Metro Bank Holdings plc

Full year results

Trading update 2023

13 March 2024

Metro Bank Holdings plc (LSE: MTRO LN)

Results for year ended 31 December 2023

Highlights

- **Statutory profit before tax of £30.5 million for the year, the first time since 2018, with a 67% year-on-year reduction in underlying loss to £16.9 million**
- **Deposits of £15,623 million as at 31 December 2023 are up 1% from June leading to an elevated liquidity coverage ratio of 332% as at 31 December 2023**
- **Underlying revenue grew by 5% year-on-year reflecting effective asset rotation and increased yields plus 12% growth in capital efficient fee income, whilst costs marginally reduced, creating positive operating jaws**
- **Continued to grow personal and business current accounts, opened 246,000 accounts in the year and over 52,000 of those were in the fourth quarter**
- **On track to deliver £50 million of annualised cost savings in Q1 2024 as previously announced, these savings have been actioned with c.1,000 colleagues, equal to 22% of headcount, leaving before mid-April**
- **A further £30 million of annualised cost savings is expected to be delivered by the end of 2024**
- **Remain committed to stores, including opening new stores in the North of England**
- **Secured the capital position and extended the debt instrument maturities to 2028 or beyond**

Daniel Frumkin, Chief Executive Officer at Metro Bank, said:

"Overall, Metro Bank performed strongly in 2023 as we continued to position the business for growth. We were pleased to return to profit on a statutory basis and deliver our best half-year results for several years. After addressing our capital position in Q4, we also launched a successful deposit campaign, with deposits totalling £16.5 billion as at the end of February 2024."

"During the year we also launched a cost saving plan which included reducing store hours and roles across the organisation. These efforts will ensure the bank is right-sized for the future, with a strong focus on both digital and great customer service."

“Looking forward, I remain confident in our ability to be the number one community bank. The work we have undertaken this year has laid the path to become a structurally profitable business and our focus towards the SME, Commercial and specialist mortgages sector presents an exciting opportunity in an underserved area of the market. I remain grateful for the continued support of our colleagues, customers and shareholders as we embark on the next chapter of our journey”.

Key Financials

£ in millions	**31 Dec 2023**	**31 Dec 2022**	**Change from FY 2022**	**30 Jun 2023**	**Change from H1 2023**
Assets	£22,245	£22,119	1%	£21,747	2%
Loans	£12,297	£13,102	(6%)	£12,572	(2%)
Deposits	£15,623	£16,014	(2%)	£15,529	1%
Loan to deposit ratio	79%	82%	(3 ppts)	81%	(2 ppts)
CET1 capital ratio	13.1%	10.3%	280 bps	10.4%	270 bps
Total capital ratio (TCR)	15.1%	13.4%	170 bps	13.2%	190 bps
MREL ratio	22.0%	17.7%	430 bps	18.1%	390 bps
Liquidity coverage ratio	332%	213%	119 bps	214%	118 bps

£ in millions	**FY 2023**	**FY 2022**	**Change from FY 2022**	**H2 2023**	**H1 2023**	**Change from H1 2023**
Total underlying revenue[1]	£546.5	£522.1	5%	£260.9	£285.6	(9%)
Underlying profit/(loss) before tax[2]	(£16.9)	(£50.6)	67%	(£33.0)	£16.1	(305%)
Statutory profit/(loss) before tax	£30.5	(£70.7)	143%	£15.1	£15.4	(2%)
Net interest margin	1.98%	1.92%	6 bps	1.85%	2.14%	(29 bps)
Lending yield	4.72%	3.67%	105 bps	4.91%	4.50%	41 bps
Cost of deposits	0.97%	0.20%	77 bps	1.29%	0.66%	63 bps
Cost of risk	0.26%	0.32%	(6 bps)	0.34%	0.18%	(16 bps)
Underlying EPS	(8.4p)	(30.5p)	22.1p	(12.2p)	7.8p	(20.0p)
Tangible book value per share	£1.40	£4.29	(67%)	£1.40	£4.42	(68%)

1. Underlying revenue excludes grant income recognised relating to the Capability & Innovation fund and the gain relating to the capital raise and refinancing
2. Underlying loss before tax is an alternative performance measure and excludes impairment and write-off of property, plant & equipment (PPE) and intangible assets, transformation costs, remediation costs, costs incurred as part of the holding company insertion and impacts of the capital raise and refinancing

Investor presentation

A presentation for investors and analysts will be held at 9AM (UK time) on Wednesday 13 March 2024. The presentation will be webcast on:

https://webcast.openbriefing.com/metrobank-mar24/

For those wishing to dial-in:

From the UK: +44 800 358 1035

From the US: +1 855 9796 654

Access code: 439242

Other global dial-in numbers: https://www.netroadshow.com/events/global-numbers?confId=59913

Financial performance for the year ended 31 December 2023

Deposits

£ in millions	31 Dec 2023	31 Dec 2022	Change from FY 2022	30 Jun 2023	Change from H1 2023
Demand: current accounts	£5,696	£7,888	(28%)	£7,106	(20%)
Demand: savings accounts	£7,827	£7,501	4%	£7,218	8%
Fixed term: savings accounts	£2,100	£625	236%	£1,205	74%
Deposits from customers	**£15,623**	**£16,014**	**(2%)**	**£15,529**	**1%**
Deposits from customers includes:					
Retail customers (excluding retail partnerships)	£7,235	£5,797	25%	£5,647	28%
SMEs[3]	£3,782	£5,080	(26%)	£5,066	(25%)
	£11,017	**£10,877**	**1%**	**£10,713**	**3%**
Retail partnerships	£1,708	£1,949	(12%)	£1,910	(11%)
Commercial customers (excluding SMEs[3])	£2,898	£3,188	(9%)	£2,906	0%
	£4,606	**£5,137**	**(10%)**	**£4,816**	**(4%)**

3. SME defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million, and have aggregate deposits less than €1 million

- **Total deposits increased by 1% from June to £15,623 million, and further increased to c£16.5 billion in February 2024 (31 December 2022: £16,014 million).** The underlying service-led core deposit franchise remained resilient and over 117,000 current accounts were opened in the second half of 2023.

  In Q4 the Group saw deposit outflows following press speculation in the week leading up to the capital raise, Metro Bank launched a successful fourth quarter deposit campaign in response to these outflows proving the resilience and value in the brand. The campaign has now concluded and the significant levels of liquidity raised now enable the Group to focus on low-cost relationship deposits to manage down the cost of funding.

- **Cost of deposits was 0.97% for the year (2022: 0.20%)** reflecting rising base rates, the impact of the deposit campaign in the fourth quarter, and the customer behaviour shift away from current accounts towards savings and fixed term accounts, a trend seen across the market.

- **Customer account growth of 0.3 million in the year to 3.0 million (31 December 2022: 2.7 million)** as organic growth in the underlying franchise continued, with over 203,000 personal current accounts and over 43,000 business current accounts opened in the year.

- **Stores remain a key element to the Group's service offering and opportunity exists for further market penetration in new locations,** Metro Bank continues to work to identify appropriate sites for new stores in the North of England. Locations are being prioritised to support Metro Bank's SME, Commercial and Corporate Banking offering.

Loans

£ in millions	31 Dec 2023	31 Dec 2022	Change from FY 2022	30 Jun 2023	Change from H1 2023
Gross loans and advances to customers	**£12,496**	**£13,289**	**(6%)**	**£12,769**	**(2%)**
Less: allowance for impairment	(£199)	(£187)	6%	(£197)	1%
Net loans and advances to customers	**£12,297**	**£13,102**	**(6%)**	**£12,572**	**(2%)**
Gross loans and advances to customers consists of:					
Retail mortgages	£7,818	£7,649	2%	£7,591	3%
Commercial lending[4]	£2,443	£2,847	(14%)	£2,659	(8%)
Consumer lending	£1,297	£1,480	(12%)	£1,410	(8%)
Government-backed lending[5]	£938	£1,313	(29%)	£1,109	(15%)

4. Includes CLBILS
5. BBLS, CBILS and RLS

- **Total net loans reduced by 6% in the year to £12,297 million (31 December 2022: £13,102 million)** as focus remained on optimising the mix for risk-adjusted return on regulatory capital, the Consumer and Government-backed lending portfolios are in run-off as the Group pivots its strategy towards SME, Commercial and Specialist Mortgages.

- **Retail mortgages increased by 2% during the year to £7,818 million (31 December 2022: £7,649 million)** and remains the largest component of the lending book at 63% (31 December 2022: 58%). The DTV of the portfolio at 31 December 2023 was 58% (31 December 2022: 56%) and 80% of new originations in 2023 were <80% LTV (2022: 82%). Over the next 3 years more than £4.1 billion of fixed rate mortgages will mature at an average blended yield of less than 3.7%. A pivot towards more specialist mortgages is expected following recent investment to enhance product offerings. Metro Bank's operating model is tailored to more complex underwriting which enables the Group to meet the needs of more customers and scale underserved markets whilst offering improved risk-adjusted returns.

- **Commercial loans (excluding BBLS, CBILS and RLS) reduced by 14% during the year to £2,443 million (31 December 2022: £2,847)** reflecting continued portfolio management with reductions in commercial real estate to £509 million (31 December 2022: £681 million) and portfolio buy-to-let to £465 million (31 December 2022: £731 million). The DTV of the portfolio at 31 December 2023 was 55% (31 December 2022: 55%) and the portfolio has a coverage ratio of 2.13% (31 December 2022: 2.21%). Metro Bank is committed to supporting local businesses and expects to grow SME and Commercial lending through 2024.

- **Cost of risk reduced to 26bps for the year (2022: 32bps)** reflecting the run-off of the Consumer portfolio, improvements in the macroeconomic scenarios for the Commercial and Retail mortgage portfolios and repayments of a small number of large Commercial exposures.

- **Non-performing loans increased to 3.11% (31 December 2022: 2.65%)** driven largely by the maturity profile of the Consumer portfolio and reduced Commercial lending volumes, partly offset by successful BBLS claims and repayments of a number of large Commercial exposures. Excluding Government-backed lending, non-performing loans were 2.58% at 31 December 2023 (31 December 2022: 2.02%).

- **The Group's loan portfolio remains highly collateralised and well provisioned.** The ECL provision at 31 December 2023 was £199 million with a coverage ratio of 1.59%, compared to £187 million with a coverage ratio of 1.41% at 31 December 2022.

Profit and Loss Account

- **Underlying net interest income increased by 2% to £411.9 million (2022: £404.2 million)** driven by improvements in net interest margin (NIM) which is up 6bps to 1.98% for the year (2022: 1.92%) reflecting improved yields on new lending and treasury investments offset by the impact of increased cost of deposits in the fourth quarter following the successful deposit campaign.

- **Underlying net fee and other income increased by 12% to £131.9 million (2022: £117.9 million)** reflecting strong underlying customer acquisition and increased transactional volumes.

- **Underlying costs reduced to £530.2 million for the year (2022: £532.8 million)** against a backdrop of inflationary pressures, including the full year impact of the autumn 2022 2.75% cost of living payrise coupled with a 5% average colleague payrise in April 2023. Cost reduction has been driven by the disciplined approach to cost management.

- **The previously announced annualised savings of £50 million (up from the original guidance of £30 million) are on track to be delivered in the first quarter of 2024**, with the colleague restructuring and consultation process having concluded, and all impacted colleagues having left the organisation by mid-April. The Group continues to seek cost-reductions through transitioning to a more cost-effective model and expects to deliver additional annualised savings of £30 million by the end of 2024.

- **The Group has upgraded its cost guidance as it expects to deliver additional annualised savings of £30 million by the end of 2024.** Together with the £50 million already announced this totals £80 million of annualised cost reductions, all delivered in 2024.

- **Operating jaws remain positive and led to a reduction in the underlying cost:income ratio to 97% (2022: 102%),** the first time Metro Bank's cost:income ratio has fallen below 100% since 2018.

- **Underlying loss before tax continued to improve, reducing to £16.9 million for the year (2022: loss of £50.6 million)** reflecting significant margin improvements achieved through disciplined cost management and balance sheet optimisation. The second half loss was impacted by market pressures on current account balances and asset pricing, and constrained lending volumes to maintain capital as well as the impact of inflated cost of deposits in the fourth quarter due to the deposit campaign in response to the previously announced deposit outflows and press speculation.

- **Statutory profit before tax of £30.5 million for the year (2022: loss of £70.7 million),** the first time Metro Bank has achieved statutory profitability since 2018, driven by the first half performance and the gain recognised in relation to the haircut on the Tier 2 debt instrument in the debt refinancing, marginally offset by costs associated with restructuring.

Capital, Funding and Liquidity

	Position 31 Dec 2023	Position 31 Dec 2022	Minimum requirement including buffers[6]	Minimum requirement excluding buffers[6]
Common Equity Tier 1 (CET1)	13.1%	10.3%	9.2%	4.7%
Tier 1	13.1%	10.3%	10.8%	6.3%
Total Capital	15.1%	13.4%	12.9%	8.4%
Total Capital + MREL	22.0%	17.7%	21.2%	16.7%

6. CRD IV buffers

- **On 30 November 2023 Metro Bank announced completion of the Capital Raise which consisted of £150 million equity, £600 million of debt refinancing and £175 million of new MREL debt.** The capital raise secured the balance sheet, extended the debt instrument maturities to 2028 or beyond and provided sufficient capital resources to enable the Group to meet all minimum regulatory requirements including CRD IV buffers.

- **Total RWAs as at 31 December 2023 were £7,533 million (31 December 2022: £7,990 million).** The movement reflects the actions taken to optimise the balance sheet. RWA density was 33.9% as at 31 December 2023 (31 December 2022: 36.1%), the movement year-on-year reflects the elevated liquidity position.

- **Strong liquidity and funding position maintained.** All customer loans are fully funded by customer deposits with a loan-to-deposit ratio of 79% as at 31 December 2023, and less than 75% in February 2024 (31 December 2022: 82%). Liquidity Coverage Ratio (LCR) of 332% as at 31 December 2023, and more than 360% in February 2024 (31 December 2022: 213%) with cash balances at c£5.1 billion. Net Stable Funding Ratio (NSFR) of 145% as at 31 December 2023 (31 December 2022: 134%). Over the next 3 years more than £2.0 billion of fixed rate treasury assets will mature at an average blended yield of less than 0.9%, these will be replaced by asset with yields in line with the prevailing base rate.

- **UK leverage ratio was 5.3% as at 31 December 2023 (31 December 2022: 4.2%).**

- No decision has been made regarding the Group's AIRB application. Forward plans are not predicated on accreditation and the work performed on the application to date remains beneficial to the Group.

Outlook and Guidance

	2023	Guidance
Lending	**£12.3 billion**	• Loan growth of mid-single digit CAGR from 2024 to 2028 • Total blended risk weight density on a standardised basis (total RWA/ total assets) 35-45%
Deposits	**£15.6 billion**	• Low-mid single digit reduction in 2024 to optimise cost of funding • Mid-single digit growth across 2025 and 2026
NIM	**1.98%**	• Marginal reduction in 2024; – Headwinds in H1 2024 following the deposit campaign, marginally offset by; – Momentum generated in H2 2024 as assets reprice, lending pivot towards higher yielding specialist mortgages and SME/ Commercial, and the elevated liquidity position enables focus on reducing cost of funding • 2024 exit rate will support accretion through 2025 and 2026, coupled with a continuation of asset repricing, lending pivot and a rising loan-to-deposit ratio
Costs	**£530 million**	• £80m of annualised cost savings, of which; – £50 million of annualised cost savings to be delivered in Q1 2024 – £30 million of annualised cost savings to be delivered by Q4 2024 • 2024 costs are expected to be below 2023, with further reductions in 2025 reflecting the benefit of the full £80 million annualised cost savings • Low single digit annual growth from 2025 onwards, nearing 60% cost:income ratio by 2028
ROTE	**4%**	• ROTE low-single digit in 2025, increasing to high-single digit in 2026 and low-mid teens thereafter

- The guidance above reflects the impact of recent market pressures, competition for deposits and the prevailing macroeconomic outlook.

Metro Bank Holdings plc

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	**YoY change**	**31 Dec 2023** *£'million*	**30 Jun 2023** *£'million*	**31 Dec 2022** *£'million*
Assets				
Loans and advances to customers	(6%)	£12,297	£12,572	£13,102
Treasury assets[7]		£8,770	£8,023	£7,870
Other assets[8]		£1,178	£1,152	£1,147
Total assets	**1%**	**£22,245**	**£21,747**	**£22,119**

Liabilities				
Deposits from customers	(2%)	£15,623	£15,529	£16,014
Deposits from central banks		£3,050	£3,800	£3,800
Debt securities		£694	£573	£571
Other liabilities		£1,744	£875	£778
Total liabilities	**0%**	**£21,111**	**£20,777**	**£21,163**
Total shareholder's equity		**£1,134**	**£970**	**£956**
Total equity and liabilities		**£22,245**	**£21,747**	**£22,119**

7. Comprises investment securities and cash & balances with the Bank of England
8. Comprises property, plant & equipment, intangible assets and other assets

Profit & Loss Account	**YoY change**	**Year ended 31 Dec 2023 *£'million***	**31 Dec 2022 *£'million***
Underlying net interest income	2%	£411.9	£404.2
Underlying net fee and other income	12%	£131.9	£117.9
Underlying net gains on sale of assets		£2.7	-
Total underlying revenue	**5%**	**£546.5**	**£522.1**
Underlying operating costs	-	(£530.2)	(£532.8)
Expected credit loss expense		(£33.2)	(£39.9)
Underlying (loss) before tax		**(£16.9)**	**(£50.6)**
Impairment and write-off of property plant & equipment and intangible assets		(£4.6)	(£9.7)
Transformation costs		(£20.2)	(£3.3)
Remediation costs		-	(£5.3)
Capital raise and refinancing		£74.0	-
Holding company insertion costs		(£1.8)	(£1.8)
Statutory profit/(loss) before tax		**£30.5**	**(£70.7)**
Statutory taxation		(£1.0)	(£2.0)
Statutory profit/(loss) after tax		**£29.5**	**(£72.7)**

Key metrics	**Year ended 31 Dec 2023**	**31 Dec 2022**
Underlying earnings per share – basic	(8.4p)	(30.5p)
Number of shares	672.7m	172.5m
Net interest margin (NIM)	1.98%	1.92%
Lending yield	4.72%	3.67%
Cost of deposits	0.97%	0.20%

Cost of risk	0.26%	0.32%
Arrears rate	3.8%	3.2%
Underlying cost:income ratio	97%	102%
Tangible book value per share	£1.40	£4.29
Risk weighted assets (RWAs)	£7,533m	£7,990m
Risk weight density (RWAs / total assets)	33.9%	36.1%

Profit & Loss Account	HoH change	Half year ended 31 Dec 2023 *£'million*	30 Jun 2023 *£'million*	31 Dec 2022 *£'million*
Underlying net interest income	(14%)	£190.4	£221.5	£223.3
Underlying net fee and other income	8%	£68.6	£63.3	£62.6
Underlying net gains on sale of assets		£1.9	£0.8	-
Total underlying revenue	**(9%)**	**£260.9**	**£285.6**	**£285.9**
Underlying operating costs	5%	(£272.0)	(£258.2)	(£266.5)
Expected credit loss expense		(£21.9)	(£11.3)	(£22.0)
Underlying profit/(loss) before tax		**(£33.0)**	**£16.1**	**(£2.6)**
Impairment and write-off of property plant & equipment and intangible assets		(£4.6)	-	(£1.5)
Transformation costs		(£20.2)	-	(£2.3)
Remediation costs		(£0.8)	£0.8	(£2.3)
Capital raise and refinancing		£74.0	-	-
Holding company insertion costs		(£0.3)	(£1.5)	(£1.8)
Statutory profit/(loss) before tax		**£15.1**	**£15.4**	**(£10.5)**
Statutory taxation		£1.7	(£2.7)	(£0.5)
Statutory profit/(loss) after tax		**£16.8**	**£12.7**	**(£11.0)**

Key metrics	Half year ended 31 Dec 2023	30 Jun 2023	31 Dec 2022
Underlying earnings per share – basic	(12.2p)	7.8p	(2.0p)
Number of shares	672.7m	172.6m	172.5m
Net interest margin (NIM)	1.85%	2.14%	2.11%
Lending yield	4.91%	4.50%	3.93%
Cost of deposits	1.29%	0.66%	0.25%
Cost of risk	0.34%	0.18%	0.33%
Arrears rate	3.8%	3.5%	3.2%
Underlying cost:income ratio	104%	90%	93%

Tangible book value per share	£1.40	£4.42	£4.29
Risk weighted assets (RWAs)	£7,533m	£7,802m	£7,990m
Risk weight density (RWAs / total assets)	33.9%	35.9%	36.1%

Enquiries

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ENDS

About Metro Bank

Metro Bank services over three million customer accounts and is celebrated for its exceptional customer experience. It remains one of the highest rated high street banks for overall service quality for personal customers, the best bank for service in-store for business customers and joint top for service in-store for personal customers, in the Competition and Markets Authority's Service Quality Survey in February 2024.

Metro Bank has also been awarded "Large Loans Mortgage Lender of the Year", 2024 and 2023 Mortgage Awards, accredited as a top ten Most Loved Workplace 2023, "2023 Best Lender of the Year – UK" in the M&A Today, Global Awards, the "Inclusive Culture Initiative Award" in the 2023 Inclusive Awards, "Diversity, Equity & Inclusion Award" and "Leader of the Year Award 2023" at the Top 1% Workplace Awards, "Best Women Mortgage Leaders in the UK" from Elite Women 2023, "Diversity Lead of the Year", 2023 Women in Finance, Best Large Loan Lender, 2023 Mortgage Strategy Awards,, "Best Business Credit Card", Forbes Advisor Best of 2023 Awards, "Best Business Credit Card", 2023 Moneynet Personal Finance Awards.

The community bank offers retail, business, commercial and private banking services, and prides itself on giving customers the choice to bank however, whenever and wherever they choose, and supporting the customers and communities it serves. Whether that's through its network of 76 stores open seven days a week, 362 days a year; on the phone through its UK-based contact centres; or online through its internet banking or award-winning mobile app, the bank offers customers real choice.

Metro Bank Holdings plc (registered in England and Wales with company number 14387040, registered office: One Southampton Row, London, WC1B 5HA) is the listed entity and holding company of Metro Bank PLC.

Metro Bank plc (registered in England and Wales with company number 6419578, registered office: One Southampton Row, London, WC1B 5HA) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. 'Metrobank' is a registered trademark of Metro Bank PLC. Eligible deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk. All Metro Bank products are subject to status and approval.

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Metro Bank Holdings PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2023

Chief Executive Officer's statement

With 3.0 million customer accounts covering retail, SME and commercial, a national network of stores and our continued digital investments we remain the UK's leading full-service mid-sized bank.

The start of the year began with continued momentum from 2022, which saw us return to profit on both a statutory and underlying basis and deliver our best set of results for several years in the first half. For the full year, we recognised an underlying loss before tax of £16.9 million for 2023 (2022: loss of £50.6 million), impacted in part by deposit pricing actions taken in the second half. On a statutory basis we delivered a profit before tax of £30.5 million (2022: loss of £70.7 million) largely as the result of a one-off gain from the capital restructure completed in November.

2023 saw the continued execution of our strategic priorities with tangible progress made across all areas. We enter 2024 with an improved and longer-dated capital position, and continue to take a disciplined approach to cost saving and have commenced further activities to achieve the savings outlined, all of which will set us up to continue on our path to sustainable profitability, and deliver on our ambition to be the number one community bank.

Capital package

Going into the year we were always clear about our need both to access the capital markets comfortably ahead of the call date for our MREL in October 2024 and to deliver profitability as a prerequisite. The increased capital requirements in July, combined with the setback in September to our ambition to achieve Advanced Internal Ratings Based (AIRB) accreditation for residential mortgages, put pressure on our capital position, impacting the levels to which we were able to grow capital organically. Speculative media reporting contributed to our decision to accelerate and address our capital position in the fourth quarter.

The ability to secure the £925 million capital package demonstrates our investors' faith in us and in our customer service-centric model. We believe that this capital support provides certainty for us going forward.

Strategic delivery

Throughout the year our customers have remained supportive and our promise to provide better service and to support the communities in which we operate continues to resonate. Progress has been achieved in the automation of back-office processes and investment in core infrastructure aimed at ensuring the stability and security of systems. Alongside this we have seen the launch of new products including enhanced commercial overdrafts and business credit cards. Whilst we see near-term pressure on profitability resulting from the increased cost of deposits gathered in the final quarter of the year, we are optimistic that the good work put in throughout 2023 continues to set us up well for the future.

Revenue

Revenue during the year benefitted from increases in base rates and the continued growth in customer accounts, with total underlying income increasing 5% to £546.5 million (2022: £522.1 million).

Like most banks, a large proportion of our lending is fixed rate and therefore despite base rates having stabilised we are continuing to see the benefits as older loans mature into a higher rate environment. We will see further upside in 2024, 2025 and 2026 as loans and fixed rate treasury investments continue to reprice. Offsetting this, the weakened outlook for base rates and the competitive nature of the lending market will likely compress front-book loan pricing through 2024.

We also saw the increase in base rates flow through to deposit pricing, particularly as competition in the savings market continued to increase. As cost-of-living pressures continue, which is leading to customers utilising current account balances, and industry-wide drawings under TFSME mature we envisage these pressures continuing through 2024 and for the medium term. To aid this we have been investing in our deposit capabilities, including preparing for the ISA season in 2024 through improvements to our ISA switching capabilities. We have also started to provide savings accounts on deposit aggregator sites and are launching a new 'boost' proposition for savings accounts. While these deposits are more expensive than our core current account deposits, they are priced to be net interest income accretive, enable more lending and help to support our strong liquidity position.

Following the announcement of the successful completion of the capital package in November, we launched a deposit campaign to replace the deposits we lost in October resulting from speculative media reports. As a result, our deposits ended the year at £15.6 billion up 1% from the level reported in our interim results. This campaign and the prevailing higher rate environment, saw cost of deposits in the second half of the year increase to 1.29%, up from 0.66% in the first half.

Our priority remains growing the number, depth and quality of our deposit relationships and we remain committed to supporting more customers and communities.

Costs

We continue to take a disciplined approach to costs, with underlying costs slightly down year on year, despite the continued high inflationary environment. The executive team has worked hard to improve processes helping manage costs. Our processes are still not as efficient or as automated as we would want which gives us the opportunity to identify and deliver further cost savings going forward. As committed at the time of the capital package, we are on track, to deliver up to £50 million in annualised cost savings. As part of this approach we took the decision to reduce our store hours, to focus on the times when customers need us most, and introduced changes to our organisational structure resulting in a reduction of roles. As a people-focused organisation it is always incredibly difficult to let good colleagues go. I want to thank all of them for their hard work and dedication to Metro Bank. Whilst this was a very tough decision, it was ultimately necessary and is a key step in helping support our long-term sustainability. The exits agreed results in £43 million of annual savings and we remain confident in exceeding £50 million in total annual cost savings in 2024.

We will continue to explore options to further right-size our cost base in the months ahead, as we look to secure a sustainably profitable future for the bank. Part of this will include continuing to review our options around stores and our real estate which remain one of the largest components of our fixed cost base.

Infrastructure

Whilst we have reduced our operating hours we remain committed to stores, which remain central to our proposition. During the year, we acquired a freehold site in Chester which will be our next new location. We continue to focus on building a pipeline to deliver our growth in the years ahead and have placed a greater focus on securing locations with a strong SME presence. Further store openings in the north of England will predominantly focus on out-of-town locations with parking which are easier for businesses to access and can serve larger populations.

Although a physical presence remains core to our offering, our priority will be to continue to digitalise to ensure we remain both competitive against larger high-street peers and new digital entrants. A particular area of focus will continue to be on enhancing our self-service features as well as building out our SME offering where we feel we are continuing to win market share in an area which remains underserved by the market.

During the year we worked to transform our mortgage origination platform, which has streamlined the process for both mortgage intermediaries and customers. As mortgages will continue to be the largest component of our lending portfolio we envisage that this investment will yield improvements in productivity and allow us to launch a greater range of products.

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

Balance sheet optimisation

Over the course of 2023, the management team actively constrained lending to around replacement levels in an effort to build capital organically. Following the capital raise it is now more important than ever that we continue to optimise our balance sheet and utilise our capital stack most efficiently to get the best possible sustainable returns for all stakeholders.

The return to a more normalised interest rate environment has led us to shift our focus away from unsecured lending back towards commercial, whilst mortgages will remain the largest component of our balance sheet. With the feedback from the PRA that we would not receive AIRB approval in 2023, our focus is to participate in niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage. This will likely mean that we seek to compete less for vanilla mortgages where AIRB-approved competitors benefit from a materially lower RWA weightage than either standardised weightages or those expected under the Basel 3.1 regulations. The pivot to commercial and specialist lending will drive higher risk adjusted returns but will also increase risk density. In order to meet customer demand and improve profitability we will manage the balance sheet to optimise returns, which may include (but not limited to) periodically utilising capital buffers or electing to access capital markets to support growth.

Communication

Our focus on delivering excellent customer service is reflected in the latest Independent Competition and Markets Authority (CMA) survey where we retained the number one spot for in-store service for personal and business customers. 2023 also saw us implement Consumer Duty and sign up to the Government's Mortgage Charter supporting our commitment to customers, especially as many dealt with the effects of increases in the cost of living.

Whilst we have reduced our store opening hours in 2024, we remain committed to maintaining a physical presence and ensuring that stores remain both accessible and at the heart of local communities. In 2023, we rolled out our British Sign Language service which customers can now access in any of our stores, on the phone, in app or online. Fifty-two of our stores are also now designated as Safe Spaces – places where those suffering domestic abuse can go to safely start the process of rebuilding their lives.

Our community bank ethos also saw us deliver our financial education programme Money Zone in record numbers. The programme has now been delivered to 2,800 schools and 250,000 children, which in 2023 included delivering to 1,100 children in just one day at the Hertfordshire Agricultural Society Food and Farming Day. We have also introduced bespoke programmes for our armed forces' communities as well as for teenagers aged 16 to 18.

Alongside Money Zone we support our communities through a wider range of initiatives. We have dedicated over 4,000 hours to local causes ranging from litter picks to sponsored walks as well as celebrating large scale community events, notably Pride in London, Birmingham and Cardiff.

We are determined that the right-sizing of our workforce will not impede our ability to be a great place to work or a great place to bank. We will continue to foster an environment where colleagues can grow their careers and thrive. I was particularly pleased that during the year we were voted as a top 10 place to work in the UK and our annual Voice of the Colleague survey, conducted in October, saw some of the best results in our history as well as being significantly higher than the global benchmark.

We continue to focus on our culture of promoting from within, with over 40% of the positions in the first half of the year filled by colleagues being promoted or moving around the business. For the remaining hires we have amplified our community focus when recruiting talent, increased opportunities available for apprentices from disadvantaged backgrounds, run a series of roadshows for professional returners trying to get back into the workplace and engaged with later in career populations to support our diverse workforce.

In May we launched a five-year partnership with the England and Wales Cricket Board, later jointly pledging to treble the number of girls' cricket teams to support the development of women's and girls' cricket both at a national and community level, with the aim of delivering a lasting legacy for female representation in the sport. The partnership includes the sponsorship of key sporting events including the Women's Ashes where we are the title partner.

Looking ahead

2023 has been a varied year for performance with the continued strong underlying momentum towards achieving underlying profitability in the first half of the year and our successful capital raise being key highlights. These have been offset by continued external headwinds combined with the need to make difficult decisions in the last quarter of the year. Some of these decisions, including our higher deposit cost will continue to impact earnings potential into 2024, whilst we will not fully benefit from the effects of loan and investment repricing until 2026, therefore acting as a drag on our near-term results. Despite this I remain confident that the work we have undertaken has allowed us to build the foundations of a structurally profitable bank – which is fundamentally different from where we were four years ago.

I remain grateful for the continued support of all our colleagues, customers, debt holders and shareholders as well as wider stakeholders.

Finance review

Summary of the year
2023 was another important year for us as we returned to profit on both a statutory and underlying basis in the first half of the year, established our new holding company and secured a successful capital package that will allow us to continue to profitably grow the business over the coming years.

For the full year ended 31 December 2023, we recorded an underlying loss before tax of £16.9 million a reduction of 67% from 2022 (2022: loss of £50.6 million) partially reflecting the higher cost of deposits and wider market trend of declining current account balances.

On a statutory basis we recognised a profit before tax of £30.5 million (2022: loss of £70.7 million), reflecting the one-off gain on the refinancing of our existing Tier 2 debt as part of the capital package.

Additionally, non-underlying items included £20.2 million of costs associated with our announced cost reduction plan which is designed to improve the ongoing efficiency of our business as we look to deliver sustainable profitability.

Our results were impacted by the setback in September to our ambition to achieve AIRB accreditation for residential mortgages and associated speculative media reports regarding our capital position led to an outflow of customer deposits, with a notable decrease in current accounts balances. Our strong levels of liquidity and prudent approach meant these outflows were manageable and we were able to quickly replace these balances with longer-term deposits, albeit at a higher cost, which contributed to a material increase in our cost of deposits in the fourth quarter.

Despite these challenges we have entered 2024 with both a stronger capital and liquidity position. We have taken the first steps to deliver a disciplined cost reduction programme that will act to mitigate many of the headwinds we face and ensure a return to sustainable profitability.

Income statement

	2023 £m	2022 £m	Change %
Underlying net interest income	411.9	404.2	2%
Underlying non-net interest income	134.6	117.9	14%
Total underlying revenue	546.5	522.1	5%
Underlying operating expenses	(530.2)	(532.8)	-
Expected credit loss expense	(33.2)	(39.9)	(17%)
Underlying loss before tax	(16.9)	(50.6)	(67%)
Non-underlying items	47.4	(20.1)	n/a
Statutory profit/(loss) before tax	30.5	(70.7)	n/a

Interest income
Interest income benefitted from a rising base rate during the period, increasing 52% to £855.7 million (2022: £563.7 million). Lending income continues to be the largest component of our interest income.

Residential mortgage assets benefitted from higher rates for new and retained customers, with asset yields increasing to 3.37% (2022: 2.65%). Our retail mortgages are 92% fixed with an average time to reversion of 2.41 years (31 December 2022: 2.45 years); we expect to see continued rate growth in the years ahead as older balances roll-off and are replaced with new lending at a higher rate.

Our commercial lending portfolio income grew due to higher yields, predominantly driven by our floating business loans which have seen greater yields as a result of the higher base rate environment, as well as the continued attrition of lower-yielding government-backed lending which was written during the COVID-19 pandemic.

Commercial lending remains a strong and growing part of our book; as part of our strategy we will continue to rotate and grow our commercial lending, with a particular focus on small and medium enterprises as well as more specialist lending.

Consumer lending income also increased, driven by higher yielding originations due to the base rate environment. In 2024, we will no longer provide new consumer lending and instead focus on the commercial and retail markets for new originations.

We also saw the benefits of increased rates flowing through to our treasury portfolio with interest income on our cash and investment securities increasing. This increase was also aided by our decision to adjust our portfolio mix towards lower risk-weighted investment securities and restrict levels of new lending origination to repayment levels.

Interest expense
Interest expense increased 178% to £443.8 million (2022: £159.6 million). This increase reflected the combination of the continued gradual reduction in non-interest bearing personal current accounts as well as an increase in cost of deposits reflecting the rising rate environment.

The reduction in average balances started across the industry in late 2022 in response to increases in the cost of living, as customers looked to pay down debt and move excess deposits into savings accounts, as well as weather the higher inflationary environment. We saw additional attrition in the fourth quarter following media speculation surrounding our capital options although we have continued to see the number of current accounts grow.

During 2023, we have enhanced our deposit capabilities, including serving aggregators and the launch of limited-edition savings products. This has successfully aided deposit inflows, whilst also increasing our average cost of deposits to 0.97% (2022: 0.20%).

Our wholesale funding expenses have also increased as a function of interest rates, where the largest expense is the Bank of England's Term Funding Scheme (TFSME) which is directly linked to base rate. Due to a higher rate environment, we have seen expenses for TFSME increase to £161.3 million (2022: £55.5 million). Despite this increase, it remains an additional stable cost of funding and is accretive to net interest income.

During the year we repaid early the TFSME maturities scheduled for 2024 and the start of 2025. This repayment was partially funded by repurchase agreements, which represented a more cost-effective form of funding. We also used repurchase agreements in the fourth quarter which provided additional liquidity, which were largely repaid by the year-end. A combination of these factors, along with the increase in base rate, led to an increase in interest expense on repurchase agreements from £3.4 million in 2022 to £50.1 million in 2023.

As part of the capital package, our existing Tier 2 notes, which repriced to 9% in June 2023, were redeemed and replaced with £150 million of new Tier 2 notes at a coupon of 14%. The redemption date of our existing MREL debt was extended, and £175 million new MREL debt issued, both at a coupon of 12%.

The repricing and restructuring has resulted in an increase to interest expense on debt securities in 2023 which rose from £48.7 million in 2022 to £55.7 million in 2023; this increased cost of funding will continue into the future. Despite the increased cost, the refinancing of our wholesale debt has enhanced our balance sheet strength, provides additional certainty to all stakeholders and allows us greater runway to continue to deliver our strategy thereby assisting in delivering greater earnings potential in the future.

Non-interest income

Net fee and commission income has increased by £8.6 million to £90.4 million in 2023 (2022: £81.8 million), reflecting growth in retail and business current account volumes. Interchange income grew by £3.0 million to £40.0 million (2022: £37.0 million) reflecting increased consumer spending using a Metro Bank card.

Safe deposit box income increased by £1.7 million to £18.2 million (2022: £16.5 million) reflecting higher volumes as occupancy levels increased, driven by greater consumer demand in strategic geographical locations. Foreign exchange income has remained broadly static year on year at £34.0 million (2022: £34.1 million), providing a valuable source of income, whilst having minimal impact on our capital ratios.

Operating expenses

	2023	2022
Underlying cost:income ratio	97%	102%
Statutory cost:income ratio	90%	106%

Despite inflationary pressures, our disciplined approach to cost management has led to a slight decrease in underlying operating expenses to £530.2 million compared to £532.8 million in 2022.

This was aided by the decision at the end of 2022 to reduce the number of consultants and contractors used in the business, and to streamline our project delivery capabilities.

Salary costs remain our biggest contributor to operating expenses and in the current year we incurred costs of £241.2 million (2022: £236.6 million). A £13.8 million provision for the cost of the restructure has been booked in 2023 as a non-underlying item.

Professional fees have reduced significantly by £15.2 million to £23.2 million (2022: £38.4 million) as we have moved away from the use of contractors. In addition to this information technology costs have also fallen by £2.5 million to £59.7 million (2022: £62.2 million), reflecting our cost discipline.

Occupancy expenses continue to be a fixed cost being driven by our store portfolio; costs have remained broadly flat despite the inflationary environment as we continue to actively reduce the cost base whilst maintaining our presence on the high street.

The continued discipline in operational cost has also funded areas of increased expenses including greater investment into deposit product capability as well as a new multi-year sponsorship of women and girls cricket with the ECB. We see this as part of our ongoing commitment to become the number one community bank.

Non-underlying items

	2023 £m	2022 £m	Change %
Impairment and write-off of property, plant, equipment and intangible assets	(4.6)	(9.7)	(53%)
Remediation costs	–	(5.3)	n/a
Transformation costs	(20.2)	(3.3)	512%
Capital raise and refinancing	74.0	–	n/a
Holding company insertion costs	(1.8)	(1.8)	–
Non-underlying items	47.4	(20.1)	(336%)

We have recognised non-underlying income in 2023 of £47.4 million (2022: expenses of £20.1 million) driven by the capital package secured in October 2023 which resulted in a 40% haircut, and a £100 million gain, on the £250 million Tier 2 debt issuance. As part of the capital packaged we incurred costs of £26.0 million. These consisted of fees paid to our advisors in relation to the debt restructuring, the acceleration of unamortised issuance costs as well as the impacts from the breaking of the hedge relationships the instruments were previously in.

This is offset by the recognition of £20.2 million of transformation costs, which includes a £15.0 million provision for restructuring and associated costs. We have benefitted from the completion of remediation activities which were settled in 2022.

Expected credit loss expense

31 December 2023	ECL Allowance £m	Coverage ratio %	Non-performing loan ratio %
Retail mortgages	19	0.24%	1.87%
Consumer lending	108	8.33%	5.94%
Commercial	72	2.13%	4.91%
Total lending	199	1.59%	3.11%
31 December 2022			
Retail mortgages	20	0.26%	1.45%
Consumer lending	75	5.07%	3.38%
Commercial	92	2.21%	4.59%
Total lending	187	1.41%	2.65%

We recognised an expected credit loss expense of £33.2 million in year 2023 (2022: £39.9 million), reflecting the challenging economic environment arising from the increased cost of living. The decrease from 2022 is due to management actions to optimise the credit quality of new lending combined with releases relating to commercial customers that we have worked with and have secured repayments from. We continue to maintain management overlays and adjustments of £23.4 million (2022: £30.9 million) which represents 12% of ECL stock (31 December 2022: 16%). As at 31 December 2023 our coverage ratio was 1.59% (2022: 1.41%) and we believe we remain appropriately provided at this stage in the economic cycle.

Consumer lending accounted for the majority of the expected credit loss expense driven by loan maturation and deteriorated performance due to macroeconomic factors. The loan coverage ratio for consumer lending ended the year at 8.33% compared to 5.07% as at 31 December 2022.

Commercial lending has been more resilient in 2023, with a release of expected credit losses during the year. The coverage ratio for commercial lending has decreased slightly to 2.13% as at 31 December 2023, down from 2.21% as at 31 December 2022.

We also saw a release of expected credit losses in respect of our retail mortgage portfolio, where credit quality remains high, leading to a slight decrease in coverage ratio from 0.26% to 0.24% over the year to 31 December 2023.

Looking forwards into 2024, we expect to continue the rotation of assets away from consumer unsecured and towards the commercial sector where we see strategic opportunity to support SMEs, a vital segment of the UK economy. The economic environment and wider outlook remain challenging and uncertain; however our processes ensure we continue to maintain adequate coverage ratios and continue to actively manage our portfolios.

Balance sheet
Lending

	31 December		
	2023 £m	2022 £m	Change %
Retail mortgages	7,817	7,649	2%
Consumer lending	1,297	1,480	(12%)
Commercial	3,382	4,160	(19%)
Gross lending	12,496	13,289	(6%)
ECL allowance	(199)	(187)	6%
Net lending	12,297	13,102	(6%)

Net loans and advances to customers ended the year at £12,297 million, down 6% from £13,102 million as at 31 December 2022, as we actively managed our RWA capacity reflecting our capital constraints for the majority of the year. The increased rate environment is ensuring that we are achieving a higher return on regulatory capital in all areas of lending as new loans are written at higher yields but with the same risk-weighting.

Retail mortgages continue to form the largest component of our lending base at £7,817 million (31 December 2022: £7,649 million), representing 63% of lending (31 December 2022: 58%). With the feedback from the PRA that we should not expect to receive AIRB approval in 2023, our focus going forward will be to dominate in niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage. This will likely mean that we seek to compete less for vanilla mortgages with competitors benefitting from a materially lower RWA weightage than either standardised weightages or those expected under the Basel 3.1 regulations.

The commercial portfolio has decreased from £4,160 million as at 31 December 2022 to £3,382 million as at 31 December 2023. The decrease primarily related to our government-backed COVID relief loans which continue to run off following the closure of most schemes in 2021. As at 31 December 2022 outstanding lending under these schemes totalled £938 million (31 December 2022: £1,313 million). Although these loans are highly capital efficient due to their government backing, as these were written at the bottom of the interest rate cycle they are relatively low-yielding and we will continue to see the benefit to interest income as these loans roll-off.

Commercial lending is expected to increase in 2024 as we shift our asset focus to commercial and specialist lending, especially in the SME sector which is currently underserved in the market. This includes launching a suite of relationship-driven products to ensure we can meet all of our customer needs. In 2023, we launched our new business credit card and commercial overdraft, which are fully digital journeys with automated acceptance and decision scoring. This comes off the back of our business overdraft in 2022 which continues to be popular with customers.

The consumer portfolio has also decreased to £1,297 million (31 December 2022: £1,480 million), driven in part to minimise exposure to a higher risk segment during this part of the economic environment, but also partly reflecting our evolving strategic priorities where we are looking to prioritise relationship lending as part of our ambition to be the best community bank.

Treasury portfolio
Over the year we have continued to optimise our treasury portfolio to maximise our risk adjusted return on regulatory capital, particularly as rates have risen. We ended the year with £8,770 million of treasury assets (31 December 2022: £7,870 million), comprising £4,879 million investment securities and £3,891 million cash and balances at the Bank of England (31 December 2022: £5,914 million and £1,956 million respectively). Our investment securities remain high quality and liquid with 75% being either AAA-rated or gilts (31 December 2022: 68%).

Other assets
Property, plant and equipment ended the year at £723 million, down from £748 million as at 31 December 2022. Depreciation continues to outstrip additions, due to no new store openings taking place in 2023, although we are continuing to identify sites for future stores in the North of England. These sites are likely to be smaller than previously envisaged and more likely to be in locations that are most convenient for surrounding businesses.

Freehold and long-leasehold properties total 30 out of our 76 stores. This strategy continues to provide us with a more cost-effective way of delivering its store-based service-led model. Intangible assets have decreased to £193 million, down from £216 million in 2022, reflecting a more selective approach to investments. Our investments in 2023 have including delivering confirmation of payee services, improved deposit propositions and a new mortgage platform.

Deposits

	31 December 2023 £m	31 December 2022 £m	Change %
Retail customer (excluding retail partnerships)	7,235	5,797	25%
Retail partnership	1,708	1,949	(12%)
Commercial customers (excluding SMEs)	2,898	3,188	(9%)
SMEs	3,782	5,080	(26%)
Total customer deposits	15,623	16,014	(2%)
Of which:			
Demand: current accounts	5,696	7,888	(28%)
Demand: savings accounts	7,827	7,501	4%
Fixed term: savings accounts	2,100	625	236%

We remain focused on being a service-led deposit-driven bank. We ended the year with deposits of £15,623 million (31 December 2022: £16,014 million), a decrease of 2% year on year but up 1% from 30 June 2023. Deposits have been gradually decreasing during 2023 due to the increased cost of living weighing on people's savings capacity as well as the increasingly competitive interest rate environment which has seen customers both paying down debt and increasingly move deposits to higher-earning savings accounts.

Following press speculation surrounding our capital raise, we saw a time-limited outflow of deposits. Core deposit flows have since stabilised to more recent normal ranges and we have seen a return to growth in these balances following the successful completion of the capital raise. The launch of a deposit gathering promotion in November 2023 saw us successfully attract new funding albeit at a higher cost.

Overall our deposit base continues to remain diversified with a 57%:43% split between retail and commercial customers (31 December 2022: 49%:51%).

We expect to continue raising deposits along with current account growth with planned store openings in the North of England, as well as continuing to pursue growth in the Instant Access and Cash ISA markets.

Wholesale funding
We remain predominantly a deposit funded organisation, with wholesale funding utilised where appropriate. Our wholesale funding continues to be mainly the Term Funding Scheme with additional incentives for SMEs (TFSME). During the year we have reduced our utilisation of the TFSME by £750 million, reducing our holding to £3,050 million (31 December 2022: £3,800 million) as we repaid some maturities due in 2024 and 2025 early. Part of this has been funded by our high levels of liquidity, as well as via the utilisation of short-term repurchase agreements which represented a more cost-effective source of financing.

Taxation
We recorded a tax charge of £1.0 million (2022: £2.0 million) in the year. This charge is primarily due to the offsetting impact of achieving a statutory profit, against exemptions in tax law for the gain recognised on the Tier 2 haircut.

We have unused tax losses of £912 million (2022: £859 million) for which no deferred tax asset is being recognised. The current value of our deferred tax asset is £214 million (2022: £215 million). There is no time limit on the utilisation of tax losses and as such the bank will recognise a deferred tax asset once sustainable profitability is achieved.

Liquidity
Our liquidity position remains strong and in excess of regulatory minimum requirements. We ended the year with a liquidity coverage ratio of 332% (31 December 2022: 213%) and a net stable funding ratio of 145% (31 December 2022: 134%).

We continue to hold large amounts of high-quality liquid assets totalling £6,656 million (2022: £4,976 million). This included £3,642 million of cash held at the Bank of England (2022: £1,761 million).

Capital

	2023 £m	2022 £m	Change
CET1 capital[1]	985	819	20%
RWAs	7,533	7,990	(6%)
CET1 ratio[1]	13.1%	10.3%	280bps
Total regulatory capital ratio[1]	15.1%	13.4%	170bps
Total regulatory capital + MREL ratio[1]	22.0%	17.7%	430bps
UK regulatory leverage ratio[1]	5.3%	4.2%	110bps

1. All the capital figures as at 31 December 2023 are presented on a proforma basis, including our profit for the year. The profit will only be eligible to be included in our capital resources following the completion of our audit and publication of our Annual Report and Accounts.

We ended the year with CET1, total capital and total capital plus MREL ratios of 13.1%, 15.1% and 22.0% respectively (31 December 2022: 10.3%, 13.4% and 17.7%), above regulatory minima, including buffers (excluding any confidential buffers, where applicable), of 9.2%, 10.8% and 21.2%.

The capital raise saw us issue £150 million of new equity and £175 million in new MREL-eligible debt. As part of the capital package, a long-time investor, Spaldy Investment Limited, became our majority shareholder,

In addition to raising new capital, we also refinanced all of our existing regulatory debt. This consisted of £350 million of MREL, which had a call date in November 2024. The refinanced debt, along with the new MREL has a call date of 30 April 2028, providing additional runway for us to deliver our strategy. Alongside this, we replaced our existing £250 million of Tier 2 debt with £150 million of new instruments. The £100 million haircut agreed by bondholders has led to a one-off gain which has been reported as a non-underlying income amount in 2023.

We ended the year with risk-weighted assets of £7,533 million (31 December 2022: £7,990 million), reflecting the active capital management we have delivered since the end of 2022 as well as prudent lending decisions at this stage in the economic cycle.

At the end of the first half of 2023 we also completed the implementation of our holding company marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework. All of our regulatory capital and debt capital is now issued from the new holding company.

Basel 3.1

The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market risk, credit valuation adjustment risk, counterparty credit risk, and operational risk, with remaining elements of the standards expected to be published in Q2 2024.

In September 2023 the PRA announced a delay in implementation of the proposals until 1 July 2025. However, the phase in period for the output floor was reduced from 5 years to 4.5 years to maintain full implementation by 1 January 2030.

Based on our balance sheet and lending mix as at 31 December 2023 and the current proposals, our initial assessment of the impact indicates that there should be no material change to our capital position on implementation day. It should be noted that the rules are still subject to change.

Looking ahead

We enter 2024 with a stronger and longer dated capital base, putting us in a good position to deliver on strategy. We have also started the process of delivering a disciplined cost reduction programme, which will help to mitigate some of the near-term headwinds, notably the increased cost of deposits.

Ensuring we reduce our cost of deposits from their 2023 exit rate through the generation of additional core-deposits remains a priority. Alongside this a key area of focus will be rotation of assets from consumer unsecured towards commercial lending where we believe we can generate a better return in the current environment.

This combination of selective capital allocation, pricing rigour and cost discipline are core to our execution, with these steps meaning we are on the path to long term sustainable profitability.

Risk summary

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

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

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

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

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

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

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

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

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

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

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

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	Years ended 31 December 2023 £'million	2022 £'million
Interest income	2	**855.7**	563.7
Interest expense	2	**(443.8)**	(159.6)
Net interest income		**411.9**	404.1
Fee and commission income	3	**95.0**	84.4
Fee and commission expense	3	**(4.6)**	(2.6)
Net fee and commission income		**90.4**	81.8
Net gains on sale of assets		**2.7**	–
Other income		**143.9**	37.6
Total income		**648.9**	523.5
General operating expenses	4	**(502.9)**	(467.6)
Depreciation and amortisation	9, 10	**(77.7)**	(77.0)
Impairment and write-offs of property, plant, equipment and intangible assets	9, 10	**(4.6)**	(9.7)
Total operating expenses		**(585.2)**	(554.3)
Expected credit loss expense	12	**(33.2)**	(39.9)
Profit/(loss) before tax		**30.5**	(70.7)
Taxation	5	**(1.0)**	(2.0)
Profit/(loss) for the year		**29.5**	(72.7)
Other comprehensive income/(expense) for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at FVOCI (net of tax):			
• changes in fair value		**2.4**	(7.6)
Total other comprehensive income/(expense)		**2.4**	(7.6)
Total comprehensive profit/(loss) for the year		**31.9**	(80.3)
Earnings per share			
Basic (pence)	15	**13.8**	(42.2)
Diluted (pence)	15	**13.4**	(42.2)

Consolidated balance sheet

As at 31 December 2023

		Years ended 31 December	
	Notes	2023 £'million	2022 £'million
Cash and balances with the Bank of England		**3,891**	1,956
Loans and advances to customers	7	**12,297**	13,102
Investment securities held at fair value through other comprehensive income	8	**476**	571
Investment securities held at amortised cost	8	**4,403**	5,343
Financial assets held at fair value through profit and loss		**–**	1
Derivative financial assets		**36**	23
Property, plant and equipment	9	**723**	748
Intangible assets	10	**193**	216
Prepayments and accrued income		**118**	85
Assets classified as held for sale		**–**	1
Other assets		**108**	73
Total assets		**22,245**	22,119
Deposits from customers		**15,623**	16,014
Deposits from central banks		**3,050**	3,800
Debt securities		**694**	571
Repurchase agreements		**1,191**	238
Derivative financial liabilities		**–**	26
Lease liabilities	11	**234**	248
Deferred grants		**16**	17
Provisions		**23**	7
Deferred tax liability	5	**13**	12
Other liabilities		**267**	230
Total liabilities		**21,111**	21,163
Called-up share capital		**–**	–
Share premium		**144**	1,964
Retained earnings		**978**	(1,015)
Other reserves		**12**	7
Total equity		**1,134**	956
Total equity and liabilities		**22,245**	22,119

Consolidated statements of changes in equity

For the year ended 31 December 2023

	Called-up share capital £'million	Share premium £'million	Merger reserve £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2023	**–**	**1,964**	**–**	**(1,015)**	**(13)**	**20**	**956**
Profit for the year	**–**	**–**	**–**	**29**	**–**	**–**	**29**
Other comprehensive income (net of tax) relating to investment securities held at FVOCI	**–**	**–**	**–**	**–**	**2**	**–**	**2**
Total comprehensive income	**–**	**–**	**–**	**29**	**2**	**–**	**31**
Net share option movements	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Cancellation of Metro Bank PLC share capital and share premium	**–**	**(1,964)**	**–**	**1,964**	**–**	**–**	**–**
Issuance of Metro Bank Holdings PLC share capital	**–**	**–**	**965**	**(965)**	**–**	**–**	**–**
Bonus issuance	**965**	**–**	**(965)**	**-**	**–**	**–**	**–**
Capital reduction of Metro Bank Holdings PLC share capital	**(965)**	**–**	**–**	**965**	**–**	**–**	**–**
Shares issued	**–**	**150**	**–**	**–**	**–**	**–**	**150**
Cost of shares issued	**–**	**(6)**	**–**	**–**	**–**	**–**	**(6)**
Balance as at 31 December 2023	**–**	**144**	**–**	**978**	**(11)**	**23**	**1,134**
Balance as at 1 January 2022	–	1,964	–	(942)	(5)	18	1,035
Loss for the year	–	–	–	(73)	–	–	(73)
Other comprehensive expense (net of tax) relating to investment securities held at FVOCI	–	–	–	–	(8)	–	(8)
Total comprehensive loss	–	–	–	(73)	(8)	–	(81)
Net share option movements	–	–	–	–	–	2	2
Balance as at 31 December 2022	–	1,964	–	(1,015)	(13)	20	956

Consolidated cash flow statement

For the year ended 31 December 2023

	Notes	Years ended 31 December 2023 £'million	2022 £'million
Reconciliation of loss before tax to net cash flows from operating activities:			
Profit/(loss) before tax		**31**	(71)
Adjustments for non-cash items	16	**(376)**	(273)
Interest received		**834**	553
Interest paid		**(370)**	(124)
Changes in other operating assets		**744**	(852)
Changes in other operating liabilities		**(235)**	(418)
Net cash inflows/(outflows) from operating activities		**628**	(1,185)
Cash flows from investing activities			
Sales, redemptions and paydowns of investment securities		**1,870**	857
Purchase of investment securities		**(816)**	(1,206)
Purchase of property, plant and equipment	9	**(12)**	(29)
Purchase and development of intangible assets	10	**(26)**	(24)
Net cash inflows/(outflows) from investing activities		**1,016**	(402)
Cash flows from financing activities			
Repayment of capital elements of leases	11	**(23)**	(25)
Issuance of new shares		**150**	–
Cost of share issuance		**(6)**	–
Issuance of debt securities		**175**	–
Cost of debt issuance		**(5)**	–
Net cash inflows/(outflows) from financing activities		**291**	(25)
Net increase/(decrease) in cash and cash equivalents		**1,935**	(1,612)
Cash and cash equivalents at start of year		**1,956**	3,568
Cash and cash equivalents at end of year		**3,891**	1,956

1. Basis of preparation and significant accounting policies

Basis of preparation

Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK, interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRSs. They were authorised by the Board for issue on 13 March 2024.

Insertion of Metro Bank Holdings PLC

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

The insertion of Metro Bank Holdings PLC has been treated as a business combination under common control, with the Group controlled by the same parties both before and after the insertion. Combinations under common control are outside the scope of IFRS 3 'Business Combinations' and accordingly, the insertion has not been recognised at fair value and no goodwill or fair value acquisition adjustments have been recognised. The Group has instead applied predecessor accounting approach as this most faithfully represents the substance of the facts and circumstances of the series of transactions that comprise the insertion of Metro Bank Holdings PLC. This is on the basis that those transactions are not designed to deliver economic benefits but represent a re-arrangement of the organisation of business activities across legal entities in order to be compliant with the relevant regulations.

In applying this approach, we have used the carrying amounts in Metro Bank PLC's consolidated financial statements at the date of transfer to determine the value of the assets and liabilities transferred. These financial statements are therefore prepared as if Metro Bank Holdings PLC had been the parent company throughout the current and prior years, to treat the new structure as if it has always been in place. Hedge accounting continues to be applied to the transferred designated hedge relationships as if they have originally been designated by the Group.

Changes in accounting policy and disclosures

During the period there have not been any changes in accounting policy or disclosures that have had a material impact on our financial statements.

2. Net interest income

Interest income

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

Interest expense

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

3. Net fee and commission income

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

4. General operating expenses

	2023 £'million	2022 £'million
People costs	**241.2**	236.6
Information technology costs	**59.7**	62.2
Occupancy costs	**31.7**	30.8
Money transmission and other banking-related costs	**49.2**	48.7
Transformation costs	**20.2**	3.3
Remediation costs	**–**	5.3
Capability and Innovation Fund costs	**2.4**	1.3
Legal and regulatory fees	**7.0**	7.0
Professional fees	**23.2**	38.4
Printing, postage and stationery costs	**7.2**	6.2
Travel costs	**1.5**	1.6
Marketing costs	**7.7**	5.0
Costs associated with capital raise	**26.0**	–
Holding company insertion costs	**1.8**	1.8
Other	**24.1**	19.4
Total general operating expenses	**502.9**	467.6

5. Taxation

Tax expense

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

Reconciliation of the total tax expense

	2023 £'million	Effective tax rate %	2022 £'million	Effective tax rate %
Accounting profit/(loss) before tax	**30.5**		(70.7)	
Tax expense at statutory tax rate of 23.5% (2022: 19%)	**(7.2)**	**23.5%**	13.4	19.0%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	**(2.5)**	**8.3%**	(2.5)	(3.5%)
Non-deductible expenses – investment property impairment	**–**	**–**	(0.1)	(0.1%)
Non-deductible expenses – remediation	**–**	**–**	(0.6)	(0.8%)
Non-deductible expenses – other	**(0.8)**	**2.6%**	(0.4)	(0.6%)
Impact of intangible asset write-off on research and development deferred tax liability	**0.1**	**(0.3%)**	0.3	0.4%
Share-based payments	**(1.2)**	**3.9%**	0.1	0.1%
Adjustment in respect of prior years	**–**	**–**	0.2	0.2%
Current year losses for which no deferred tax asset has been recognised	**(15.4)**	**50.5%**	(11.7)	(16.5%)
Losses offset against current year profits	**1.1**	**(3.6%)**	–	–
Movement in recognised deferred tax asset for unused tax losses	**1.8**	**(5.9%)**	–	–
Effect of changes in tax rates	**(0.4)**	**1.3%**	(0.7)	(1.0%)
Income tax not taxable	**23.5**	**(77.0%)**	–	–
Tax expense reported in the consolidated income statement	**(1.0)**	**3.3%**	(2.0)	(2.8%)

Deferred tax assets

	31 December 2023					
	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
Deferred tax assets	**14**	**2**	**1**	**–**	**–**	**17**
Deferred tax liabilities	**–**	**4**	**–**	**(29)**	**(5)**	**(30)**
Deferred tax liabilities (net)	**14**	**6**	**1**	**(29)**	**(5)**	**(13)**
1 January 2023	**12**	**7**	**1**	**(26)**	**(6)**	**(12)**
Income statement	**2**	**(1)**	**–**	**(3)**	**1**	**(1)**
31 December 2023	**14**	**6**	**1**	**(29)**	**(5)**	**(13)**

	31 December 2022					
	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
Deferred tax assets	12	3	1	–	–	16
Deferred tax liabilities	–	4	–	(26)	(6)	(28)
Deferred tax liabilities (net)	12	7	1	(26)	(6)	(12)
1 January 2022	13	5	–	(23)	(7)	(12)
Income statement	(1)	–	1	(3)	1	(2)
Other comprehensive income	–	2	–	–	–	2
31 December 2022	12	7	1	(26)	(6)	(12)

Unrecognised deferred tax assets

We have total unused tax losses of £912 million for which a deferred tax asset of £214 million has not been recognised. The impact of recognising the deferred tax asset in the future would be material.

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

6. Financial instruments

Our financial instruments primarily comprise customer deposits, loans and advances to customers and investment securities, all of which arise as a result of our normal operations.

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk).

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgements relating to the classification and measurement of financial instruments under IFRS 9.

Cash and balances with the Bank of England, trade and other receivables, trade and other payables and other assets and liabilities which meet the definition of financial instruments are not included in the following tables.

Classification of financial instruments

	31 December 2023			
	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	**–**	**–**	**12,297**	**12,297**
Investment securities	**–**	**476**	**4,403**	**4,879**
Derivative financial assets	**36**	**–**	**–**	**36**
Liabilities				
Deposits from customers	**–**	**–**	**15,623**	**15,623**
Deposits from central bank	**–**	**–**	**3,050**	**3,050**
Debt securities	**–**	**–**	**694**	**694**
Repurchase agreements	**–**	**–**	**1,191**	**1,191**

	31 December 2022			
	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	13,102	13,102
Investment securities	–	571	5,343	5,914
Financial assets held as fair value through profit and loss	1	–	–	1
Derivative financial assets	23	–	–	23
Liabilities				
Deposits from customers	–	–	16,014	16,014
Deposits from central bank	–	–	3,800	3,800
Debt securities	–	–	571	571
Derivative financial liabilities	26	–	–	26
Repurchase agreements	–	–	238	238

7. Loans and advances to customers

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

Gross loans and advances by product category

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

Recovery loan scheme includes £70 million acquired from third parties under forward flow arrangements (31 December 2022: £97 million). The loans are held in a trust arrangement in which we hold 99% of the beneficial interest, with the issuer retaining the remaining 1% (the trust retains the legal title loans).

8. Investment securities

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

Investment securities held at FVOCI

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

Investment securities held at amortised cost

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

9. Property, plant and equipment

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT Hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2023	**12**	**261**	**372**	**22**	**8**	**283**	**958**
Additions	**–**	**–**	**9**	**1**	**2**	**–**	**12**
Disposals	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Transfers	**–**	**(5)**	**5**	**–**	**–**	**–**	**–**
31 December 2023	**12**	**256**	**386**	**23**	**10**	**279**	**966**
Accumulated depreciation							
1 January 2023	**8**	**69**	**34**	**20**	**2**	**77**	**210**
Depreciation charge	**–**	**13**	**5**	**1**	**2**	**13**	**34**
Disposals	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Transfers	**–**	**(3)**	**3**	**–**	**–**	**–**	**–**
31 December 2023	**8**	**79**	**42**	**21**	**4**	**89**	**243**
Net book value	**4**	**177**	**344**	**2**	**6**	**190**	**723**

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT Hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2022	18	280	341	24	1	295	959
Additions	–	–	22	–	7	1	30
Disposals	–	–	–	–	–	(13)	(13)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(6)	–	–	–	–	–	(6)
Transfers	–	(9)	9	–	–	–	–
31 December 2022	12	261	372	22	8	283	958
Accumulated depreciation							
1 January 2022	12	68	28	19	–	67	194
Depreciation charge	–	12	5	3	2	13	35
Impairments	1	–	–	–	–	–	1
Disposals	–	–	–	–	–	(3)	(3)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(5)	–	–	–	–	–	(5)
Transfers	–	(1)	1	–	–	–	–
31 December 2022	8	69	34	20	2	77	210
Net book value	4	192	338	2	6	206	748

10. Intangible assets

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

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2022	10	2	336	348
Additions	–	–	24	24
Write-offs	–	–	(22)	(22)
31 December 2022	10	2	338	350
Accumulated amortisation				
1 January 2022	–	–	105	105
Amortisation charge	–	–	42	42
Write-offs	–	–	(13)	(13)
31 December 2022	–	–	134	134
Net book value	10	2	204	216

11. Leases

Lease liabilities

	2023 £'million	2022 £'million
1 January	**249**	269
Additions and modifications	**–**	1
Disposals	**(5)**	(11)
Lease payments made	**(23)**	(25)
Interest on lease liabilities	**13**	14
31 December	**234**	248

Minimum lease payments

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

12. Expected credit losses and credit risk

Expected credit loss expense

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

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

Loss allowance

Total loans and advances to customers

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

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Transfers to/(from) Stage 1	517	(504)	(13)	–	–	(13)	13	–	–	–	504	(491)	(13)	–	–
Transfers to/(from) Stage 2	(451)	458	(7)	–	–	2	(2)	–	–	–	(449)	456	(7)	–	–
Transfers to/(from) Stage 3	(124)	(73)	197	–	–	1	7	(8)	–	–	(123)	(66)	189	–	–
Net remeasurement due to transfers	–	–	–	–	–	10	(10)	(15)	–	(15)	10	(10)	(15)	–	(15)
New lending	3,157	742	31	–	3,930	(30)	(15)	(11)	–	(56)	3,127	727	20	–	3,874
Repayments, additional drawdowns and interest accrued	(604)	(107)	(26)	(1)	(738)	–	–	–	–	–	(604)	(107)	(26)	(1)	(738)
Derecognitions	(1,717)	(353)	(292)	–	(2,362)	7	10	34	–	51	(1,710)	(343)	(258)	–	(2,311)
Changes to model assumptions	–	–	–	–	–	4	(5)	3	–	2	4	(5)	3	–	2
31 December 2022	10,849	2,088	352	–	13,289	(66)	(51)	(70)	–	(187)	10,783	2,037	282	–	13,102
Off-balance sheet items															
Commitments and guarantees					1,120					–					1,120

1. Represents stage transfers prior to any ECL remeasurements.
2. Represents the remeasurement between the 12 month and lifetime ECL due to stage transfer. In addition it includes any ECL change resulting from model assumptions and forward-looking information on these loans.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed as well as any ECL that has been recognised in relation to these loans during the year.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, sold or written off.
5. Represents the change in ECL to those loans that remain within the same stage through the year.

Retail mortgages

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

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704
Transfers to/(from) Stage 1	293	(281)	(12)	–	–	(4)	4	–	–	–	289	(277)	(12)	–	–
Transfers to/(from) Stage 2	(199)	205	(6)	–	–	–	–	–	–	–	(199)	205	(6)	–	–
Transfers to/(from) Stage 3	(16)	(22)	38	–	–	–	1	(1)	–	–	(16)	(21)	37	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(1)	–	–	3	4	(1)	–	–	3
New lending	1,666	549	1	–	2,216	(3)	(7)	–	–	(10)	1,663	542	1	–	2,206
Repayments, additional drawdowns and interest accrued	(130)	(22)	(5)	–	(157)	–	–	–	–	–	(130)	(22)	(5)	–	(157)
Derecognitions	(965)	(149)	(19)	–	(1,133)	(1)	2	3	–	4	(966)	(147)	(16)	–	(1,129)
Changes to model assumptions	–	–	–	–	–	–	2	–	–	2	–	2	–	–	2
31 December 2022	6,195	1,343	111	–	7,649	(6)	(11)	(3)	–	(20)	6,189	1,332	108	–	7,629

Consumer lending

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

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	786	82	21	1	890	(18)	(8)	(16)	–	(42)	768	74	5	1	848
Transfers to/(from) Stage 1	19	(19)	–	–	–	(2)	2	–	–	–	17	(17)	–	–	–
Transfers to/(from) Stage 2	(96)	96	–	–	–	1	(1)	–	–	–	(95)	95	–	–	–
Transfers to/(from) Stage 3	(21)	(6)	27	–	–	1	2	(3)	–	–	(20)	(4)	24	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(3)	(15)	–	(16)	2	(3)	(15)	–	(16)
New lending	806	156	12	–	974	(15)	(7)	(9)	–	(31)	791	149	3	–	943
Repayments, additional drawdowns and interest accrued	(144)	(41)	(6)	(1)	(192)	–	–	–	–	–	(144)	(41)	(6)	(1)	(192)
Derecognitions	(170)	(18)	(4)	–	(192)	5	1	1	–	7	(165)	(17)	(3)	–	(185)
Changes to model assumptions	–	–	–	–	–	5	2	–	–	7	5	2	–	–	7
31 December 2022	1,180	250	50	–	1,480	(21)	(12)	(42)	–	(75)	1,159	238	8	–	1,405

Commercial lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2023	3,474	495	191	–	4,160	(39)	(28)	(25)	–	(92)	3,435	467	166	–	4,068
Transfers to/(from) Stage 1	93	(86)	(7)	–	–	(7)	7	–	–	–	86	(79)	(7)	–	–
Transfers to/(from) Stage 2	(206)	208	(2)	–	–	2	(4)	2	–	–	(204)	204	–	–	–
Transfers to/(from) Stage 3	(97)	(33)	130	–	–	2	2	(4)	–	–	(95)	(31)	126	–	–
Net remeasurement due to transfers	–	–	–	–	–	5	(5)	(8)	–	(8)	5	(5)	(8)	–	(8)
New lending	554	14	8	–	576	(8)	(1)	–	–	(9)	546	13	8	–	567
Repayments, additional drawdowns and interest accrued	(291)	(43)	(30)	–	(364)	–	–	–	–	–	(291)	(43)	(30)	–	(364)
Derecognitions	(724)	(142)	(124)	–	(990)	9	7	14	–	30	(715)	(135)	(110)	–	(960)
Changes to model assumptions	–	–	–	–	–	6	1	–	–	7	6	1	–	–	7
31 December 2023	2,803	413	166	–	3,382	(30)	(21)	(21)	–	(72)	2,773	392	145	–	3,310

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	3,739	780	327	–	4,846	(27)	(29)	(52)	–	(108)	3,712	751	275	–	4,738
Transfers to/(from) Stage 1	205	(204)	(1)	–	–	(7)	7	–	–	–	198	(197)	(1)	–	–
Transfers to/(from) Stage 2	(156)	157	(1)	–	–	1	(1)	–	–	–	(155)	156	(1)	–	–
Transfers to/(from) Stage 3	(87)	(45)	132	–	––	–	4	(4)	–	–	(87)	(41)	128	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(6)	-	–	(2)	4	(6)	–	–	(2)
New lending	685	37	18	–	740	(12)	(1)	(2)	–	(15)	673	36	16	–	725
Repayments, additional drawdowns and interest accrued	(330)	(44)	(15)	–	(389)	–	–	–	–	–	(330)	(44)	(15)	–	(389)
Derecognitions	(582)	(186)	(269)	–	(1,037)	3	7	30	–	40	(579)	(179)	(239)	–	(997)
Changes to model assumptions	–	–	–	–	–	(1)	(9)	3	–	(7)	(1)	(9)	3	–	(7)
31 December 2022	3,474	495	191	–	4,160	(39)	(28)	(25)	–	(92)	3,435	467	166	–	4,068

Credit risk exposures

Retail mortgages

£'million	31 December 2023 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	**6,885**	**695**	**37**	**–**	**7,617**	6,194	1,289	33	–	7,516
1 to 29 days past due	**2**	**28**	**10**	**–**	**40**	1	21	7	–	29
30 to 89 days past due	**–**	**61**	**16**	**–**	**77**	–	33	15	–	48
90+ days past due	**–**	**–**	**83**	**–**	**83**	–	–	56	–	56
Gross carrying amount	**6,887**	**784**	**146**	**–**	**7,817**	6,195	1,343	111	–	7,649

Consumer lending

£'million	31 December 2023 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	**900**	**297**	**3**	**–**	**1,200**	1,172	235	3	–	1,410
1 to 29 days past due	**6**	**2**	**–**	**–**	**8**	8	2	–	–	10
30 to 89 days past due	**–**	**15**	**7**	**–**	**22**	–	13	5	–	18
90+ days past due	**–**	**–**	**67**	**–**	**67**	–	–	42	–	42
Gross carrying amount	**906**	**314**	**77**	**–**	**1,297**	1,180	250	50	–	1,480

Commercial lending

£'million	31 December 2023 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	**2,768**	**350**	**83**	**–**	**3,201**	3,453	419	67	–	3,939
1 to 29 days past due	**35**	**24**	**5**	**–**	**64**	21	36	5	–	62
30 to 89 days past due	**–**	**39**	**20**	**–**	**59**	–	40	20	–	60
90+ days past due	**–**	**–**	**58**	**–**	**58**	–	–	99	–	99
Gross carrying amount	**2,803**	**413**	**166**	**–**	**3,382**	3,474	495	191	–	4,160

Credit risk concentration

Retail mortgage lending by repayment type

	31 December 2023 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages	31 December 2022 £'million Retail owner occupied	Retail buy-to-let	Total retail mortgages
Interest only	**1,933**	**1,878**	**3,811**	2,005	2,047	4,052
Capital and repayment	**3,918**	**88**	**4,006**	3,502	95	3,597
Total retail mortgage lending	**5,851**	**1,966**	**7,817**	5,507	2,142	7,649

Retail mortgage lending by geographic exposure

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

Retail mortgage lending by DTV

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

Commercial lending – excluding BBLS by repayment type

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

Commercial term lending – excluding BBLS by geographic exposure

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

Commercial term lending – excluding BBLS by sector exposure

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

Commercial term lending – excluding BBLS by DTV

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

13. Legal and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters. The matters outlined below represent contingent liabilities and as such at the reporting date no provision has been made for any of these cases within the financial statements. This is because, based on the facts currently known, it is not practicable to predict the outcome, if any, of these matters or reliably estimate any financial impact. Their inclusion does not constitute any admission of wrongdoing or legal liability.

Financial Crime
The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters, and the FCA's enquiries remain ongoing.

Magic Money Machine litigation
In 2022 Arkeyo LLC, a software company based in the United States, filed a civil suit with a stated value of over £24 million against us in the English High Court alleging, among other matters, that we infringed their copyright and misappropriated their trade secrets relating to money counting machines (i.e. our Magic Money Machines).
We believe Arkeyo LLC's claims are without merit and are vigorously defending the claim.

14. Fair value of financial instruments

	31 December 2023				
	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
Assets					
Loans and advances to customers	**12,297**	**–**	**–**	**12,156**	**12,156**
Investment securities held at fair value through other comprehensive income	**476**	**476**	**–**	**–**	**476**
Investment securities held at amortised cost	**4,403**	**3,143**	**1,072**	**–**	**4,215**
Derivative financial assets	**36**	**–**	**36**	**–**	**36**
Liabilities					
Deposits from customers	**15,623**	**–**	**–**	**15,622**	**15,622**
Deposits from central bank	**3,050**	**–**	**–**	**3,050**	**3,050**
Debt securities	**694**	**–**	**585**	**–**	**585**
Repurchase agreements	**1,191**	**–**	**–**	**1,191**	**1,191**

	31 December 2022				
	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
Assets					
Loans and advances to customers	13,102	–	–	12,321	12,321
Investment securities held at fair value through other comprehensive income	571	533	38	–	571
Investment securities held at amortised cost	5,343	3,834	1,135	40	5,009
Financial assets held at fair value through profit and loss	1	–	–	1	1
Derivative financial assets	23	–	23	–	23
Liabilities					
Deposits from customers	16,014	–	–	16,004	16,004
Deposits from central bank	3,800	–	–	3,800	3,800
Debt securities	571	423	–	–	423
Derivative financial liabilities	26	–	26	–	26
Repurchase agreements	238	–	–	238	238

Information on how fair values are calculated are explained below:

Loans and advances to customers
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

Investment securities
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value Level 1 assets) or using observable inputs (in the case of fair value Level 2 assets).

Financial assets held at fair value through profit and loss
The financial assets at fair value through profit and loss relate to the loans and advances previously assumed by the RateSetter provision fund. They are measured at the fair value of the amounts that we expect to recover on these loans.

Deposits from customers
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are either short-dated or are on a variable rate which aligns to the current market rate.

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

15. Earnings per share

Basic earnings per share ('EPS') is calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the period.

Diluted EPS has been calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues.

As we were loss making in the year ended 31 December 2022, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS for 2022.

In the year ended 31 December 2023, 6.5 million share options were excluded from the weighted average number of shares due to these being anti-dilutive.

	2023	2022
Profit/(loss) attributable to ordinary equity holders (£'million)	29.5	(72.7)
Weighted average number of ordinary shares in issue (thousands)		
Basic	214,297	172,464
Adjustment for share awards	6,459	–
Diluted	220,756	172,464
Earning per share (pence)		
Basic	13.8	(42.2)
Diluted	13.4	(42.2)

16. Non-cash items

	2023 £'million	2022 £'million
Interest income	**(856)**	(564)
Interest expense	**444**	160
Depreciation and amortisation	**78**	77
Impairment and write-offs of property, plant, equipment and intangible assets	**5**	10
Expected credit loss expense	**33**	40
Share option charge	**3**	2
Grant income recognised in the income statement	**(2)**	(2)
Amounts provided for (net of amounts released)	**16**	4
Haircut on Tier 2 debt	**(100)**	–
Gain on sale of assets	**3**	–
Total adjustments for non-cash items	**(376)**	(273)

17. Post balance sheet events

There have been no material post balance sheet events.

Reconciliation from statutory to underlying results

Year ended 31 December 2023	**Statutory basis £'million**	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Capital raise and refinancing £'million	**Underlying basis £'million**
Net interest income	**411.9**	**–**	**–**	**–**	**–**	**–**	**–**	**411.9**
Net fee and commission income	**90.4**	**–**	**–**	**–**	**–**	**–**	**–**	**90.4**
Net gains on sale of assets	**2.7**	**–**	**–**	**–**	**–**	**–**	**–**	**2.7**
Other income	**143.9**	**–**	**(2.4)**	**–**	**–**	**–**	**(100.0)**	**41.5**
Total income	**648.9**	**–**	**(2.4)**	**–**	**–**	**–**	**(100.0)**	**546.5**
General operating expenses	**(502.9)**	**–**	**2.4**	**20.2**	**–**	**1.8**	**26.0**	**(452.5)**
Depreciation and amortisation	**(77.7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(77.7)**
Impairment and write-offs of PPE and intangible assets	**(4.6)**	**4.6**	**–**	**–**	**–**	**–**	**–**	**–**
Total operating expenses	**(585.2)**	**4.6**	**2.4**	**20.2**	**–**	**1.8**	**26.0**	**(530.2)**
Expected credit loss expense	**(33.2)**	**–**	**–**	**–**	**–**	**–**	**–**	**(33.2)**
Profit/(loss) before tax	**30.5**	**4.6**	**–**	**20.2**	**–**	**1.8**	**(74.0)**	**(16.9)**

Year ended 31 December 2022	**Statutory basis £'million**	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Capital raise and refinancing £'million	**Underlying basis £'million**
Net interest income	404.1	–	0.1	–	–	–	–	404.2
Net fee and commission income	81.8	–	–	–	–	–	–	81.8
Net gains on sale of assets	–	–	–	–	–	–	–	–
Other income	37.6	–	(1.5)	–	–	–	–	36.1
Total income	523.5	–	(1.4)	–	–	–	–	522.1
General operating expenses	(467.6)	–	1.4	3.3	5.3	1.8	–	(455.8)
Depreciation and amortisation	(77.0)	–	–	–	–	–	–	(77.0)
Impairment and write-offs of PPE and intangible assets	(9.7)	9.7	–	–	–	–	–	–
Total operating expenses	(554.3)	9.7	1.4	3.3	5.3	1.8	–	(532.8)
Expected credit loss expense	(39.9)	–	–	–	–	–	–	(39.9)
Loss before tax	(70.7)	9.7	–	3.3	5.3	1.8	–	(50.6)

Capital information

Key metrics

	31 December 2023 £'million	31 December 2022 £'million
Available capital		
CET1 capital	**985**	819
Tier 1 capital	**985**	819
Total capital	**1,135**	1,069
Total capital + MREL	**1,655**	1,416
Risk-weighted assets		
Total risk-weighted assets	**7,533**	7,990
Risk-based capital ratios as % of risk-weighted assets		
CET1 ratio	**13.1%**	10.3%
Tier 1 ratio	**13.1%**	10.3%
Total capital ratio	**15.1%**	13.4%
MREL ratio	**22.0%**	17.7%
Additional CET1 buffer requirements as % of risk-weighted assets		
Capital conservation buffer requirement	**2.5%**	2.5%
Countercyclical buffer requirement	**2.0%**	1.0%
Total of bank CET1 specific buffer requirements	**4.5%**	3.5%
Leverage ratio		
UK leverage ratio	**5.3%**	4.2%
Liquidity coverage ratio		
Liquidity coverage ratio	**332%**	213%

Leverage ratio

The table below shows our Tier 1 Capital and Total Leverage Exposure that are used to derive the UK leverage ratio. The UK leverage ratio is the ratio of Tier 1 Capital to Total Leverage exposure.

	31 December 2023 £'million	31 December 2022 £'million
Common equity tier 1 capital	**985**	819
Additional tier 1 capital		–
Tier 1 capital	**985**	819
CRD IV leverage exposure	**18,420**	19,348
UK leverage ratio	**5.3%**	4.2%

Liquidity coverage ratio

The table below shows the bank's Total HQLA and total net cash outflow that are used to derive the liquidity coverage ratio.

	31 December 2023 £'million	31 December 2022 £'million
Total high-quality liquid assets	**6,656**	4,976
Total net cash outflow	**2,002**	2,342
Liquidity coverage ratio	**332%**	213%

Overview of risk-weighted assets and capital requirements

	31 December 2023 £'million	31 December 2022 £'million	Pillar 1 capital required 31 December 2023 £'million
Credit risk (excluding counterparty credit risk (CCR))	**6,804**	7,237	544
Of which the standardised approach	**6,804**	7,237	544
CCR	**26**	9	2
Of which mark to market	**26**	7	2
Of which CVA	**0**	2	-
Market risk	**–**	–	-
Operational risk	**703**	739	56
Of which basic indicator approach	**–**	739	
Of which standardised indicator approach	**703**	–	
Amounts below the thresholds for deduction (subject to 250% risk weight)	**–**	5	
Total	**7,533**	7,990	602

Credit risk exposures by exposure class

Our Pillar 1 capital requirement for credit risk is set out in the table below.

	31 December 2023 £'million		31 December 2022 £'million	
	Exposure value	Capital required	Exposure value	Capital required
Central governments or central banks	**5,997**	**1**	5,326	–
Exposures to multilateral development banks	**1,614**	**–**	1,663	–
Institutions	**9**	**–**	10	–
Corporates	**702**	**49**	703	50
Retail	**1,639**	**93**	1,870	107
Secured by mortgages on immovable property	**9,061**	**291**	9,424	308
Covered bonds	**706**	**6**	693	6
Claims on institutions and corporates with a short-term credit assessment	**133**	**3**	97	3
Securitisation position	**1,075**	**10**	1,223	13
Exposure at default	**210**	**17**	179	15
Collective investment undertakings	**58**	**–**	59	–
Items associated with particularly high risk	**12**	**1**	18	2
Other exposures	**973**	**72**	1,021	75
Total	**22,189**	**544**	22,286	579

Capital resources

The table below summarises the composition of regulatory capital on a proforma basis, including the profit for the year[1].

	31 December 2023 £'million	31 December 2022 £'million
Share capital and premium	**144**	1,964
Retained earnings	**949**	(942)
Profit/(loss) for the year[1]	**29**	(73)
Available for sale reserve	**-**	(13)
Other reserves	**12**	20
Intangible assets	**(193)**	(216)
Other regulatory adjustments	**44**	79
CET 1 capital	**985**	819
Tier 1 capital	**985**	819
Tier 2 capital	**150**	250
Total capital resources	**1,135**	1,069
MREL eligible debt	**520**	347
TCR + MREL	**1,655**	1,416

1. The profit for the year is included to show our capital resources on a proforma basis as at 31 December 2023. The profit will only be eligible to be included in our capital resources following the completion of our audit and publication of our Annual Report and accounts.

Our capital adequacy was in excess of the minimum required by the regulators at all times.