regulatory requirements, principles and expectations including drivers of customer harm, defined governance and approach to risk identification and monitoring.
- Ongoing development, maintenance and reporting of conduct risk appetite measures (aligned to the risk taxonomy) inclusive of customer outcome measures, to ERC, ROC and the Board.
- Oversight and ongoing review of conduct risks and issues in relevant business risk and oversight risk committees, including progress against key customer remediation projects, conduct related regulatory change initiatives, complaints, vulnerable customers and arrears management.
- Maintenance of proactive and coordinated engagement with our regulators around key customer initiatives.
- Consideration of customer profiles, target markets, fair value, and customer needs and vulnerability in the context of product and proposition development, ongoing review, and associated appropriate governance.
- Ongoing quality assurance and review measures to assess delivery of good customer outcomes, supported and embedded through training.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Measurement

Conduct risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against key conduct priorities set by the regulators, as well as a defined set of Board-approved risk appetite metrics relating to complaints, arrears management, product performance, colleague training and customer outcome delivery.

8. Risk Management Continued

Strategic risk

Appetite
We have not set a separate risk appetite for strategic risk and instead monitor it via the full range of reporting via our governance structure and direct risk input into the formulation of our strategy and Long Term Plan and its ongoing monitoring at ExCo, ERC and ROC.

Assessment, monitoring, mitigation and measurement
Strategic risk is addressed through the Board-approved strategy and long-term financial plan. We consider strategic risk as part of ongoing risk reporting and an annual review of our strategy and Long Term Plan, as well as ongoing monitoring and management via our risk governance structure and ExCo oversight of execution, including oversight and challenge by the second line of defence.

Model risk

Appetite
We adopt a cautious appetite for risk due to errors in the development, implementation or use of models, which it mitigates via effective governance over the specification and design, implementation and running of its models and over model input data.

Assessment and monitoring
Our model risk assessment starts with an overarching Model Risk Management Framework, setting out the roles and responsibilities of the various stakeholders, underpinned by a comprehensive model risk governance policy supported by model development, monitoring, validation, implementation, and risk appetite standards.

Mitigation

Governance

The main mitigant to model risk is the robust governance process that is followed, including two dedicated model committees: the Model Oversight Committee and the Model Governance Committee, as well as an expert panel to opine on contentious issues. The Committees evaluate the appropriateness of the Model Risk Management Framework and monitor progress on the implementation of an enhanced modelling infrastructure, including a review of findings in relation to specific modelling processes, escalating to ERC and ROC as appropriate.

We have in place a well-qualified independent model validation function that performs model validations prior to model implementation, both when a model is changed and on a periodic basis.

Measurement
Model risk is assessed across a number of key risk indicators including regulatory reporting, materiality, complexity, impact, impairment computations, periodicity of review and data sources incorporated, reporting into the model risk committees, ERC and ROC.

8. Risk Management Continued

Liquidity and funding risk

Appetite
Our liquidity and funding risk appetite is set though a number of sub-risk appetites:

Liquidity – We have a cautious appetite for liquidity risk. The Board has determined that we should be able to survive a combined name-specific and market-wide liquidity stress event for at least three months, at a level of severity determined by our internal risk appetite stress test, utilising the liquidity pool.

Funding – We have a cautious appetite for funding risk. The Board has determined that we should maintain a prudent funding profile by using stable funding to fund illiquid assets, without undue reliance on wholesale funding markets. As an additional safeguard to the quality of funding, limits are set to ensure that funding is not inappropriately concentrated by customer, sector or term, as identified during our liquidity stress testing.

Encumbrance – We have a cautious appetite for encumbrance risk. The Board has determined that encumbrance of our balance sheet should be no greater than 30% of our total assets in business-as-usual conditions. However, encumbrance is not limited in relation to any repo or use of Bank of England facilities since this might prevent the bank from taking appropriate action to manage through a liquidity stress situation, or testing the adequacy of those facilities from time to time.

Assessment and monitoring
We consider the effective and prudent management of liquidity to be fundamental to our ongoing strength and viability. The Board has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of our liquidity and funding risks. We are committed to ensuring that at all times we have sufficient liquidity resources – in terms of both quantity and quality – to ensure we can meet payments as they fall due.

The treasury function has responsibility for our compliance with liquidity policy and strategy. We have a dedicated prudential risk team who monitor our liquidity and funding risk daily including ensuring compliance with the policies we have developed. The regulatory reporting team also monitors compliance with relevant metrics.

Mitigation
Deposit-funded approach
We aim to attract service-led core deposits which are less sensitive to competition within the deposit market. At 31 December 2022, 51% of our deposits came from commercial customers (31 December 2021: 48%) with the remaining 49% (31 December 2021: 52%) coming from retail customers. Additionally, 49% of deposits at year end (31 December 2021: 44%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products.

Liquidity management
We continue to hold a prudent level of liquidity to cover unexpected outflows, ensuring that we are able to meet financial commitments for an extended period. We recognise the potential difficulties in monetising certain assets, so set higher quality targets for liquid assets for the earlier part of a stress period. We have assessed the level of liquidity necessary to cover both systemic and idiosyncratic risks and maintain an appropriate liquidity buffer at all times. Our internal liquidity stress test ensures that we comply with our own risk appetite as well as regulatory requirements.

Assets and liabilities by maturity
Table 26 sets out the maturity structure of our assets and liabilities, by their earliest possible contractual maturity date. The contractual maturity will differ from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis, such deposits are repayable on demand or at short notice. In reality, they are static in nature and provide long-term stable funding for our operations and liquidity. Equally, our loans and advances to customers, specifically mortgages, are lent on longer contractual terms, but may be redeemed or re-mortgaged earlier. The total balances set out in the analysis do not reconcile with the carrying amounts as disclosed in the consolidated balance sheet. The difference arises from the maturity analysis incorporating all the expected future cash flows (including interest), on an undiscounted basis.

Measurement
We measure our liquidity and funding resources in line with regulatory requirements, with the key metric for liquidity being the liquidity coverage ratio and for funding, the net stable funding requirement. This is supported by monitoring of the encumbrance ratio and other balance sheet metrics.

In order to appropriately manage our liquidity and funding resources, we run an ILAAP exercise which considers the risks that we are exposed to in both normal and stressed conditions. The ILAAP process also set appropriate limits and determines the Bank's liquidity risk appetite, and internal liquidity stress scenario. We produce regular reports on the current and forecasted level of liquidity and capital, which are tracked against limits both at the operational level in Treasury and at the Executive level at ALCO.

As at 31 December 2022 our liquidity coverage ratio was 213% (31 December 2021: 281%) and our net stable funding ratio was 134% (31 December 2021: n/a).

8. Risk Management Continued

Table 26: Contractual maturity

	31 December 2022 £'million									31 December 2021 £'million								
	Carrying amount	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No contractual maturity	Total	Carrying amount	Repayable on demand	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	No contractual maturity	Total
Cash and balances with the Bank of England	1,956	1,956	–	–	–	–	–	–	1,956	3,568	3,568	–	–	–	–	–	–	3,568
Loans and advances to customers	13,102	–	573	507	942	5,472	17,525	341	25,360	12,290	–	489	427	791	4,740	10,850	349	17,646
Investment securities	5,914	–	576	206	951	4,312	164	59	6,268	5,574	–	123	9	672	4,488	451	30	5,773
Other assets	1,147	–	–	–	–	–	–	1,147	1,147	1,155	–	–	–	–	–	–	1,147	1,147
Total assets	22,119	1,956	1,149	713	1,893	9,784	17,689	1,547	34,731	22,587	3,568	612	436	1,463	9,228	11,301	1,526	28,134
Deposits from customers	(16,014)	(15,310)	(139)	(136)	(201)	(162)	–	(75)	(16,023)	(16,448)	(14,910)	(348)	(350)	(458)	(303)	–	(122)	(16,491)
Deposits from central banks and repurchase agreements	(4,038)	–	(215)	(41)	(147)	(4,147)	–	–	(4,550)	(3,969)	–	(23)	(3)	(110)	(3,987)	–	–	(4,123)
Debt securities	(571)	–	–	(272)	(17)	(383)	–	–	(672)	(588)	–	–	(23)	(24)	(672)	–	–	(719)
Other liabilities	(540)	–	(6)	(6)	(12)	(111)	(263)	(292)	(690)	(547)	–	(6)	(6)	(13)	(94)	(224)	(214)	(557)
Total liabilities	(21,163)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(367)	(21,935)	(21,552)	(14,910)	(377)	(382)	(605)	(5,056)	(224)	(336)	(21,890)
Equity	(956)	–	–	–	–	–	–	(956)	(956)	(1,035)	–	–	–	–	–	–	(1,034)	(1,034)
Total equity and liabilities	(22,119)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(1,323)	(22,891)	(22,587)	(14,910)	(377)	(382)	(605)	(5,056)	(224)	(1,370)	(22,924)
Derivative cash flows		–	(2)	(1)	(3)	–	–	–	(6)		–	(3)	–	(2)	(6)	–	–	(11)
Cumulative liquidity gap		(13,354)	(12,567)	(12,310)	(10,797)	(5,816)	11,610				(11,342)	(11,107)	(11,053)	(10,195)	(6,023)	5,054		

8. Risk Management Continued

Market risk

Appetite

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

Earnings – We have a low appetite for earnings risk, with the Board determining a limit calibrated to ensure net interest income does not exceeding an amount recommended and scrutinised by the ALCO and approved by ROC. The limit is calibrated using a 2% instantaneous shock in both directions.

Economic value – We have a low appetite for economic value risk, with the Board determining a limit calibrated to ensure that a change to the present value of our balance sheet does not exceed an amount as recommended and scrutinised by ALCO and approved by ROC. The limit is calibrated by calculating the impact of a 2% instantaneous shock in both directions.

Revaluation risk – We have a low appetite for revaluation risk, with the Board prescribing that we should avoid situations where the potential losses caused by changes in market prices shall not exceed capital held under standard risk weights, taking account of any offsets, determined by our Revaluation Risk stress scenario.

Foreign exchange risk – We have no appetite for foreign exchange risk, with the Board determining that exposures in foreign currencies should not represent a material portion of our capital resources.

Assessment and monitoring

Our market risk is driven by interest rate risk in the banking book. It is encountered by all banks due to intermediation activities, which lead to maturity mismatches and mismatches between fixed and floating rate assets and liabilities. The Board is responsible for setting market risk appetite. Market risk is mitigated through a risk management framework that allows it to be monitored and managed by first line management and second line risk, with oversight from ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control the interest rate risk in the banking book is consistent with the approved strategies and policies.

Management limits are set at the ALCO for economic value and net interest income sensitivity to ensure prompt action and escalation. Limits and the relevant metrics are also reported to ROC and the Board.

The treasury function has responsibility for our compliance with market risk policy and strategy. We have a dedicated prudential risk team who monitor our market risk daily including ensuring compliance with the policies we have developed. The prudential risk function run additional interest rate risk simulations monthly to assess other threats that may not be evident in the standard parallel shock metrics.

Mitigation

Interest rate risk

We benefit from natural offsetting between certain assets and liabilities, which may be based on both the contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes.

Our treasury and prudential risk teams work closely together to ensure that risks are managed appropriately – and that we are well-positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure

We have very limited exposure to foreign exchange risk. Foreign currency denominated assets and liabilities are matched off closely in each of the currencies we operate, and we eliminate our foreign exchange exposure as far as is practical on a daily basis. In any event the risk is strictly capped at 2% of our capital base. We offer business current accounts in foreign currency and foreign exchange facilities to facilitate customer requirements only.

Measurement

We measure interest rate risk exposure using methods including the following:

- Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.
- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities over the horizon of our balance sheet and then evaluating the change in value arising from an instantaneous 2% change in the yield curve in both directions, taking into consideration any embedded customer optionality. Our economic value sensitivity risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. Additionally, we evaluate the PRA's outlier test in line with regulatory requirements.
- Net interest income sensitivity: calculating repricing mismatches across our assets and liabilities over a one-year horizon and then evaluating the change in net income arising from an instantaneous 2% change in the yield curve in both directions. Our net interest income risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. We also assess basis risk by considering divergences between Bank of England base rate and the Sterling Overnight Index Average (SONIA), which replaced the London Inter-Bank Offered Rate (LIBOR) from January 2022.

8. Risk Management Continued

Interest rate risk

Table 27 set out the interest rate risk repricing gaps of our balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods, after applying expected pre-repayments in line with our policy.

A positive interest rate sensitivity gap exists, when more assets than liabilities reprice during a given period. A positive gap tends to benefit net interest income in an environment where interest rates are rising; however, the actual effect will depend on multiple factors, including actual repayment dates and interest rate sensitivities within the periods. The converse is true for a negative interest rate sensitivity gap.

Table 28 shows the sensitivity arising from the standard scenario of a +200bps and -200bps parallel interest rate shock upon projected net interest income for a one-year forecasting period. This is a hypothetical scenario based on a constant balance sheet as well as a full pass through of the increase to all of our variable rate assets and liabilities.

Table 28: Interest rate sensitivity

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'million	200bps decrease (not floored at zero) £'million
31 December 2022	(8.3)	8.4
31 December 2021	5.7	(5.3)

During the year we took advantage of the rising interest rate environment to redeploy some of our excess variable rate cash balances held at the Bank of England into higher-yielding assets. At the same time we continued to let higher cost fixed term deposits roll off. A combination of these factors increased the fixed interest components of our assets, while at the same time the fixed interest component of our liabilities decreased. This has the effect of reversing the impact of a hypothetical +200bps interest rate shock, compared to the position last year. As our pass through rate on deposits is typically lower than increases to base rate, overall this scenario would unlikely materialise and overall we remain geared towards a rising interest rate environment.

Table 27: Repricing analysis

	31 December 2022 £'million							31 December 2021 £'million						
	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total	Up to 3 months	3-6 months	6-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with the Bank of England	1,881	–	–	–	–	75	1,956	3,472	–	–	–	–	96	3,568
Loans and advances to customers	4,154	915	2,010	5,850	173	–	13,102	4,335	635	1,479	5,666	175	–	12,290
Investment securities	2,163	–	539	3,052	160	–	5,914	2,282	–	273	2,667	352	–	5,574
Other assets	–	–	–	–	–	1,147	1,147	–	–	–	–	–	1,156	1,156
Total assets	8,198	915	2,549	8,902	333	1,222	22,119	10,089	635	1,752	8,333	527	1,252	22,588
Deposits from customers	(6,186)	(613)	(1,154)	(7,456)	(605)	–	(16,014)	(7,023)	(747)	(1,251)	(6,904)	(523)	–	(16,448)
Deposits from central banks and repurchase agreements	(3,978)	–	(60)	–	–	–	(4,038)	(3,800)	–	(99)	(70)	–	–	(3,969)
Debt securities	–	(249)	–	(322)	–	–	(571)	–	–	–	(588)	–	–	(588)
Other liabilities	–	–	–	–	–	(540)	(540)	–	–	–	–	–	(548)	(548)
Total liabilities	(10,164)	(862)	(1,214)	(7,778)	(605)	(540)	(21,163)	(10,823)	(747)	(1,350)	(7,562)	(523)	(548)	(21,553)
Equity	(760)	(10)	(21)	(165)	–	–	(956)	(759)	(28)	(55)	(193)	–	–	(1,035)
Total equity and liabilities	(10,924)	(872)	(1,235)	(7,943)	(605)	(540)	(22,119)	(11,582)	(775)	(1,405)	(7,755)	(523)	(548)	(22,588)
Interest rate derivatives	(68)	40	(62)	105	(15)	–	–	264	(90)	(429)	255	–	–	–
Interest rate sensitivity gap	(2,794)	83	1,252	1,064	(287)	682	–	(1,229)	(230)	(82)	833	4	704	–
Cumulative gap	(2,794)	(2,711)	(1,459)	(395)	(682)	–	(8,041)	(1,229)	(1,459)	(1,541)	(708)	(704)	–	–

8. Risk Management Continued

Legal risk

Appetite
We have a low appetite for legal risk, limited to those events where there is a minimal chance of material financial, reputational or commercial negative consequences.

Assessment and monitoring
Given the pervasive and fundamental nature of legal risk, rather than having a separate framework, the methodology for the robust management of legal risk is set out in reporting to ERC and ROC.

Mitigation
We minimise legal risk via a range of mitigants, including:

- In house legal expertise, maintained via appropriate training and development and specialist recruitment.
- Selective use of expert external legal advice via an approved panel of lawyers.
- Appropriate policy documentation and training related to specific legal requirements.
- Monthly reporting of metrics to measure compliance with our legal risk appetite.

In 2022, we successfully enhanced our approach further by updating our Enterprise Risk Management Framework to clarify the role of the legal function in helping the business manage and mitigate legal risk.

Measurement
A range of key risk indicators is used to measure our exposure to legal risk, including the risk of defective contracts and claims made against us. Details of our material legal and regulatory matters can be found in note 32 to the financial statements on page 228 of the ARA.

Viability statement

Assessment of principal and emerging risks
The Board is responsible for monitoring the nature and extent of the principal risks we face as well as determining the level of appetite we are willing to take in order to achieve our strategic objectives. Our principal risks, which we actively monitor and manage, are described on pages 28 to 70 which includes our appetite, assessment, monitoring, mitigation and measurement approaches. As part of this process the Board consider the emerging risks we face (which are set out on pages 30 and 31).

In line with the requirements of the Corporate Governance Code ('the Code'), the Directors have performed a robust assessment of the principal and emerging risks we face, including those that would threaten our business model and impact our performance, capital or liquidity. Our business model is set out on pages 15 to 17 of the ARA which also show how this links to our principal risks.

Risk management and internal controls
As described in the Corporate governance and Risk reports, our risk management and internal control systems are monitored at Board level. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

Assessment of prospects
The Directors have an obligation in accordance with provision 31 of the Code to confirm that they believe that we will be able to continue in operation, and to meet their liabilities as they fall due. Our prospects are assessed primarily through our strategic planning process (our Long Term Plan), the first year of which reflects the our 2023 budget. This process includes an annual review of the ongoing plan, led by the CEO and CFO through ExCo and Board. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so consider whether the plan continues to take appropriate account of the external environment (see operating environment on pages 8 to 9 of the ARA for further details). The latest updates to the Long Term Plan (covering the period 2023 to 2027) were formally approved by the Board in February 2023.

Our business model (see pages 15 to 17) of the ARA are central to an understanding of our prospects. The nature of the our activities is long term and our business model has remained unchanged since we were founded. At the end of 2022 we refreshed our strategy for the next stage of our growth (see page 19 of the ARA). This strategy will be subject to ongoing monitoring to ensure it remains appropriate.

8. Risk Management Continued

Our new strategy continues to be based on a combination of balance sheet optimisation, revenue growth and cost control, alongside ongoing infrastructure investment, with decisions on new investment being taken based on the long-term benefits they will provide. Although decisions are taken for the long term any investment has to align with our appetite for risk as well as be able to demonstrate an appropriate payback period. The Directors have reviewed the assumptions underpinning our plan and have determined they are appropriate.

Although our Long Term Plan covers a five year period to 31 December 2027, the Directors have assessed prospects and viability for the four years through to 31 December 2026. This is felt appropriate as this is the period over which forecasts have a greater level of certainty (although the fifth year still provides a robust planning tool against which strategic decisions can be made). The assessment has included reviewing the plan against our principal risks to examine those matters that could prevent us from delivering on our strategy.

Of our principal risks only operational failure (operational risk), a lack of liquidity (liquidity and funding risk); or insufficient capital (capital risk) were felt could directly lead to us not being able to continue in our current form if they were to occur (although a failure of our other principal risks could lead to one of these events).

Of these three risks, insufficient capital is where there is most uncertainty and where extra consideration was given by the Directors in their assessment of our viability.

One of the key assumptions in the Long Term Plan is the our ability to raise qualifying debt over the forecast period to fund anticipated growth and to continue to meet regulatory requirements. In order to be able to issue certain regulatory debt instruments we will need to create distributable reserves in order to pay the required dividend payments on these. We are currently undertaking a process to insert a holding company, to meet our regulatory requirements, part of which involves a process to create distributable reserves. This remains subject to various regulatory and legal approvals. Further details on this can be found on page 27 of the ARA.

Assessment of viability

Although our Long Term Plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact by examining our sensitivity to a 'severe but plausible' downside. This has been undertaken via the creation of a scenario that reflects additional downside risks. This 'severe but plausible' consisted of a stressed economic downturn that led to increased ECL, deposit outflows, reduced fee income, increased costs as well as the removal of our ability to raise incremental regulatory capital (alongside forecasting increased coupons on the refinancing of existing regulatory debt) during the early years of the plan.

In this scenario we fell below regulatory minima at a total regulatory capital + MREL level. The Directors considered the actions that could reasonably be deployed. This involved making reasonable adjustments to our operating plans, although these were within what would typically be done in the normal course of business and therefore these mitigating actions did not in of themselves constitute any additional risk, although would involve us operating in our capital buffers for longer than envisaged. These actions centred around cost reductions, reducing lending origination as well as not seeking to raise any further regulatory capital (other than refinancing existing debt) that would have supported future growth.

In addition to the scenario outlined above we also undertake routine stress testing (including reverse stress tests) for both management and regulatory purposes including as part of the ICAAP and ILAAP. The results are then assessed to understand the likelihood of such events occurring and what mitigating actions could be taken. The results of the stress testing performed to date are in line with the assessment outlined above and has not given rise to any additional factors that would impact either our viability or going concern.

Assessment of going concern

In line with the work undertaken in respect of viability the Directors also undertook an assessment of going concern, which they consider to cover a period of at least 15 months from the date of approval of the financial statements.

Consistent with their approach to considering viability, the Directors assessed whether we continued to maintain sufficient liquidity and capital for the period of assessment. This combined with the fact the Directors do not intend to liquidate or to cease our operations, they concluded that there was a reasonable expectation that we have adequate resources to continue as a going concern. They have also concluded that there are no material uncertainties that could cast significant doubt over this assessment.

Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the four year assessment period to 31 December 2026.

Going concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained further in the Basis of preparation paragraph in note 1 to the financial statements.

9. Credit Risk

Standardised approach

Metro Bank uses Moody's and Fitch as External Credit Assessment Institutions (ECAIs). The external ratings from these institutions are mapped to a prescribed credit quality step assessment scale as per the CRR mappings and in turn produces standard risk weightings. ECAI is applied to the following exposure classes: Central governments and central banks, Multilateral development banks, Covered bonds and Securitisation.

Table 17: UK CR4 – Standardised approach – Credit risk exposure and CRM effects

The table below shows impact of pre and post credit conversion factors and credit risk mitigation techniques on standardised exposures by asset class.

		31 December 2022					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures £'million	Off-balance-sheet exposures £'million	On-balance-sheet exposures £'million	Off-balance-sheet amount £'million	RWAs £'million	RWAs density (%)
1	Central governments or central banks	4,024	–	5,326	–	5	0%
2	Regional government or local authorities	–	–	–	–	–	
3	Public sector entities	–	–	–	–	–	
4	Multilateral development banks	1,663	–	1,663	–	–	0%
5	International organisations	–	–	–	–	–	
6	Institutions	7	7	7	3	2	20%
7	Corporates	1,000	251	622	81	623	89%
8	Retail	2,556	359	1,813	57	1,342	72%
9	Secured by mortgages on immovable property	9,326	488	9,326	98	3,851	41%
10	Exposures in default	280	2	178	1	189	106%
11	Exposures associated with particularly high risk	5	13	5	13	27	150%
12	Covered bonds	693	–	693	–	69	10%
13	Institutions and corporates with a short-term credit assessment	97	–	97	–	32	33%
14	Collective investment undertakings	59	–	59	–	–	0%
15	Equity	–	–	–	–	–	
16	Other items	1,021	0	1,021	0	936	92%
17	**Total**	**20,731**	**1,120**	**20,810**	**253**	**7,076**	**34%**

9. Credit Risk Continued

		31 December 2021					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures £'million	Off-balance-sheet exposures £'million	On-balance-sheet exposures £'million	Off-balance-sheet amount £'million	RWAs £'million	RWAs density (%)
1	Central governments or central banks	5,125	–	6,802	45	–	0%
2	Regional government or local authorities	–	–	–	–	–	
3	Public sector entities	–	–	–	–	–	
4	Multilateral development banks	1,327	–	1,327	–	–	0%
5	International organisations	–	–	–	–	–	
6	Institutions	167	–	167	–	33	20%
7	Corporates	596	401	413	94	437	86%
8	Retail	2,449	527	1,227	93	931	71%
9	Secured by mortgages on immovable property	8,839	312	8,824	74	3,808	43%
10	Exposures in default	384	–	209	–	211	101%
11	Exposures associated with particularly high risk	5	6	5	3	12	150%
12	Covered bonds	597	–	597	–	60	10%
13	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	
14	Collective investment undertakings	–	–	–	–	–	
15	Equity	–	–	–	–	–	
16	Other items	1,032	–	1,032	–	956	93%
17	**Total**	**20,521**	**1,246**	**20,603**	**310**	**6,449**	**31%**

9. Credit Risk Continued

Table 18: CR5 – Standardised approach

The table below shows standardised exposures post CCF and CRM by asset class across different risk weights.

		31 December 2022															
		Risk weight															
		0% (£'million)	2% (£'million)	4% (£'million)	10% (£'million)	20% (£'million)	35% (£'million)	50% (£'million)	70% (£'million)	75% (£'million)	100% (£'million)	150% (£'million)	250% (£'million)	370% (£'million)	1250% (£'million)	Others (£'million)	Total (£'million)
1	Central governments or central banks	5,324	–	–	–	–	–	–	–	–	–	–	2	–	–	–	5,326
2	Regional government or local authorities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	1,663	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,663
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	–	–	10	–	–	–	–	–	–	–	–	–	–	10
7	Corporates	–	–	–	–	–	–	–	–	–	703	–	–	–	–	–	703
8	Retail exposures	–	–	–	–	–	–	–	–	1,870	–	–	–	–	–	–	1,870
9	Exposures secured by mortgages on immovable property	–	–	–	–	–	8,296	–	–	–	1,128	–	–	–	–	–	9,424
10	Exposures in default	–	–	–	–	–	–	–	–	–	157	21	–	–	–	–	178
11	Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	18	–	–	–	–	18
12	Covered bonds	–	–	–	693	–	–	–	–	–	–	–	–	–	–	–	693
13	Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	58	–	38	–	–	1	–	–	–	–	–	97
14	Units or shares in collective investment undertakings	59	–	–	–	–	–	–	–	–	–	–	–	–	–	–	59
15	Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	84	–	–	–	–	–	–	–	–	935	–	–	–	–	1	1,021
17	**Total**	**7,130**	**–**	**–**	**693**	**68**	**8,296**	**38**	**–**	**1,870**	**2,925**	**39**	**2**	**–**	**–**	**1**	**21,061**

9. Credit Risk Continued

		31 December 2021															
		Risk weight															
		0% (£'million)	2% (£'million)	4% (£'million)	10% (£'million)	20% (£'million)	35% (£'million)	50% (£'million)	70% (£'million)	75% (£'million)	100% (£'million)	150% (£'million)	250% (£'million)	370% (£'million)	1,250% (£'million)	Others (£'million)	Total (£'million)
1	Central governments or central banks	6,847	–	–	–	–	–	–	–	–	–	–	–	–	–	–	6,847
2	Regional government or local authorities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	1,327	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,327
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	–	–	173	–	4	–	–	–	–	–	–	–	–	177
7	Corporates	–	–	–	–	–	–	–	–	–	507	–	–	–	–	–	507
8	Retail exposures	–	–	–	–	–	–	–	–	1,320	–	–	–	–	–	–	1,320
9	Exposures secured by mortgages on immovable property	–	–	–	–	–	7,454	–	–	–	1,445	–	–	–	–	–	8,898
10	Exposures in default	–	–	–	–	–	–	–	–	–	204	5	–	–	–	–	209
11	Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	8	–	–	–	–	8
12	Covered bonds	–	–	–	597	–	–	–	–	–	–	–	–	–	–	–	597
13	Exposures to institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Units or shares in collective investment undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	–	–	–	–	–	–	–	–	–	951	–	2	–	–	–	953
17	**Total**	**8,174**	**–**	**–**	**597**	**173**	**7,454**	**4**	**–**	**1,320**	**3,107**	**13**	**2**	**–**	**–**	**–**	**20,844**

9. Credit Risk Continued

Credit risk mitigation

The core objective of the eligible collateral policy, is to ensure the effective management of collateral. It provides the basis for establishing operational requirements regarding the capture and storage of collateral information, including types of valuations and how they are used, and the principles by which collateral is allocated against facilities.

The main types of collateral taken by the Bank are:

- residential and commercial property
- cash
- government guarantees (CBILs and BBLs)

Information about market or credit risk concentrations within the credit mitigation taken can be found in the Risk Management section.

The bank does not make use of financial on- or off-balance sheet netting.

Table 19: UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

The table below shows a breakdown of on-balance sheet unsecured and secured credit risk exposures secured by different credit risk mitigation techniques.

		31 December 2022				
		Unsecured carrying amount	Secured carrying amount			
				Of which secured by collateral	Of which secured by financial guarantees	
						Of which secured by credit derivatives
		£'million	£'million	£'million	£'million	£'million
1	Loans and advances	**5,476**	**11,007**	**9,616**	**1,391**	**–**
2	Debt securities	**5,975**	**–**	**–**	**–**	
3	**Total**	**11,451**	**11,007**	**9,616**	**1,391**	**–**
4	*Of which non-performing exposures*	***154***	***172***	***171***	***1***	**–**
5	*Of which defaulted*	***154***	***172***			

9. Credit Risk Continued

Credit quality

Table 20: UK CR1-A – Maturity of exposures

The table below shows a breakdown of net exposures split by maturity.

		31 December 2022					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)
1	Loans and advances	–	1,891	3,508	9,019	–	14,419
2	Debt securities	–	1,070	3,484	1,362	59	5,975
3	**Total**	**–**	**2,961**	**6,992**	**10,381**	**59**	**20,394**

9. Credit Risk Continued

Table 21: UK CR1 – Performing and non-performing exposures and related provisions

		31 December 2022														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions								
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	Collateral and financial guarantees received	
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non-performing exposures
		(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)
005	**Cash balances at central banks and other demand deposits**	**1,882**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	**Loans and advances**	**12,947**	**10,860**	**2,087**	**352**	**–**	**352**	**(118)**	**(67)**	**(51)**	**(69)**	**–**	**(69)**	**–**	**9,790**	**172**
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*110*	*104*	*7*	*0*	–	*0*	*(2)*	*(2)*	*(0)*	*(0)*	–	*(0)*	–	*26*	–
060	*Non-financial corporations*	*3,812*	*3,325*	*487*	*187*	–	*187*	*(65)*	*(37)*	*(28)*	*(25)*	–	*(25)*	–	*2,227*	*63*
070	*Of which SMEs*	*3,519*	*3,040*	*479*	*187*	–	*187*	*(61)*	*(34)*	*(26)*	*(25)*	–	*(25)*	–	*1,989*	*62*
080	*Households*	*9,025*	*7,432*	*1,593*	*164*	–	*164*	*(52)*	*(29)*	*(23)*	*(44)*	–	*(44)*	–	*7,537*	*109*
090	**Debt securities**	**5,975**	**5,975**	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	*8*	–	–	–	–	–
110	*General governments*	*2,319*	*2,319*	–	–	–	–	*(0)*	*(0)*	–	*0*	–	–	–	–	–
120	*Credit institutions*	*2,366*	*2,366*	–	–	–	–	*(1)*	*(1)*	–	*0*	–	–	–	–	–
130	*Other financial corporations*	*1,281*	*1,281*	–	–	–	–	*(0)*	*(0)*	–	*0*	–	–	–	–	–
140	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
150	**Off-balance-sheet exposures**	**1,120**	**1,120**	**–**	**–**	**–**	**–**	**1**	**1**	**0**	**0**	**–**	**0**	**–**	**–**	**–**
160	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
180	*Credit institutions*	*0*	*0*	–	–	–	–	–	–	–	–	–	–		–	–
190	*Other financial corporations*	*35*	*35*	–	–	–	–	*0*	*0*	–	–	–	–		–	–
200	*Non-financial corporations*	*397*	*397*	–	–	–	–	*1*	*1*	*0*	–	–	–		–	–
210	*Households*	*688*	*688*	–	–	–	–	*0*	*0*	*0*	*0*	–	*0*		–	–
220	**Total**	**21,924**	**17,955**	**2,087**	**352**	**–**	**352**	**(118)**	**(67)**	**(51)**	**(69)**	**–**	**(69)**	**–**	**9,790**	**172**

9. Credit Risk Continued

Table 22: UK CR2 – Changes in the stock of non-performing loans and advances

		31 December 2022 Gross carrying amount £'million
010	**Initial stock of non-performing loans and advances**	**462**
020	Inflows to non-performing portfolios	**213**
030	Outflows from non-performing portfolios	**(323)**
040	Outflows due to write-offs	**(21)**
050	Outflow due to other situations	**(302)**
060	**Final stock of non-performing loans and advances**	**352**

9. Credit Risk Continued

Table 23: UK CQ3 – Credit quality of performing and non-performing exposures by past due days

		31 December 2022											
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)
005	**Cash balances at central banks and other demand deposits**	**1,882**	**1,882**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
010	**Loans and advances**	**12,947**	**12,896**	**51**	**352**	**152**	**96**	**68**	**25**	**10**	**0**	**0**	**352**
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*110*	*110*	*0*	*0*	–	*0*	–	–	–	–	–	*0*
060	*Non-financial corporations*	*3,812*	*3,777*	*35*	*187*	*89*	*46*	*46*	*6*	*1*	*0*	–	*187*
070	*Of which SMEs*	*3,519*	*3,486*	*34*	*187*	*89*	*46*	*45*	*6*	*1*	*0*	–	*187*
080	*Households*	*9,026*	*9,008*	*17*	*164*	*63*	*24*	*22*	*20*	*9*	*0*	*0*	*164*
090	**Debt securities**	**5,975**	**5,975**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	–	–	–
110	*General governments*	*2,319*	*2,319*	–	–	–	–	–	–	–	–	–	–
120	*Credit institutions*	*2,366*	*2,366*	–	–	–	–	–	–	–	–	–	–
130	*Other financial corporations*	*1,281*	*1,281*	–	–	–	–	–	–	–	–	–	–
140	*Non-financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
150	**Off-balance-sheet exposures**	**1,120**			**–**								**–**
160	*Central banks*	–			–								–
170	*General governments*	–			–								–
180	*Credit institutions*	*0*			–								–
190	*Other financial corporations*	*35*			–								–
200	*Non-financial corporations*	*397*			–								–
210	*Households*	*688*			–								–
220	**Total**	**21,924**	**20,779**	**51**	**352**	**152**	**70**	**68**	**25**	**10**	**0**	**0**	**352**

9. Credit Risk Continued

Table 24: UK CQ4 – Quality of non-performing exposures by geography

		31 December 2022						
		Gross carrying/nominal amount						
			Of which non-performing					
				Of which defaulted	Of which subject to impairment	Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)	(£'million)
010	**On-balance-sheet exposures**	**19,273**	**352**	**352**	**19,273**	**(187)**		–
020	*United Kingdom*	*17,078*	*337*	*337*	*17,078*	*(177)*		–
030	*Germany*	*254*	–	–	*254*	*(0)*		–
040	*United States*	*144*	–	–	*144*	*(0)*		–
050	*Other Countries*	*1,797*	*15*	*15*	*1,797*	*(10)*		–
080	**Off-balance-sheet exposures**	**1,120**	**–**	**–**			**2**	
090	*United Kingdom*	*1,120*	–	–			*2*	
100	*Germany*	–	–	–			–	
110	*United States*	*0*	–	–			*0*	
120	*Other Countries*	*0*	–	–			*0*	
150	**Total**	**20,394**	**352**	**352**	**19,273**	**(187)**	**2**	

9. Credit Risk Continued

Table 25: UK CQ5 – Credit quality of loans and advances to non-financial corporations by industry

		31 December 2022					
		Gross carrying amount					Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing				
				Of which defaulted	Of which loans and advances subject to impairment	Accumulated impairment	
		£'million	£'million	£'million	£'million	£'million	£'million
010	Agriculture, forestry and fishing	16	2	2	16	(0)	–
020	Mining and quarrying	0	–	–	0	(0)	–
030	Manufacturing	80	4	4	80	(2)	–
040	Electricity, gas, steam and air conditioning supply	6	0	0	6	(0)	–
050	Water supply	18	1	1	18	(0)	–
060	Construction	200	21	21	200	(3)	–
070	Wholesale and retail trade	292	14	14	292	(4)	–
080	Transport and storage	73	6	6	73	(2)	–
090	Accommodation and food service activities	518	44	44	518	(19)	–
100	Information and communication	82	7	7	82	(1)	–
110	Financial and insurance activities	–	–	–	–	–	–
120	Real estate activities	1,849	43	43	1,849	(30)	–
130	Professional, scientific and technical activities	214	14	14	214	(3)	–
140	Administrative and support service activities	32	3	3	32	(0)	–
150	Public administration and defence, compulsory social security	1	0	0	1	(0)	–
160	Education	31	2	2	31	(0)	–
170	Human health services and social work activities	415	15	15	415	(15)	–
180	Arts, entertainment and recreation	172	14	14	172	(9)	–
190	Other services	–	–	–	–	–	–
200	**Total**	**3,999**	**187**	**187**	**3,999**	**(89)**	**–**

9. Credit Risk Continued

Table 26: UK CQ1 – Credit quality of forborne exposures

		31 December 2022							
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
			Non-performing forborne						
		Performing forborne £'million	£'million	Of which defaulted £'million	Of which impaired £'million	On performing forborne exposures £'million	On non-performing forborne exposures £'million	£'million	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures £'million
005	Cash balances at central banks and other demand deposits	–	–	–	–	–	–	–	–
010	Loans and advances	25	92	92	92	(0)	(14)	99	75
020	*Central banks*	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–
050	*Other financial corporations*	–	–	–	–	–	–	–	–
060	*Non-financial corporations*	*0*	*32*	*32*	*32*	*(0)*	*(8)*	*23*	*23*
070	*Households*	*25*	*60*	*60*	*60*	*(0)*	*(7)*	*76*	*52*
080	Debt Securities	–	–	–	–	–	–	–	–
090	Loan commitments given	–	–	–	–	–	–	–	–
100	**Total**	**25**	**92**	**92**	**92**	**(0)**	**(14)**	**99**	**75**

10. Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions. We are exposed to counterparty credit risk through derivative transactions.

We use derivative contracts to manage interest rate risk in the banking book and foreign exchange risk on foreign denominated investments. Policies and contracts are in place to transfer/receive cash collateral when derivative mark-to-market exposures exceed agreed minimum transfer values, documented under standard International Swaps and Derivatives Association (ISDA) master netting agreements, supported by Credit Support Annexes (CSA). The Bank clears interest rate swaps through the central counterparty.

We assign counterparty credit limits based on the credit assessment and rating of the counterparty and monitor exposures against these limits on a daily basis. Our exposure to counterparty credit risk is measured under the SA-CRR method, which is a more risk sensitive approach.

Minimum capital requirements for counterparty credit risk are disclosed in Tables 27 to 28. The other component of counterparty credit risk is the credit valuation adjustment capital charge which is disclosed separately.

Table 27: UK CCR1 – Analysis of CCR exposure by approach

		31 December 2022							
		Replacement cost (RC) £'million	Potential future exposure (PFE) £'million	EEPE £'million	Alpha used for computing regulatory exposure value £'million	Exposure value pre-CRM £'million	Exposure value post-CRM £'million	Exposure value £'million	RWEA £'million
UK1	Original Exposure Method (for derivatives)	–	–		–	–	–	–	–
UK2	Simplified SA-CCR (for derivatives)	–	–		–	–	–	–	–
1	SA-CCR (for derivatives)	0	1		1	1	1	0	1
2	IMM (for derivatives and SFTs)			–	–	–	–	–	–
2a	*Of which securities financing transactions netting sets*			–		–	–	–	–
2b	*Of which derivatives and long settlement transactions netting sets*			–		–	–	–	–
2c	*Of which from contractual cross-product netting sets*			–		–	–	–	–
3	Financial collateral simple method (for SFTs)					–	–	–	–
4	Financial collateral comprehensive method (for SFTs)					238	6	6	6
5	VaR for SFTs					–	–	–	–
6	**Total**					**239**	**7**	**7**	**7**

10. Counterparty Credit Risk Continued

Table 28: UK CCR2 – Transactions subject to own funds requirements for CVA risk

		31 December 2022	
		Exposure value £'million	RWA £'million
1	Total transactions subject to the Advanced method	–	–
2	(i) VaR component (including the 3x multiplier)		–
3	(ii) stressed VaR component (including the 3x multiplier)		–
4	Transactions subject to the Standardised method	7	2
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	–	–
5	**Total transactions subject to own funds requirements for CVA risk**	**7**	**2**

Table 29: UK CCR8 – Exposures to CCPs

		31 December 2022	
		Exposure value £'million	RWA £'million
1	**Exposures to QCCPs (total)**		**1**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	40	1
3	(i) OTC derivatives	40	1
4	(ii) Exchange-traded derivatives	–	–
5	(iii) SFTs	–	–
6	(iv) Netting sets where cross-product netting has been approved	–	–
7	Segregated initial margin	–	
8	Non-segregated initial margin	–	–
9	Prefunded default fund contributions	–	–
10	Unfunded default fund contributions	–	–
11	**Exposures to non-QCCPs (total)**		**–**

11. Securitisation

We invest in highly rated securitisation issues in eligible, established asset classes to support regulatory liquidity requirements. External credit rating assessments are provided by Fitch, Moody's and S&P (where available) to assess the rating of the positions in which we invest. In line with our liquidity risk appetite, our Treasury Dealing Policy restricts investment activity to senior, high-quality liquid securities in a small number of established, low risk-sectors. We do not act as a sponsor or originator in any securitisations.

In November 2018, the PRA published supervisory statement SS10/18 on simple, transparent and standardised (STS) securitisation requirements. A part of this paper required firms to make a decision under CRR Article 254(3) on the methodology used to calculate capital requirements for STS securitisation exposures. Applying the hierarchy of methods, the Bank has informed the PRA in applying the external ratings-based approach (SEC-ERBA) to all of our rated securitisations.

Table 30 shows the exposure value of purchased securitisations by asset type.

Table 30: UK SEC1 – Securitisation exposures in the non-trading book

		31 December 2022		
		Institution acts as investor		
		Traditional		
		STS £'million	Non-STS £'million	Sub-total £'million
1	**Total exposures**	**893**	**408**	**1,301**
2	Retail (total)	893	408	1,301
3	residential mortgage	726	408	1,133
5	other retail exposures	168	0	168

Table 31: UK SEC4 – Securitisation exposures in the non-trading book and associated regulatory capital requirements – institution acting as investor

		31 December 2022				
		Exposure values (by RW bands/deductions)		Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW £'million	>20% to 50% RW £'million	SEC-ERBA (including IAA) £'million	SEC-ERBA (including IAA) £'million	SEC-ERBA (including IAA) £'million
1	**Total exposures**	**1,259**	**42**	**1,301**	**166**	**13**
2	Traditional securitisation	1,259	42	1,301	166	13
3	Securitisation	1,259	42	1,301	166	13
4	Retail underlying	1,259	42	1,301	166	13
5	Of which STS	893	0	893	89	7

12. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

We aim to accept a minimal level of operational risk and in doing so seek to minimise operational failures. Key Risk Indicators are used to provide an overview of the control environment and to assess performance against our operational risk appetite. As part of the ICAAP our key operational risks are evaluated and quantified through stress scenarios, which are then utilised in the Bank's operational risk capital assessment.

Each business area is required to conduct regular risk and control assessments which identify and analyse the core risks facing their business. These are maintained in conjunction with our Operational Risk team, who provide challenge and oversight of the process.

Business Continuity Plans are in place for all operational locations. These plans are updated and tested to ensure that they are robust and fit for purpose. We use external disaster recovery sites as back-up locations for both IT servers and staff.

Operational risk RWAs are calculated using the Basic Indicator Approach (BIA). This is based on a three-year average

Table 32: UK OR1 – Operational risk own funds requirements and risk-weighted exposure amounts

		31 December 2022				
		Relevant indicator				
	Banking activities	Year-3 £'million	Year-2 £'million	Last year £'million	Own funds requirements £'million	Risk weighted exposure amount £'million
1	Banking activities subject to basic indicator approach (BIA)	**414**	**359**	**409**	**59**	**739**

13. Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Our encumbered assets are used to support collateral requirements for central bank schemes (TFSME, which was utilised to refinance the Bank's TFS drawings during the year), third party repurchase agreements and to a lesser extent collateral for derivatives. The Bank has not issued any securitisations.

The Bank's sources of encumbrance and encumbered assets are mostly in GBP, with a small proportion in USD. The Bank considers all unencumbered debt securities and a significant proportion of loans to customers to be available to support additional secured borrowing or collateral requirements. The Bank has £4,519 million of mortgage loans as at 31 December 2022 (31 December 2021: £2,715 million), which could provide secured funding as central bank-eligible collateral or as part of a securitisation. The Bank had £964 million of fixed and intangible assets as at 31 December 2022 (31 December 2021: £1,008 million) which cannot be encumbered for funding purposes.

We have pledged £5,286 million (2021: £5,463 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £2,131 million (2021: £1,491 million) is made up of high-quality securities and £3,141 million (2021: £3,956 million) is from our own loan portfolio.

Tables 33, 34 and 35 provide breakdown of the encumbered and unencumbered assets

Table 33: UK AE1 – Encumbered and unencumbered assets

		31 December 2022							
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		£'million	Of which notionally eligible EHQLA and HQLA £'million	£'million	Of which notionally eligible EHQLA and HQLA	£'million	Of which notionally eligible EHQLA and HQLA £'million	£'million	Of which notionally eligible EHQLA and HQLA £'million
10	Assets of the reporting institution	**5,568**	**1,800**			**16,919**	**4,250**		
30	Equity instruments	–	–	–	–	–	–	–	–
40	Debt securities	**1,889**	**1,661**	**1,856**	**1,629**	**4,085**	**3,844**	**3,928**	**3,686**
50	*Of which: covered bonds*	*547*	*548*	*542*	*542*	*132*	*132*	*131*	*131*
60	*Of which: Asset-backed securities*	*956*	*729*	*954*	*727*	*1,480*	*1,271*	*1,477*	*1,263*
70	*Of which: issued by general government*	*351*	*347*	*335*	*335*	*1,809*	*1,809*	*1,763*	*1,763*
80	*Of which: issued by financial corporations*	*1,537*	*1,310*	*1,520*	*1,293*	*1,852*	*1,608*	*1,743*	*1,502*
	Of which: issued by non-financial corporations	–	–	–	–	–	–	–	–
120	Other assets[1]	**3,680**	**138**			**12,833**	**406**		

13. Asset Encumbrance Continued

		31 December 2021							
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		£'million	Of which notionally eligible EHQLA and HQLA £'million	£'million	Of which notionally eligible EHQLA and HQLA £'million	£'million	Of which notionally eligible EHQLA and HQLA £'million	£'million	Of which notionally eligible EHQLA and HQLA £'million
10	Assets of the reporting institution	5,719	1,061			17,119	7,381		
30	Equity instruments	–	–	–	–	–	–	–	–
40	Debt securities	1,406	1,001	1,413	1,169	3,350	2,940	3,342	2,932
50	*Of which: covered bonds*	*168*	*168*	*169*	*169*	*532*	*532*	*535*	*535*
60	*Of which: Asset-backed securities*	*1,005*	*403*	*1,009*	*743*	*841*	*371*	*836*	*344*
70	*Of which: issued by general governments*	*203*	*211*	*206*	*212*	*1,174*	*1,059*	*1,168*	*1,059*
80	*Of which: issued by financial corporations*	*1,227*	*781*	*1,232*	*980*	*2,173*	*875*	*2,171*	*880*
90	*Of which: issued by non-financial corporations*	–	–	–	–	–	–	–	–
120	Other assets[1]	4,333	60			13,733	4,429		

1 Consists of all remaining regulatory balance sheet assets, predominately loans and advances

13. Asset Encumbrance Continued

Table 34: UK AE2 – Collateral received and own debt securities issued

		31 December 2022			
				Unencumbered	
		Fair value of encumbered collateral received or own debt securities issued		Fair value of collateral received or own debt securities issued available for encumbrance	
		£'million	of which notionally eligible EHQLA and HQLA £'million	£'million	of which EHQLA and HQLA £'million
130	**Collateral received by the reporting institution**	**–**	**–**	**–**	**–**
240	**Own debt securities issued other than own covered bonds or securitisations**	**–**	**–**	**–**	**–**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**–**	**–**
250	**Total assets, collateral received and own debt securities issued**	**5,568**	**1,800**		

Table 35: UK AE3 – Sources of encumbrance

		31 December 2022		31 December 2021	
		Matching liabilities, contingent liabilities or securities lent £'million	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £'million	Matching liabilities, contingent liabilities or securities lent £'million	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered £'million
10	Carrying amount of selected financial liabilities	**4,030**	**5,412**	4,054	5,719

14. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book (IRRBB) arises from changes in market interest rates and customer behaviour that could adversely affect the financial performance of the Bank through earnings volatility or economic value. This is driven by exposures to duration risk, optionality risk, credit spread risk and basis risk. The Bank has a low appetite for IRRBB and takes a prudent approach to the measurement and management of IRRBB.

The Board is responsible for setting IRRBB risk appetite. IRRBB is mitigated through a risk management framework that allows IRRBB to be monitored and managed by first line management and second line risk, with oversight from senior management and ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control IRRBB consistent with the approved strategies and policies. These include:

- **Appropriate limits on IRRBB**, including the definition of specific procedures and approvals necessary for exceptions, and ensuring compliance with those limits e.g., risk appetites for earnings risks and economic value risk
- **Adequate systems** and standards for measuring and reporting IRRBB
- **Policies for measuring IRRBB**, valuing positions and assessing performance, including procedures for updating interest rate shock and stress scenarios and key underlying assumptions driving the institution's IRRBB analysis
- **A comprehensive IRRBB reporting and review process** including daily reporting of key metrics and other analysis reported to ALCO monthly
- **Active hedging strategies**, including both natural hedging (i.e. without interest rate swaps through natural off-sets of assets and liabilities) and hedging with swaps (i.e. through the purchase of interest rate swaps to reduce time bucket mismatches causing otherwise significant EVE/NII exposure), in order to ensure risk is managed within aforementioned limits.

Additionally, the bank's third line Internal Audit function perform regular reviews of IRRBB management, including external benchmarking of key assumptions to peer group firms.

ALCO is responsible for overseeing the management of IRRBB within the limits approved by Board. Day-to-day management of IRRBB is delegated to Treasury. The Bank benefits from natural offsetting between assets and liabilities, which may be based on both contractual and behavioural characteristics of certain products. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives.

Specific risk measures that the Bank uses to manage IRRBB include:

- NII sensitivity is performed daily and assesses changes to earnings over a 12-month time horizon caused by a range of interest rate shocks and scenarios
- Economic value of equity sensitivity caused by a range of interest rate shocks and scenarios is performed daily and measured against internal limits
- Economic value of equity sensitivity is also measured in line with PRA requirements against six rate shocks assessed on a monthly basis
- Credit Spread Risk in the Banking Book (CSRBB) is assessed daily through historic VaR applied to the bank's liquid asset portfolio. CSRBB is measured at a 99.9% confidence level based on daily spread movements with a three-month holding period.

The Bank assesses EVE and NII sensitivity using +/- 200 bps and +/- 250 bps parallel interest rate shocks and various non-parallel interest rate shock scenarios, including those prescribed by the PRA. The scenarios take account of customer behaviour including optionality embedded in products.

Metro Bank makes the following assumptions:

ΔEVE

The ΔEVE calculations are produced in accordance with PRA requirements and include the following key assumptions:

- The balance sheet is modelled on a run-off basis
- The EVE measures are calculated using ALCO-approved behavioural assumptions, including assumptions on customer prepayment rates and duration of non-maturing deposits
- Commercial margins and interest flows are removed from cash flows and discounting is performed using the sterling risk-free rate.

14. Interest Rate Risk in the Banking Book Continued

ΔNII

The ΔNII calculations are produced in accordance with PRA requirements and include the following key assumptions:

- NII sensitivity is based on a constant balance sheet with assets and liabilities rolling over into average maturities
- Interest rate changes are passed on to administered rate products using ALCO-approved assumptions
- Non-maturing administered rate deposits are excluded from NII sensitivity if they are insensitive to interest rate movements, based on ALCO-approved assumptions (i.e. they do not reprice within the 12-month NII sensitivity scenario horizon).

Key assumptions utilised by EVE and NII metrics in Table 36 UK IRRBB1 are consistent with internal EVE and NII metrics aside from the following assumptions:

- A portion of equity is included in the cashflow profile for the internal EVE calculation. This equity is modelled with a behavioural life agreed at ALCO. The exclusion of equity in the PRA EVE calculation in Table 36 UK IRRBB1 (following PRA calculation guidelines), creates a position which has negative value as rates rise but positive if rates fall since the hedges associated with equity are no longer offset (as equity is excluded), and therefore no longer hedges certain assets
- Administered rate deposit products are modelled with contractual interest rate floors, not behavioural floors
- Interest rate shocks for both EVE and NII sensitivity are based upon +/- 200 bps parallel shifts in interest rates, in line with Board risk appetite, instead of +/- 250 bps in Table 36 UK IRRBB1.

The bank's balance sheet is predominantly naturally hedged, due to offsets that occur between assets and liabilities driven by customer behaviour. However, the Bank can utilise derivatives (interest rate swaps) to manage IRRBB as/if required.

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**.

The Bank does not currently use interest rate swaps to hedge the **exposure to variability in cash flows** attributable to interest rate risk (but has the ability to do so). Where the variability in cash flows on a recognised asset or liability could affect profit or loss, the Bank has the ability to apply **cash flow hedge accounting**.

The Bank is positively positioned for rising rates (as more fixed rate lending reprices in year 2 then fixed rate liabilities), however, towards the end of the year we took advantage of the rising interest rate environment to redeploy some of our excess variable rate cash balances held at the Bank of England into both higher-yielding Treasury securities and loans and advances. At the same time, we continued to let higher cost fixed term deposits roll off. A combination of these factors, increased the fixed interest component of our assets, providing more income certainty and thereby reducing point in time end year NII sensitivity versus last year.

14. Interest Rate Risk in the Banking Book Continued

The average repricing maturity assigned to non-maturing deposits (NMDs) is 1.6 years. This includes both rate sensitive balances that reprice overnight and stable rate insensitive balances profiled on a behavioural term agreed at ALCO.

The longest repricing maturity assigned to NMDs is 7 years.

Table 36 UK IRRBB1 – Quantitative information on IRRBB

		31 December 2022		
		ΔEVE £'million	ΔNII £'million	Tier 1 capital £'million
010	Parallel shock up	**(39)**	**(10)**	
020	Parallel shock down	**38**	**11**	
030	Steepener shock	**34**		
040	Flattener shock	**(40)**		
050	Short rates shock up	**(48)**		
060	Short rates shock down	**50**		
070	Maximum	**(48)**	**(10)**	
080	Tier 1 capital			**819**

15. Remuneration

Metro Bank's remuneration policies set out how colleagues are remunerated in a way that supports the strategic goals of the Bank whilst remaining compliant with regulations.

Our approach to remuneration is one of simplicity, we offer colleagues a reward structure that supports our unique culture and long-term strategy as well as being aligned to the shareholder needs. Colleague reward is aligned to their performance rating (AMAZEING review); this shows how colleagues have behaved in line with our culture and values, and also how they have performed against objectives. The Bank's approach to remuneration, in particular variable remuneration, is underpinned by risk principles in our corporate scorecard which discourages unnecessary risk-taking.

This disclosure should be read in conjunction with the disclosures contained in the Directors' Remuneration Report of the Annual Report & Accounts ('the DRR'). The DRR includes information on the role of the Remuneration Committee ('the Committee').

Material Risk Takers

The Remuneration Code and European Regulatory Technical Standards require the Bank to identify its Material Risk Takers ('MRTs'). MRTs are those colleagues who operate in roles that are deemed to have, or potentially have, a material impact on the risk profile of the Bank. Metro Bank had classified 45 members of staff as material risk takers in 2022 (2021: 36). This figure includes joiners and leavers.

The following groups of individuals have been identified as meeting the criteria for MRTs:

- Members of the **Supervisory Function** i.e. Executive Directors and Non-Executive Directors ('NEDs') of Metro Bank PLC.
- Members of the **Management Function** i.e. Senior Managers who sit on the Executive Committee.
- Other colleagues who are either **Senior Managers** or **Other MRTs** (also referred to as 'other identified staff') individuals whose activities could have an impact on the Bank's risk profile.

The Bank's remuneration policies are in place to inform the remuneration of these colleagues.

Approach to remuneration

The approach taken for our MRT population will differ from that of the wider colleague population. We offer base salary, variable remuneration and a consistent benefit offering to all colleagues. To align the interests of our MRT population with those of our shareholders, we may deliver a portion of variable reward in retained shares, deferred cash, deferred shares, and where appropriate, awards under the long-term incentive plan ('LTIP') or restricted shares.

The Bank aims for salaries to remain competitive against peers in the financial services sector and uses market data as a reference point. Variable remuneration is based on a mix of corporate performance and a colleague's achievement against their objectives. Risk is considered when determining variable remuneration for all colleagues, in particular MRTs. Variable remuneration for any MRT is subject to a limit (capped at 2:1 variable to salary ratio) as approved by shareholders.

Further information relating to remuneration of our colleagues can be found in our DRR.

Base salary

Salaries are paid to all MRTs (except for NEDs who receive fees reviewed annually against external market information). Salaries are reviewed annually, taking into account individual performance and experience and market information.

Variable remuneration

All Material Risk Takers (excluding NED) are eligible to be considered for an annual bonus. The annual bonus is awarded on a discretionary basis, taking into account colleagues' behaviours and performance based on their AMAZEING review as well as considering corporate performance. Corporate performance targets are agreed at the beginning of the year by the Committee and are reflected in our corporate scorecard.

Where appropriate, and in line with regulatory requirements, a proportion of any annual bonus may be delivered in shares and/or subject to deferral (see section below). Annual bonus deferrals will be made under the Deferred Variable Reward Plan ('Deferral Plan'). Deferral levels are set at the time of award and in line with regulatory requirements (see below) taking into account total remuneration for the financial year.

15. Remuneration Continued

Long-term incentives
The Bank's LTIP is designed to align senior colleagues' remuneration with the long-term interests of the Bank and its shareholders. It rewards long-term delivery of the Bank's strategy and growth. Performance conditions may apply and are normally tested over a period of three financial years. Subject to the achievement of any performance conditions, awards will vest according to timetables designed to meet with regulatory requirements.

Guaranteed variable remuneration
Guarantees, such as new hire awards or buyout awards, are only offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements. Retention awards may be made to existing colleagues in limited circumstances and are subject to prior regulatory approval in line with applicable regulatory requirements.

Deferral and vesting
Variable remuneration is delivered in line with regulatory requirements. For MRTs receiving a variable remuneration award in respect of 2022 performance that exceeds the 'de minimis' level:

- at least 40% of total variable remuneration is deferred into cash or shares;
- at least 50% of variable remuneration is paid in shares, through a combination of retained shares, deferred shares, restricted shares and/or LTIP; and
- vested shares are subject to retention periods.

The Committee considers input from the Chief Risk Officer ('CRO') before any deferred awards are released. Malus and clawback apply to all elements of variable remuneration. Cash bonus and share awards may be delayed or reduced before they are paid/before they vest (malus) or may be subject to clawback on or after payment should management or the Committee conclude that an adjustment needs to be made. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced.

While not exhaustive, the situations where malus and/or clawback may be applied are as follows:

- The colleague has participated in or is responsible for conduct that has resulted in significant losses to the Bank;
- The colleague has failed to meet appropriate standards of fitness and propriety;
- There is reasonable evidence of misconduct or serious error by a colleague;
- The Bank and/or the business unit for which the colleague works suffers a material downturn in its business performance;
- The Bank and/or the business unit for which the colleague works suffers a significant failure in risk management;
- There has been a material misstatement in the Bank's financial results or an error in assessing any applicable performance condition;

15. Remuneration Continued

- The Bank has suffered an instance of corporate failure which has resulted in:
  - the conditions for use of the stabilisation powers under the special resolution regime in accordance with Part 1 to 3 of the Banking Act 2009 being satisfied;
  - the Company entering into a compromise or arrangement in accordance with sections 1 to 7 of the Insolvency Act 1986 for the purpose of repayment or restructuring of the Company's debts; or
  - the passing of a resolution or making of an order which is sanctioned by the Court for the appointment of a liquidator or administrator;
- The Bank or any Group Member suffers substantial reputational damage to its business from an event to which the colleague made a material contribution as a result of their action or conduct or failure to act;
- The colleague is subject to a regulatory censure in respect of a material failure in control;
- The level of the award is not, in the opinion of the Board, sustainable when assessing the overall financial viability of the Company or any Group Member.

The above principles apply to all variable remuneration for all MRTs across the Bank.

The Committee has discretion to challenge the formulaic variable reward outcomes where it believes it is not appropriate.

The link between pay and performance

Variable reward payments require robust performance against challenging conditions. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the colleague's AMAZEING review. For the purposes of remuneration, colleagues' AMAZEING reviews occur annually, taking into account colleagues' behaviours and also their achievement against objectives.

The corporate scorecard is the same for all colleagues (including Material Risk Takers) and includes both financial and non-financial performance metrics; the latter including risk management. The variable reward pool is based on the overall performance of the Bank in terms of culture and delivery in line with the corporate scorecard, which includes the following four categories:

- Financial
- Risk and regulatory
- Customers
- People and Communities

The Committee also considers inputs from the CRO who provides an independent review as to whether and to what extent the variable remuneration pool should be subject to an adjustment.

15. Remuneration Continued

Remuneration for Material Risk Takers

The following tables display the 2022 fixed and variable remuneration for Metro Bank's MRT population. The Bank is not structured in such a way to break down the data by business area. In addition, to preserve the anonymity of individual's remuneration, some tables do not shown the breakdown between each distinct MRT category.

Table 37: UK REM1 – Remuneration awarded for the financial year

			31 December 2022			
			MB Supervisory function	MB Management function	Other senior management	Other MRT (or other identified staff)
1	Fixed remuneration	Number of identified staff	13	12	3	18
2		Total fixed remuneration (£'million)	2.1	3.4	0.6	2.8
3		Of which: cash-based (£'million)	2.1	3.3	0.5	2.6
7		Of which: other forms (£'million)	0.0	0.1	0.1	0.2
9	Variable remuneration	Number of identified staff	2	10		12
10		Total variable remuneration (£'million)	1.8	1.9		0.8
11		Of which: cash-based (£'million)	0.0	0.5		0.4
12		Of which: deferred (£'million)	0.0	0.0		0.1
UK-13a		Of which: shares or equivalent ownership interests (£'million)	1.8	1.4		0.4
UK-14b		Of which: deferred (£'million)	1.4	0.9		0.2
17	**Total remuneration (£'million)**		**3.9**	**5.3**		**4.8**

Notes:
1. Fixed remuneration is predominantly delivered in cash and relates to the period for which the individual was an MRT. Other fixed remuneration includes employer pension contributions and non-cash benefits such as medical cover. NED fees are included as fixed remuneration under the Supervisory Body column.
2. The number of Material Risk Takers increased compared to 2021 due to a number of starters and leavers in the 2022 period. There is one MRT who was classified as an Other MRT at the outset of the year but became a Senior Manager later in the year.

15. Remuneration Continued

Table 38: UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	31 December 2022		
	MB Supervisory function	MB Management function	Other senior management or other identified staff
Guaranteed variable remuneration awards			
Guaranteed variable remuneration awards – Number of identified staff	0	0	0
Guaranteed variable remuneration awards – Total amount (£'million)	0	0	0
Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap (£'million)	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year			
Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	0	0	0
Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount (£'million)	0	0	0
Severance payments awarded during the financial year			
Severance payments awarded during the financial year – Number of identified staff	0	0	1
Severance payments awarded during the financial year – Total amount (£'million)	0	0	0.046
Of which paid during the financial year (£'million)	0	0	0.046
Of which deferred (£'million)	0	0	0
Of which severance payments paid during the financial year, that are not taken into account in the bonus cap (£'million)	0	0	0
Of which highest payment that has been awarded to a single person (£'million)	0	0	0.046

15. Remuneration Continued

Table 39: UK REM3 – Deferred variable remuneration

		31 December 2022							
		Total amount of deferred remuneration awarded for previous performance periods (£'million)	Of which due to vest in the financial year (£'million)	Of which vesting in subsequent financial years (£'million)	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year (£'million)	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years (£'million)	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments) (£'million)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year (£'million)	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods (£'million)
1	MB Supervisory function								
2	– cash based	–	–	–	–	–	–	–	–
3	– shares or equivalent ownership interests	2.7	0.5	2.2	–	–	0.5	0.5	0.6
7	MB Management function								
8	– cash based	0.0	–	0.0	–	–	–	–	–
9	– shares or equivalent ownership interests	10.9	7.5	3.4	–	–	0.9	1.3	1.2
19	Other senior management and other identified staff								
20	– cash based	0.0	–	0.0	–	–	–	–	–
21	– shares or equivalent ownership interests	0.5	0.3	0.2	–	–	0.1	0.1	0.1
25	**Total amount**	**14.2**	**8.3**	**5.8**	**–**	**–**	**1.5**	**2.0**	**1.9**

Notes:
1. Includes awards for any colleague identified as a Material Risk Taker during 2022.
2. Values based on the face value of awards at time of grant. An EBA discount factor has not been applied to LTIP awards to be made in 2023 in respect of performance year 2022.
3. Since 2021 deferred share awards granted as nominal price options and prior to that were mainly market price share options.
4. No impact of share price movement in year is shown unless the year end share price is higher than the exercise price (i.e. "in the money").
5. The amount of deferred cash for MRTs a) in the MB Management function and b) who are other senior management/other identified staff is £9.775 and £40,995 respectively.

Table 40: UK REM4 – Remuneration of 1 million EUR or more per year

	Total remuneration in respect of the 2022 performance year[1]	**Identified staff that are high earners as set out in Article 450(i) CRR**
1	€1,000,000 – €1,500,000	–
2	€1,500,000 – €2,000,000	–
3	€2,000,000 – €2,500,000	1
4	€2,500,000 and above	–

1. Remuneration converted to Euros using the exchange rate £1 = €1. 1.1599 (exchange rate for December 2022 per European Commission exchange rates website).

15. Remuneration Continued

Table 41: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		31 December 2022				
		Management body remuneration				
		MB Supervisory function	MB Management function	Total MB	All other MRTs	Total
1	**Total number of identified staff**					**45**
2	Of which: members of the MB	13	12	25		
3	Of which: other senior management				3	
4	Of which: other identified staff				18	
5	**Total remuneration of identified staff (£'million)**	**3.9**	**5.3**	**9.2**	**4.2**	
6	Of which: variable remuneration (£'million)	1.8	1.9	3.7	0.8	
7	Of which: fixed remuneration (£'million)	2.1	3.4	5.5	3.4	

Note:

1. There is one MRT who was classified as an Other MRT at the outset of the year but became a Senior Manager later in the year.

Governance arrangements

Details of the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise can be on pages 136 to 139 of the ARA.

Details on the policy on diversity regarding selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved on pages 136 to 139 of the ARA.

Table 42: Number of directorships

The table below shows total number of directorships held by members of the management body.

		31-Dec-22	
Name[1]	**Position**	**Executive Appointments**	**Non-executive appointments**
Robert Sharpe	Chairman	0	2
Daniel Frumkin	Chief Executive Officer	0	0
James Hopkinson	Chief Financial Officer	0	0
Catherine Ann Brown	Independent Non-executive Director	0	3
Anne Marie Grim	Independent Non-executive Director	0	3
Ian Henderson	Independent Non-executive Director	1	1
Anna (Monique) Melis	Independent Non-executive Director	1	1
Paul Thandi	Independent Non-executive Director	1	0
Michael Torpey	Independent Non-executive Director	0	2
Nicholas Winsor	Independent Non-executive Director	0	2
Dorita Gilinski	Shareholder-Nominated Non-executive Director	1	1

1. Commercial director appointments only, excluding directorships of Metro Bank and recognising directorships in a same group as a single directorship.

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