Metro Bank PLC
Full year results
Trading Update 2022
2 March 2023

Metro Bank PLC (LSE: MTRO LN)

Results for Year ended 31 December 2022

Highlights

- **Profitable in Q4 2022 on an underlying basis**
- **Financials significantly improved year-on-year:**
    - **Underlying revenue increased 31%**
    - **NIM improved by 52bps**
    - **Underlying costs reduced 3%**
- **Completed turnaround; 2023 is a transitional year**
- **Targeting mid-single digit RoTE by 2024**
- **Resuming store expansion in the North of England**

Key Financials

£ in millions	**31 December 2022**	**31 December 2021**	**Change from FY 2021**	**30 June 2022**	**Change from H1 2022**
Assets	£22,119	£22,588	(2%)	£22,566	(2%)
Loans	£13,102	£12,290	7%	£12,364	6%
Deposits	£16,014	£16,448	(3%)	£16,514	(3%)
Loan to deposit ratio	82%	75%	7pps	75%	7pps
CET1 capital ratio	10.3%	12.6%	(230bps)	10.6%	(30bps)
Total capital ratio (TCR)	13.4%	15.9%	(250bps)	13.8%	(40bps)
MREL ratio	17.7%	20.5%	(280bps)	18.3%	(60bps)
Liquidity coverage ratio	213%	281%	(68pps)	257%	(44pps)

£ in millions	**FY 2022**	**FY 2021**	**Change from FY 2021**	**H2 2022**	**H1 2022**	**Change from H1 2022**
Total underlying revenue[1]	£522.1	£397.9	31%	£285.9	£236.2	21%
Underlying loss before tax[2]	(£50.6)	(£171.3)	(70%)	(£2.6)	(£48.0)	(95%)
Statutory loss before tax	(£70.7)	(£245.1)	(71%)	(£10.5)	(£60.2)	(83%)
Net interest margin	1.92%	1.40%	52bps	2.11%	1.73%	38bps
Lending yield	3.67%	3.07%	60bps	3.93%	3.40%	53bps
Cost of deposits	0.20%	0.24%	(4bps)	0.25%	0.14%	11bps
Cost of risk	0.32%	0.18%	14bps	0.33%	0.29%	4bps
Underlying EPS	(30.5p)	(101.1p)	(70%)	(2.0p)	(28.5p)	(93%)
Tangible book value per share	£4.29	£4.59	(7%)	£4.29	£4.30	(0%)

1. Underlying revenue excludes income recognised relating to the Capability and Innovation Fund and the mortgage portfolio sale.
2. Underlying loss before tax excludes the impairment and write-off of property, net BCR costs, plant & equipment (PPE) and intangible assets, transformation costs, remediation costs, business acquisition and integration costs, mortgage portfolio sale and costs related to holding company insertion.

Summary

- **Underlying profit in Q4 achieved** as a result of the bank's commitment to strong cost control and the successful balance sheet optimisation strategy.

- **Underlying revenue increased by 31% to £522.1 million** reflecting the shift in deposit and asset mix, the impact of the higher Bank of England base rate, and a recovery in customer activity.

- **Underlying costs reduced 3% to £532.8 million** despite inflationary pressures, reflecting management actions to control cost and leverage the fixed cost base for profitable growth.

- **Operating jaws[3] for 2022 were 34%.**

- **Underlying loss before tax for the year improved by 70% to £50.6 million** as a result of the strong income growth, cost discipline and prudent risk management.

- **Statutory loss before tax of £70.7 million, improved 71%,** as legacy issues, and their associated remediation costs, concluded.

- **Legacy PRA and FCA issues addressed** regarding investigations into historical RWA reporting, and the OFAC investigation was closed during the year.

- **Targeting mid-single digit ROTE by 2024.**

- **Resuming store expansion** in the important economic areas and communities that make up the North of England, supported by funding from the Capability and Innovation Fund.

- **Continued commitment to customers, communities and colleagues,** voted the highest rated high street bank for overall service quality for personal customers and the best bank for service in-store for personal and business customers[4] for the 10th time in a row. Unique culture provides local communities with the support they need and builds long-lasting and personal relationships with customers.

- **Pillar 2A capital requirement reduced** to 0.50% in June 2022, further reduced to 0.36% effective January 2023.

- **The Resolution Directorate of the Bank of England adjusted the bank's existing £250 million 5.5% Tier 2 Notes to remain eligible for MREL until 26 June 2025**, following implementation of the holding company.

- **2023 is a transitional year** and the bank will focus on serving customers and maintaining cost discipline whilst continuing to invest in infrastructure and build sustainably.

3. Operating jaws calculated as percentage change in underlying revenue growth less percentage change in underlying cost growth.
4. Competition and Market Authority's Service Quality Survey February 2023.

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

"I'm pleased with Metro Bank's performance over the past year and the successful completion of our transformation plan. We returned to profitability, resolved our legacy issues and further strengthened the foundations for future sustainable growth. While I remain confident in the underlying business, material headwinds do exist, including the macro-economic environment and increasing competition for liabilities. We have established the basis to transition back to being a profitable growth engine, committed to serving our communities through our network of stores, digital offerings and stand-out customer service, as seen in the latest CMA results."

A presentation for investors and analysts will be held at 9:00AM (UK time) on Thursday 2 March 2023. The presentation will be webcast on:

https://webcast.openbriefing.com/metrobank-mar23/

For those wishing to dial-in:

From the UK dial: +44 800 640 6441
From the US dial: +1 855 9796 654
Access code: 172474

Financial performance for the year ended 31 December 2022

Deposits

£ in millions	**31 December 2022**	**31 December 2021**	**Change from FY 2021**	**30 June 2022**	**Change from H1 2022**
Demand: current accounts	£7,888	£7,318	8%	£7,770	2%
Demand: savings accounts	£7,501	£7,684	(2%)	£7,817	(4%)
Fixed term: savings accounts	£625	£1,446	(57%)	£927	(33%)
Deposits from customers	**£16,014**	**£16,448**	**(3%)**	**£16,514**	**(3%)**
Retail customers (excl. retail partnerships)	£5,797	£6,713	(14%)	£6,267	(7%)
SMEs[5]	£5,080	£4,764	7%	£4,892	4%
	£10,877	**£11,477**	**(5%)**	**£11,159**	**(3%)**
Retail partnerships	£1,949	£1,814	7%	£1,871	4%
Commercial customers (excluding SMEs[5])	£3,188	£3,157	1%	£3,484	(8%)
	£5,137	**£4,971**	**3%**	**£5,355**	**(4%)**

5. 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.

- **Current accounts increased by 8% in the year to £7,888 million,** the underlying service-led core deposit franchise continued to grow. The focus remained on increasing share of relationship deposits whilst allowing the fixed term deposits to roll off. As a result, total deposits fell 3% to £16,014 million as at 31 December 2022 (31 December 2021: £16,448 million). Current account and demand deposits now make up 96% of the total deposit base (31 December 2021: 91%).

- **Cost of deposits decreased to 20bps for the year (2021: 24bps)** reflecting improvements in deposit mix and the value of the service-led business model, partially offset by the recent trend of increased competition and pricing in the market.

- **Customer account growth of 0.2 million** in the year to 2.7 million (2021: 2.5 million) reflects continued organic growth in the underlying franchise, with 188,000 personal current accounts and 42,000 business current accounts opened in the year.

- **Stores remain at the heart of the bank's service offering and the network will continue to expand** as opportunity exists for further market penetration in significant locations where there are currently no stores present. The bank remains committed to opening stores in the North of England, the operational costs post-launch of which will be funded in part by the Capability and Innovation Fund. These stores are expected to be opened in 2024 and 2025.

- **Future stores have been redesigned and will be built for significantly less cost** than previous stores, but will not lose the distinctive Metro Bank style. Our refreshed approach will incorporate appropriate break clauses and will have less surplus floor space and more cost-effective fixtures and fittings.

Loans

£ in millions	31 December 2022	31 December 2021	Change from FY 2021	30 June 2022	Change from H1 2022
Gross Loans and advances to customers	£13,289	£12,459	7%	£12,535	6%
Less: allowance for impairment	(£187)	(£169)	11%	(£171)	9%
Net Loans and advances to customers	£13,102	£12,290	7%	£12,364	6%
Gross loans and advances to customers consists of:					
Retail mortgages	£7,649	£6,723	14%	£6,785	13%
Commercial lending[6]	£2,847	£3,220	(12%)	£2,993	(5%)
Consumer lending	£1,480	£890	66%	£1,269	17%
Government-backed lending[7]	£1,313	£1,626	(19%)	£1,488	(12%)

6. Includes CLBILS.
7. BBLS, CBILS and RLS.

- **Total net loans as at 31 December 2022 were £13,102 million, up 7% from £12,290 million as at 31 December 2021** reflecting growth in residential mortgages and consumer lending, offset by the targeted reduction of commercial term loans including commercial real estate and portfolio buy-to-let exposures. Focus remains on optimising the mix for risk-adjusted return on capital.

- **Retail mortgages increased by 14% during the year to £7,649 million as at 31 December 2022 (31 December 2021: £6,723 million)** and remained the largest component of the lending book at 58% (31 December 2021: 54%). The DTV of the portfolio as at 31 December 2022 was 56% (31 December 2021: 55%) and 82% of originations in 2022 were <80% LTV, compared to 59% in 2021.

- **Commercial loans (excluding BBLS, CBILS and RLS) decreased by 12% during the year to £2,847 million as at 31 December 2022 (31 December 2021: £3,220 million)** reflecting active portfolio management reducing commercial real estate to £681 million (31 December 2021: £837 million) and portfolio buy-to-let to £731 million (31 December 2021: £950 million), as part of the balance sheet optimisation strategy to target higher risk-adjusted return on capital.

- **Consumer lending increased by £590 million to £1,480 million in the year and now makes up 11% of the of the total loan book (31 December 2021: 7%)**. The increase is driven by high quality new organic lending, for originations in Q4 2022 the average customer income was £52,000. Non-performing loans for consumer unsecured were 3.38% at 31 December 2022 (31 December 2021: 2.36%). The portfolio has a conservative ECL coverage of 5.07% (31 December 2021: 4.72%).

- **Government-backed lending reduced by more than £300 million in the year to £1,313 million as at 31 December 2022 (31 December 2021: £1,626 million)** as balances continued to roll off, following effective collections management supported by the British Business Bank.

- **Capital constraints currently limit loan growth,** asset originations were in line with replacement levels in Q4 2022.

- **Cost of risk increased to 32bps for the year (2021: 18bps).** Whilst the credit quality of new lending remains strong, the movement reflects the bank's prudent approach to provisioning in response to the uncertain macro-economic environment and the growth in the consumer unsecured portfolio.

- **Non-performing loans decreased to 2.65% (31 December 2021: 3.71%)** driven by effective management of BBLS collections and reduced commercial exposures. Overall arrears levels have remained broadly stable and there have been no signs of increased stress. Excluding government-backed lending, non-performing loans were 2.02% as at 31 December 2022 (31 December 2021: 2.65%).

- **The loan portfolio remains highly collateralised and conservatively provisioned**. Average DTV for retail mortgages was 56% (2021: 55%) and for commercial lending 55% (2021: 57%). The ECL provision as at 31 December 2022 is £187 million with a coverage ratio of 1.41%, compared to £169 million with a coverage ratio of 1.36% as at the end of 2021.

Profit and Loss Account

- **Net interest margin (NIM) of 1.92% is up 52bps in the year (2021: 1.40%)** reflecting the successful balance sheet optimisation strategy of shifting towards higher yielding assets and rolling off more expensive fixed term deposits, also supported by the higher Bank of England base rate. Exit-NIM for December 2022 was 2.22%.

- **Underlying net interest income increased 37% to £404.2 million for the year (2021: £295.7 million)** driven by controlled asset growth and significant reshaping of lending and deposits supported by the rising interest rate environment.

- **Underlying net fee and other income increased 16% to £117.9 million for the year (2021: £101.5 million)** driven largely by higher customer transactions, increased safe deposit box usage and foreign currency activity, as volumes normalised following Covid-related restrictions in 2021.

- **Underlying costs reduced 3% to £532.8 million for the year (2021: £546.8 million)** despite inflationary pressures, reflecting management actions to control cost.

- **Positive operating jaws of 34% for 2022 (2021: 4%)** underpinned a reduction in the underlying cost:income ratio from 137% in 2021 to 102% in 2022.

- **Underlying loss before tax improved by 70% to £50.6 million for the year (2021: £171.3 million)** as a result of the strong income growth and continued cost discipline. Underlying profit before tax achieved in Q4 2022.

- **Statutory loss before tax of £70.7 million, improved 71%** as legacy issues, and their associated remediation costs, concluded.

Capital, Funding and Liquidity

£ in millions	**31 December 2022**	**31 December 2021**	**Change from FY 2021**	**Minimum capital requirement[8]**
CET1 capital ratio	10.3%	12.6%	(230bps)	4.8%
Total capital ratio (TCR)	13.4%	15.9%	(250bps)	8.5%
MREL ratio	17.7%	20.5%	(280bps)	17.0%

- While the bank continues to operate within capital buffers, the capital position has been managed above all regulatory minimum requirements[8] and the balance sheet continues to be actively managed within capital constraints.

- During the year, the Prudential Regulation Authority reduced the bank's Pillar 2A capital requirement from 1.11% to 0.50%, effective as of 27 June 2022. The Resolution Directorate of the Bank of England also agreed that the bank's binding MREL applicable from 27 June 2022 shall be equal to the lower of:
  - i) 18% of the bank's RWAs; or
  - ii) Two times the sum of the bank's Pillar 1 and Pillar 2A

  Therefore the bank's minimum MREL requirement[8] was reduced to 17.0%.

  Effective 1 January 2023, the Prudential Regulation Authority has further reduced the bank's Pillar 2A capital requirement from 0.50% to 0.36%, the reduction implies that the bank's MREL requirement[8] would therefore reduce from 17.0% to 16.7%.

- The Bank of England's Resolution Directorate has agreed to provide a temporary, time-limited, adjustment for the bank's existing £250 million 5.5% Tier 2 Notes with respect to MREL eligibility until 26 June 2025.

- **Common Equity Tier 1 (CET1) ratio of 10.3% as at 31 December 2022 (31 December 2021: 12.6%)** compares to a minimum CET1 requirement of 4.8%[8] (or 8.3% including buffers[9]) and minimum Tier 1 requirement of 6.4%[8] (or 9.9% including buffers[9]).

- **Total Capital ratio of 13.4% as at 31 December 2022 (31 December 2021: 15.9%)** compares to a minimum requirement of 8.5%[8] (or 12.0% including buffers[9]).

- **Total Capital plus MREL ratio of 17.7% as at 31 December 2022 (31 December 2021: 20.5%)** compares to a minimum requirement of 17.0%[8] (or 20.5% including buffers[9]).

- **Strong liquidity and funding position maintained**. All customer loans are fully funded by customer deposits with a loan-to-deposit ratio of 82% as at 31 December 2022 (31 December 2021: 75%). Strong Liquidity Coverage Ratio (LCR) of 213% as at 31 December 2022 (31 December 2021: 281%) and a Net Stable Funding Ratio (NSFR) of 134%, both far in excess of requirements.

- **Total RWAs as at 31 December 2022 were £7,990 million (31 December 2021: £7,454 million).** The increase reflects actions taken to improve the loan mix whilst managing loan growth within current capital constraints.

- **UK leverage ratio[10] was 4.2% as at 31 December 2022 (31 December 2021: 5.2%).**

- The bank's AIRB application continues to progress, and the requirement to implement a holding company for 'bail in' purposes is on track to be completed by the deadline in June 2023.

8. Based on capital requirements at 31 December 2022, excluding all buffers.
9. Based on capital requirements at 31 December 2022 plus buffers, excluding any confidential PRA buffer, if applicable.
10. The PRA Policy Statement 21/21 took affect from 1 January 2022 which required the exclusion of certain central bank claims from the total exposure measure.

Guidance

	2022	**2023**
NIM	1.92%	NIM accretion limited by fewer anticipated base rate moves.
Lending yield	3.67%	Continue optimising mix for maximum risk-adjusted return on regulatory capital.
Cost of deposits	0.20%	Pricing will reflect rate environment and competitive pressures, expect strong account acquisition to offset lower average customer balances.
Underlying costs	£533m	Inflationary pressures expected to moderately outweigh cost initiatives.
Cost of risk	0.32%	Watchful of economic cycle but not yet seeing signs of stress.
RWA	£8.0b	Managed for optimal risk-adjusted return on regulatory capital as lending growth constrained by capital.
MREL	17.7%	Continue to operate within buffers with increasing headroom to regulatory minima.

Targeting mid-single digit RoTE by 2024.

Metro Bank PLC
Summary Balance Sheet and Profit & Loss Account
(Unaudited)

Balance Sheet	YoY change	31-Dec 2022	30-Jun 2022	31-Dec 2021
		£'million	*£'million*	*£'million*
Assets				
Loans and advances to customers	7%	£13,102	£12,364	£12,290
Treasury assets[11]		£7,870	£9,036	£9,142
Other assets[12]		£1,147	£1,166	£1,156
Total assets	**(2%)**	**£22,119**	**£22,566**	**£22,588**
Liabilities				
Deposits from customers	(3%)	£16,014	£16,514	£16,448
Deposits from central banks		£3,800	£3,800	£3,800
Debt securities		£571	£577	£588
Other liabilities		£778	£706	£717
Total liabilities	**(2%)**	**£21,163**	**£21,597**	**£21,553**
Total shareholder's equity		**£956**	**£969**	**£1,035**
Total equity and liabilities		**£22,119**	**£22,566**	**£22,588**

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

Profit & Loss Account	YoY change	Year ended 31-Dec 2022 £'million	31-Dec 2021 £'million
Underlying net interest income	37%	£404.2	£295.7
Underlying net fee and other income	16%	£117.9	£101.5
Underlying net gains/(losses) on sale of assets		-	£0.7
Total underlying revenue	**31%**	**£522.1**	**£397.9**
Total underlying costs	**(3%)**	**(£532.8)**	**(£546.8)**
Expected credit loss expense	78%	(£39.9)	(£22.4)
Underlying loss before tax	**(70%)**	**(£50.6)**	**(£171.3)**
Impairment and write-off of property plant & equipment and intangible assets		(£9.7)	(£24.9)
Transformation costs		(£3.3)	(£8.9)
Remediation costs		(£5.3)	(£45.9)
Business acquisition and integration costs		-	(£2.4)
Gain on mortgage portfolio sale (net of costs)		-	£8.3
Holding company insertion		(£1.8)	-
Statutory loss before tax	**(71%)**	**(£70.7)**	**(£245.1)**
Statutory taxation		(£2.0)	(£3.1)
Statutory loss after tax	**(71%)**	**(£72.7)**	**(£248.2)**

Key metrics	Year ended 31-Dec 2022	31-Dec 2021
Underlying earnings per share – basic and diluted	(30.5p)	(101.1p)
Number of shares	172.5m	172.4m
Net interest margin (NIM)	1.92%	1.40%
Lending yield	3.67%	3.07%
Cost of deposits	0.20%	0.24%
Cost of risk	0.32%	0.18%
Arrears rate	3.2%	4.1%
Underlying cost:income ratio	102%	137%
Tangible book value per share	£4.29	£4.59

Profit & Loss Account

	HoH change	Half year ended 31-Dec 2022 £'million	30-Jun 2022 £'million	31-Dec 2021 £'million
Underlying net interest income	23%	£223.3	£180.9	£162.1
Underlying net fee and other income		£62.6	£55.3	£54.8
Underlying net gains/(losses) on sale of assets		-	-	£1.2
Total underlying revenue	**21%**	**£285.9**	**£236.2**	**£218.1**
Total underlying costs	**-**	**(£266.5)**	**(£266.3)**	**(£271.6)**
Expected credit loss expense		(£22.0)	(£17.9)	(£7.8)
Underlying loss before tax	**(95%)**	**(£2.6)**	**(£48.0)**	**(£61.3)**
Impairment and write-off of property plant & equipment and intangible assets		(£1.5)	(£8.2)	(£17.4)
Net BCR costs		-	-	£0.3
Transformation costs		(£2.3)	(£1.0)	(£7.1)
Remediation costs		(£2.3)	(£3.0)	(£20.5)
Business acquisition and integration costs		-	-	(£0.1)
Gain on mortgage portfolio sale (net of costs)		-	-	(£0.1)
Holding company insertion		(£1.8)	-	-
Statutory loss before tax	**(83%)**	**(£10.5)**	**(£60.2)**	**(£106.2)**
Statutory taxation		(£0.5)	(£1.5)	(£0.9)
Statutory loss after tax	**(82%)**	**(£11.0)**	**(£61.7)**	**(£107.1)**

Key metrics

	Half year ended 31-Dec 2022	30-Jun 2022	31-Dec 2021
Underlying earnings per share – basic and diluted	(2.0p)	(28.5p)	(36.0p)
Number of shares	172.5m	172.4m	172.4m
Net interest margin (NIM)	2.11%	1.73%	1.51%
Lending yield	3.93%	3.40%	3.14%
Cost of deposits	0.25%	0.14%	0.17%
Cost of risk	0.33%	0.29%	0.20%
Arrears rate	3.2%	3.1%	4.1%
Underlying cost:income ratio	93%	113%	125%
Tangible book value per share	£4.29	£4.30	£4.59

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About Metro Bank

Metro Bank services 2.7 million customer accounts and is celebrated for its exceptional customer experience. It is the highest rated high street bank for overall service quality for personal customers and the best bank for service in-store for personal and business customers, in the Competition and Markets Authority's Service Quality Survey in February 2023. Metro Bank has also been awarded "2023 Best Lender of the Year – UK" in the M&A Today, Global Awards, "Best Mortgage Provider of the Year" in 2022 MoneyAge Mortgage Awards, "Best Business Credit Card" in 2022 Moneynet Personal Finance Awards, "Best Business Credit Card 2022", Forbes Advisor, "Best Current Account for Overseas Use" by Forbes 2022 and accredited as a top ten Most Loved Workplace 2022. It was "Banking Brand of The Year" at the Moneynet Personal Finance Awards 2021 and received the Gold Award in the Armed Forces Covenant's Employer Recognition Scheme 2021.

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 PLC. Registered in England and Wales. Company number: 6419578. Registered office: One Southampton Row, London, WC1B 5HA. 'Metrobank' is the registered trademark of Metro Bank PLC.

It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant 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 PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2022

Chief executive officer's statement

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

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

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

Strong momentum towards a sustainably profitable community bank

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

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

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

Successful completion of our transformation plan

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

Revenue

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

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

Costs

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

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

Infrastructure

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

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

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

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

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

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

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

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

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

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

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

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

We will look to optimise our capital stack

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

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

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

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

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

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

Finance review

Summary of the year

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

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

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

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

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

Income statement

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

Income

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

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

Non-interest income

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

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

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

Operating expenses

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

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

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

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

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

Non-underlying items

	2022 £m	2021 £m	Change %
Impairment and write-off of property, plant, equipment and intangible assets	(9.7)	(24.9)	(61%)
Remediation costs	(5.3)	(45.9)	(88%)
Transformation costs	(3.3)	(8.9)	(63%)
Business acquisition and integration costs	–	(2.4)	n/a
Mortgage portfolio sale	–	8.3	n/a
Holding company insertion costs	(1.8)	–	n/a
Non-underlying items	(20.1)	(245.1)	(92%)

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

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

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

Expected credit loss expense

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

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

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

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

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

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

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

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

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

Balance sheet

Lending

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

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

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

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

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

Commercial balances fell 14% to £4,160 million (31 December 2021: £4,846 million) reflecting active portfolio management combined with the roll-off of COVID-19 related government-backed lending balances. As at 31 December 2022 government-backed lending made up 36% of our commercial term lending portfolio (31 December 2021: 37%), the majority consisting of amounts lent under the Bounce Back Loan Scheme (BBLS). During the year we claimed back £349 million (2021: n/a) in respect of defaulted BBLS loans. We continue to maximise recoveries on these loans to minimise taxpayer losses, and we received a green audit from the British Business Bank during the year for our collections and recovery activity.

Investment securities

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

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

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

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

Other assets

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

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

Deposits

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

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

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

Wholesale funding and liquidity

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

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

Lease liabilities

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

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

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

Taxation

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

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

In 2022 we made a total tax contribution of £143.7 million (2021: £152.5 million) made up of £76.0 million (2021: £91.6 million) taxes we paid and a further £67.7 million (2021: £60.9 million) of taxes we collected.

Liquidity

Our liquidity position continues to be strong and we continue to hold large amounts of high-quality liquid assets which totalled £4,976 million as at 31 December 2022 (31 December 2021: £6,900 million).

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

Capital

Overview

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

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

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

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

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

Capital requirements

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

Excludes any confidential buffer, where applicable.

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

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

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

Capital movements

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

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

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

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

Holding company

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

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

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

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

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

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

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

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

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

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

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

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

Risk review

In line with the UK Corporate Governance Code requirements, we have performed a robust assessment of the principal and emerging risks we face, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. In deciding on the classification of principal risks, we considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur.

An overview of the principal risks and how they have changed over the year are set out below.

Principal risk	Definition	Change in 2022	
Credit risk	The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.	Risk increased	We continue to take a prudent approach to origination and our arrears profile and ECL reflect the quality of our lending. Arrears rates remain stable across both unsecured consumer lending and residential mortgages, which are both areas in which we have seen strong growth in 2022. Our new asset quality is strong with a lower LTV profile for mortgages than 2021. Our consumer portfolio is geared towards prime customers with strong borrower income. We continue to focus on monitoring emerging trends including the impact of cost of living pressures on our customers. These trends have increased the level of credit risk across the industry and are reflected in our ECL. Given the ongoing macroeconomic volatility, we have ensured we have processes in place to support customers in financial difficulty.
Capital risk	The risk that we fail to meet minimum regulatory capital (and MREL) requirements.	Risk stable	We continue to ensure that we have enough capital to meet the minimum regulatory requirements at all times, although continue to operate within our capital buffers. We remain focused on returning to sustainable profitability, which combined with RWA optimisation will see us start to generate additional capital. Alongside this we are working to deliver our new holding company, which will allow any future debt issuances to be undertaken in line with regulatory expectations.
Financial crime risk	The risk of financial loss or reputational damage due to regulatory fines, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime.	Risk stable	Overall, financial crime risk has remained stable during the year, however, our inherent sanctions risk exposure increased following Russia's invasion of Ukraine and the subsequent sanctions which were imposed. While financial crime continues to present a heightened risk, ongoing enhancements made to our anti-money laundering and sanctions controls enable us to continue to improve our management of this risk.
Operational risk	The risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our FANS.	Risk stable	Operational risk has remained broadly consistent through 2022, although we continue to observe elevated risks in certain areas. These include cyber attacks and evolving modes of external fraud. During the year we focused on the technology and third party risks that could impact our operational resilience as well as people risk which has increased owing to higher attrition rates in roles across the banking industry.

Principal risk	Definition	Change in 2022	
Regulatory risk	The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.	Risk stable	Regulatory risk remains unchanged and continues to be a key area of focus as a result of the ongoing volume and complexity of regulatory change. We continue to place significant focus on overseeing and ensuring compliance with regulatory requirements and continue to have open and constructive dialogue with our regulators. 2022 has also seen us substantially close out our main legacy issues. In December 2022 the FCA concluded its investigation into announcements made in respect of RWA. The outcome was within the range of outcomes we expected and we can now put this legacy issue firmly behind us, having greatly improved our reporting processes and controls.
Conduct risk	The risk that our behaviours or actions result in unfair outcomes or detriment to customers and/or undermines market integrity.	Risk increased	Our culture is focused on supporting our customer. This sees us offer a relatively simple range of products, which are easy for customers to understand. Conduct risk increased in 2022 as customers became increasingly vulnerable to the challenges of the economic and social impacts of the external environment, driven by the macroeconomic headwinds The regulatory focus on the treatment of customers in the retail banking sector remains heightened, especially in relation to lending decisions, those at risk of financial difficulty and potential vulnerability. We are preparing to implement Consumer Duty requirements in 2023 in order to further strengthen our capabilities.
Strategic risk	The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders.	Risk stable	Strategic risk remained unchanged in the year. We have considered the uncertainties and potential challenges to our strategic risk in 2022 and beyond as part of the annual strategic and financial planning process. We have also continued our work to understand how to define, monitor, manage and report the impact of climate change on our strategy, business and sustainability aspirations. We consider our strategic risks on an ongoing basis via our risk governance structure, including a second line review of the risks related to our annual Long Term Plan.
Model risk	The risk of potential loss and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the development, implementation, or use of such models.	Risk stable	We use models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring, and mitigating risk, valuing exposures (including the calculation of impairment), conducting stress testing, and measuring capital adequacy. Model risk remained stable during the year as we continued to enhance our model governance and oversight to mitigate against the risk from model changes, including those arising from the impacts and uncertainties related to the cost of living crisis.
Liquidity and funding risk	Liquidity risk is the risk that we fail to meet our obligations as they fall due. Funding Risk is the risk that we cannot fund assets that are difficult to monetise at short notice (i.e. illiquid assets) with funding that is behaviourally or contractually long-term (i.e. stable funding).	Risk stable	Liquidity and funding risk remained stable throughout 2022, with liquidity management and funding levels remaining strong. We ended the year with our liquidity coverage ratio at 213% (31 December 2021: 281%) and our net stable funding ratio at 134% (31 December 2021: n/a).

Principal risk	Definition	Change in 2022	
Market risk	The risk of loss arising from movements in market prices. Market risk is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates.	Risk stable	Market risk remained stable throughout the year. In 2022 we continued to effectively manage the risk of mismatches between our fixed rate assets and liabilities with this risk remaining low.
Legal risk	The risk of loss, including to reputation that can result from lack of awareness or misunderstanding of, ambiguity in or reckless indifference to, the way law applies to the Directors, the business, its relationships, processes, products and services.	Risk stable	Legal risk remained stable throughout 2022. We remain exposed to a range of legal risks in relation to our normal business activities. We minimise legal risk via a range of mitigants, including the use of in house and external legal expertise, appropriate policy documentation and training related to specific legal requirements and monthly reporting of metrics to measure compliance with our Legal Risk Appetite.

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	Years ended 31 December 2022 £'million	 2021 £'million
Interest income	2	563.7	405.7
Interest expense	2	(159.6)	(110.4)
Net interest income		404.1	295.3
Fee and commission income	3	84.4	71.2
Fee and commission expense	3	(2.6)	(1.6)
Net fee and commission income		81.8	69.6
Net gains on sale of assets		–	9.4
Other income		37.6	44.2
Total income		523.5	418.5
General operating expenses	4	(467.6)	(536.1)
Depreciation and amortisation	9, 10	(77.0)	(80.2)
Impairment and write-offs of property, plant, equipment and intangible assets	9, 10	(9.7)	(24.9)
Total operating expenses		(554.3)	(641.2)
Expected credit loss expense	12	(39.9)	(22.4)
Loss before tax		(70.7)	(245.1)
Taxation	5	(2.0)	(3.1)
Loss for the year		(72.7)	(248.2)
Other comprehensive expense for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at FVOCI (net of tax):			
• changes in fair value		(7.6)	(8.1)
• fair value changes transferred to the income statement on disposal		–	(0.3)
Total other comprehensive expense		(7.6)	(8.4)
Total comprehensive loss for the year		(80.3)	(256.6)
Loss per share			
Basic (pence)	16	(42.2)	(144.0)
Diluted (pence)	16	(42.2)	(144.0)

Consolidated balance sheet

As at 31 December 2022

	Notes	Years ended 31 December 2022 £'million	 2021 £'million
Cash and balances with the Bank of England		1,956	3,568
Loans and advances to customers	7	13,102	12,290
Investment securities held at fair value through other comprehensive income	8	571	798
Investment securities held at amortised cost	8	5,343	4,776
Financial assets held at fair value through profit and loss		1	3
Derivative financial assets		23	1
Property, plant and equipment	9	748	765
Intangible assets	10	216	243
Prepayments and accrued income		85	68
Assets classified as held for sale		1	–
Other assets		73	76
Total assets		22,119	22,588
Deposits from customers		16,014	16,448
Deposits from central banks		3,800	3,800
Debt securities		571	588
Repurchase agreements		238	169
Derivative financial liabilities		26	11
Lease liabilities	11	248	269
Deferred grants		17	19
Provisions		7	15
Deferred tax liability	5	12	12
Other liabilities		230	222
Total liabilities		21,163	21,553
Called-up share capital		–	–
Share premium		1,964	1,964
Retained losses		(1,015)	(942)
Other reserves		7	13
Total equity		956	1,035
Total equity and liabilities		22,119	22,588

Consolidated statements of changes in equity

For the year ended 31 December 2022

	Called-up share capital £'million	Share premium £'million	Retained losses £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2022	–	1,964	(942)	(5)	18	1,035
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
Balance as at 1 January 2021	–	1,964	(694)	3	16	1,289
Loss for the year	–	–	(248)	–	–	(248)
Other comprehensive expense (net of tax) relating to investment securities held at FVOCI	–	–	–	(8)	–	(8)
Total comprehensive loss	–	–	(248)	(8)	–	(256)
Net share option movements	–	–	–	–	2	2
Balance as at 31 December 2021	–	1,964	(942)	(5)	18	1,035

Consolidated cash flow statement

For the year ended 31 December 2022

	Notes	Years ended 31 December 2022 £'million	2021 £'million
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		(71)	(245)
Adjustments for non-cash items	17	(273)	(182)
Interest received		553	409
Interest paid		(124)	(126)
Changes in other operating assets		(852)	2,649
Changes in other operating liabilities		(418)	349
Net cash (outflows)/inflows from operating activities		(1,185)	2,854
Cash flows from investing activities			
Sales, redemptions and paydowns of investment securities		857	1,269
Purchase of investment securities		(1,206)	(3,438)
Purchase of property, plant and equipment	9	(29)	(42)
Purchase and development of intangible assets	10	(24)	(39)
Net cash outflows from investing activities		(402)	(2,250)
Cash flows from financing activities			
Repayment of capital element of leases	11	(25)	(29)
Net cash outflows from financing activities		(25)	(29)
Net (decrease)/increase in cash and cash equivalents		(1,612)	575
Cash and cash equivalents at start of year		3,568	2,993
Cash and cash equivalents at end of year		1,956	3,568

1. Basis of preparation and significant accounting policies

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Companies Act 2006 applicable to companies reporting under IFRS. They were authorised by the Board for issue on 2 March 2023.

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

	2022 £'million	2021 £'million
Cash and balances held with the Bank of England	33.0	4.4
Loans and advances to customers	462.2	382.3
Investment securities held at amortised cost	62.9	20.6
Investment securities held at FVOCI	4.7	2.6
Interest income calculated using the effective interest rate method	562.8	409.9
Derivatives in hedge relationships	0.9	(4.2)
Total interest income	563.7	405.7

Interest expense

	2022 £'million	2021 £'million
Deposits from customers	32.9	40.1
Deposits from central banks	55.5	4.0
Debt securities	48.7	48.7
Lease liabilities	14.4	16.7
Repurchase agreements	3.4	2.2
Interest expense calculated using the effective interest rate method	154.9	111.7
Derivatives in hedge relationships	4.7	(1.3)
Total interest expense	159.6	110.4

3. Net fee and commission income

	2022 £'million	2021 £'million
Service charges and other fee income	30.9	25.5
Safe deposit box income	16.5	15.1
ATM and interchange fees	37.0	30.6
Fee and commission income	84.4	71.2
Fee and commission expense	(2.6)	(1.6)
Total net fee and commission income	81.8	69.6

4. General operating expenses

	2022 £'million	2021 £'million
People costs	236.6	239.0
Information technology costs	62.2	57.2
Occupancy costs	30.8	32.9
Money transmission and other banking-related costs	48.7	50.6
Transformation costs	3.3	8.9
Remediation costs	5.3	45.9
Capability and Innovation Fund costs	1.3	8.1
Legal and regulatory fees	7.0	6.6
Professional fees	38.4	52.2
Printing, postage and stationery costs	6.2	5.6
Travel costs	1.6	1.1
Marketing costs	5.0	4.7
Business acquisition and integration costs	–	2.4
Holding company insertion costs	1.8	–
Other	19.4	20.9
Total general operating expenses	467.6	536.1

5. Taxation

Tax expense

	2022 £'million	2021 £'million
Current tax		
Current tax	–	(0.5)
Adjustment in respect of prior years	–	0.6
Total current tax credit	–	0.1
Deferred tax		
Origination and reversal of temporary differences	(1.5)	3.4
Effect of changes in tax rates	(0.7)	(5.4)
Adjustment in respect of prior years	0.2	(1.2)
Total deferred tax expense	(2.0)	(3.2)
Total tax expense	(2.0)	(3.1)

Reconciliation of the total tax expense

	2022 £'million	Effective tax rate %	2021 £'million	Effective tax rate %
Accounting loss before tax	(70.7)		(245.1)	
Tax expense at statutory tax rate of 19% (2021: 19%)	13.4	19.0%	46.6	19.0%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	(2.5)	(3.5%)	(2.7)	(1.1%)
Non-deductible expenses – investment property impairment	(0.1)	(0.1%)	(1.8)	(0.8%)
Non-deductible expenses – remediation	(0.6)	(0.8%)	(7.1)	(2.9%)
Non-deductible expenses – other	(0.4)	(0.6%)	(0.1)	–
Impact of intangible asset write-off on research and development deferred tax liability	0.3	0.4%	3.0	1.2%
Share-based payments	0.1	0.1%	(0.3)	(0.1%)
Adjustment in respect of prior years	0.2	0.2%	(0.6)	(0.3%)
Current year losses for which no deferred tax asset has been recognised	(11.7)	(16.5%)	(34.7)	(14.1%)
Effect of changes in tax rates	(0.7)	(1.0%)	(5.4)	(2.2%)
Tax expense reported in the consolidated income statement	(2.0)	(2.8%)	(3.1)	(1.3%)

Deferred tax assets

	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	13	5	–	(23)	(7)	(12)
Income statement	(1)	–	1	(3)	1	(2)
Other comprehensive income	–	2	–	–	–	2
31 December	12	7	1	(26)	(6)	(12)

	31 December 2021					
	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	13	3	–	–	–	16
Deferred tax liabilities	–	2	–	(23)	(7)	(28)
Deferred tax liabilities (net)	13	5	–	(23)	(7)	(12)
1 January	12	2	–	(16)	(10)	(12)
Income statement	1	–	–	(7)	3	(3)
Other comprehensive income	–	3	–	–	–	3
31 December	13	5	–	(23)	(7)	(12)

Unrecognised deferred tax assets

We have total unused tax losses of £859 million for which a deferred tax asset of £215 million has not been recognised. The impact of recognising the deferred tax asset in the future would be material.

Although there is an expectation for profits in the near future, the tax benefits would be spread over a number of years. In addition, the 50% corporate loss restriction in place extends the timeline over which we can offset losses against future profits. This will be reassessed for the year ending 31 December 2023 in light of actual performance against our forecasts and prevailing market conditions. There is no time limit beyond which these losses expire.

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 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

	31 December 2021			
	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	12,290	12,290
Investment securities	–	798	4,776	5,574
Financial assets held as fair value through profit and loss	3	–	–	3
Derivative financial assets	1	–	–	1
Liabilities				
Deposits from customers	–	–	16,448	16,448
Deposits from central bank	–	–	3,800	3,800
Debt securities	–	–	588	588
Derivative financial liabilities	11	–	–	11
Repurchase agreements	–	–	169	169

7. Loans and advances to customers

	31 December 2022			31 December 2021		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Consumer lending	1,480	(75)	1,405	890	(42)	848
Retail mortgages	7,649	(20)	7,629	6,723	(19)	6,704
Commercial lending (excluding asset and invoice finance)	3,748	(84)	3,664	4,526	(102)	4,424
Asset and invoice finance	412	(8)	404	320	(6)	314
Total loans and advances to customers	13,289	(187)	13,102	12,459	(169)	12,290

An analysis of the gross loans and advances by product category is set out below:

	31 December 2022 £'million	31 December 2021 £'million
Overdrafts	60	66
Credit cards	19	13
Term loans	1,401	811
Total consumer lending	1,480	890
Residential owner occupied	5,507	5,022
Retail buy-to-let	2,142	1,701
Total retail mortgages	7,649	6,723
Total retail lending	9,129	7,613
Professional buy-to-let	731	950
Bounce back loans	801	1,304
Coronavirus business interruption loans	127	165
Recovery loan scheme	385	157
Other term loans	1,578	1,791
Commercial term loans	3,622	4,367
Overdrafts and revolving credit facilities	122	156
Credit cards	4	3
Asset and invoice finance	412	320
Total commercial lending	4,160	4,846
Gross loans and advances to customers	13,289	12,459
Amounts include:		
Repayable at short notice	156	181

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

8. Investment securities

	31 December 2022 £'million	31 December 2021 £'million
Investment securities held at FVOCI	571	798
Investment securities held at amortised cost	5,343	4,776
Total investment securities	5,914	5,574

Investment securities held at FVOCI

	31 December 2022 £'million	31 December 2021 £'million
Sovereign bonds	215	566
Residential mortgage-backed securities	38	38
Covered bonds	152	156
Multi-lateral development bank bonds	166	38
Total investment securities held at FVOCI	571	798

Investment securities held at amortised cost

	31 December 2022 £'million	31 December 2021 £'million
Sovereign bonds	1,717	1,198
Residential mortgage-backed securities	1,095	1,687
Covered bonds	542	442
Multi-lateral development bank bonds	1,821	1,289
Asset backed securities	168	160
Total investment securities held at amortised cost	5,343	4,776

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 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

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT Hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2021	18	292	298	25	11	330	974
Additions	–	12	29	–	1	(4)	38
Disposals	–	–	–	–	–	(29)	(29)
Write-offs	–	(10)	–	(1)	(11)	(2)	(24)
Transfers	–	(14)	14	–	–	–	–
31 December 2021	18	280	341	24	1	295	959
Accumulated depreciation							
1 January 2021	12	66	21	15	7	47	168
Depreciation charge	–	14	4	4	2	18	42
Impairments	–	–	–	–	–	6	6
Disposals	–	–	–	–	–	(4)	(4)
Write-offs	–	(9)	–	–	(9)	–	(18)
Transfers	–	(3)	3	–	–	–	–
31 December 2021	12	68	28	19	–	67	194
Net book value	6	212	313	5	1	228	765

10. Intangible assets

	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

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2021	10	2	328	340
Additions	–	–	39	39
Write-offs	–	–	(32)	(32)
Deferred grant	–	–	1	1
31 December 2021	10	2	336	348
Accumulated amortisation				
1 January 2021	–	–	86	86
Amortisation charge	–	–	38	38
Impairments	–	–	7	7
Write-offs	–	–	(26)	(26)
31 December 2021	–	–	105	105
Net book value	10	2	231	243

11. Leases

Lease liabilities

	2022 £'million	2021 £'million
1 January	269	327
Additions and modifications	1	(6)
Disposals	(11)	(40)
Lease payments made	(25)	(29)
Interest on lease liabilities	14	17
31 December	248	269

Minimum lease payments

	31 December 2022 £'million	31 December 2021 £'million
Within one year	24	25
Due in one to five years	88	92
Due in more than five years	172	219
Total	284	336

12. Expected credit losses and credit risk

Expected credit loss expense

	2022 £'million	2021 £'million
Retail mortgages[1]	1	(7)
Consumer lending[1]	33	17
Commercial lending (excluding asset and invoice finance) [1]	(18)	4
Asset and invoice finance[1]	2	1
Investment securities	1	–
Write-offs and other movements	21	7
Total expected credit loss expense	40	22

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

The write-offs and other movements during 2022 primarily related to the write-off of a small number of large commercial single name exposures. These amounts had previously been fully provided for.

Loss allowance

Total loans and advances to customers

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Transfers to/(from) Stage 1[1]	517	(504)	(13)	–	–	(13)	13	–	–	–	504	(491)	(13)	–	–
Transfers to/(from) Stage 2	(451)	458	(7)	–	–	2	(2)	–	–	–	(449)	456	(7)	–	–
Transfers to/(from) Stage 3	(124)	(73)	197	–	–	1	7	(8)	–	–	(123)	(66)	189	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	10	(10)	(15)	–	(15)	10	(10)	(15)	–	(15)
New lending[3]	3,157	742	31	–	3,930	(30)	(15)	(11)	–	(56)	3,127	727	20	–	3,874
Repayments, additional drawdowns and interest accrued	(604)	(107)	(26)	(1)	(738)	–	–	–	–	–	(604)	(107)	(26)	(1)	(738)
Derecognitions[4]	(1,717)	(353)	(292)	–	(2,362)	7	10	34	–	51	(1,710)	(343)	(258)	–	(2,311)
Changes to model assumptions[5]	–	–	–	–	–	4	(5)	3	–	2	4	(5)	3	–	2
31 December 2022	10,849	2,088	352	–	13,289	(66)	(51)	(70)	–	(187)	10,783	2,037	282	–	13,102
Off-balance sheet items															
Commitments and guarantees					1,115					–					1,115

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	10,175	1,812	257	–	12,244	(30)	(69)	(55)	–	(154)	10,145	1,743	202	–	12,090
Transfers to/(from) Stage 1	559	(537)	(22)	–	–	(16)	16	–	–	–	543	(521)	(22)	–	–
Transfers to/(from) Stage 2	(772)	787	(15)	–	–	2	(3)	1	–	–	(770)	784	(14)	–	–
Transfers to/(from) Stage 3	(202)	(110)	312	–	–	–	6	(6)	–	–	(202)	(104)	306	–	–
Net remeasurement due to transfers	–	–	–	–	–	11	(11)	(19)	–	(19)	11	(11)	(19)	–	(19)
New lending	2,157	357	18	1	2,533	(23)	(13)	(10)	–	(46)	2,134	344	8	1	2,487
Repayments, additional drawdowns and interest accrued	(318)	(57)	(16)	–	(391)	–	–	–	–	–	(318)	(57)	(16)	–	(391)
Derecognitions	(1,528)	(327)	(72)	–	(1,927)	5	11	20	–	36	(1,523)	(316)	(52)	–	(1,891)
Changes to model assumptions	–	–	–	–	–	4	14	(4)	–	14	4	14	(4)	–	14
31 December 2021	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Off-balance sheet items															
Commitments and guarantees					1,245					–					1,245

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

Retail mortgages

£'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	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704
1 January 2022	293	(281)	(12)	–	–	(4)	4	–	–	–	289	(277)	(12)	–	–
Transfers to/(from) Stage 1	(199)	205	(6)	–	–	–	–	–	–	–	(199)	205	(6)	–	–
Transfers to/(from) Stage 2	(16)	(22)	38	–	–	–	1	(1)	–	–	(16)	(21)	37	–	–
Transfers to/(from) Stage 3	–	–	–	–	–	4	(1)	–	–	3	4	(1)	–	–	3
Net remeasurement due to transfers	1,666	549	1	–	2,216	(3)	(7)	–	–	(10)	1,663	542	1	–	2,206
New lending	(130)	(22)	(5)	–	(157)	–	–	–	–	–	(130)	(22)	(5)	–	(157)
Repayments, additional drawdowns and interest accrued	(965)	(149)	(19)	–	(1,133)	(1)	2	3	–	4	(966)	(147)	(16)	–	(1,129)
Derecognitions	–	–	–	–	–	–	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

£'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 2021	5,911	863	118	–	6,892	(5)	(17)	(4)	–	(26)	5,906	846	114	–	6,866
Transfers to/(from) Stage 1	362	(345)	(17)	–	–	(8)	8	–	–	–	354	(337)	(17)	–	–
Transfers to/(from) Stage 2	(469)	477	(8)	–	–	1	(1)	–	–	–	(468)	476	(8)	–	–
Transfers to/(from) Stage 3	(19)	(26)	45	–	–	–	1	(1)	–	–	(19)	(25)	44	–	–
Net remeasurement due to transfers	–	–	–	–	–	7	(1)	–	–	6	7	(1)	–	–	6
New lending	894	233	–	–	1,127	(1)	(4)	–	–	(5)	893	229	–	–	1,122
Repayments, additional drawdowns and interest accrued	(131)	(17)	(2)	–	(150)	–	–	–	–	–	(131)	(17)	(2)	–	(150)
Derecognitions	(1,002)	(122)	(22)	–	(1,146)	1	1	1	–	3	(1,001)	(121)	(21)	–	(1,143)
Changes to model assumptions	–	–	–	–	–	3	1	(1)	–	3	3	1	(1)	–	3
31 December 2021	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704

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 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

£'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 2021	149	43	12	–	204	(6)	(9)	(10)	–	(25)	143	34	2	–	179
Transfers to/(from) Stage 1	8	(8)	–	–	–	(1)	1	–	–	–	7	(7)	–	–	–
Transfers to/(from) Stage 2	(6)	6	–	–	–	–	–	–	–	–	(6)	6	–	–	–
Transfers to/(from) Stage 3	(2)	(3)	5	–	–	–	2	(2)	–	–	(2)	(1)	3	–	–
Net remeasurement due to transfers	–	–	–	–	–	1	–	(2)	–	(1)	1	–	(2)	–	(1)
New lending	697	66	12	1	776	(16)	(7)	(9)	–	(32)	681	59	3	1	744
Repayments, additional drawdowns and interest accrued	(20)	(9)	(1)	–	(30)	–	–	–	–	–	(20)	(9)	(1)	–	(30)
Derecognitions	(40)	(13)	(7)	–	(60)	1	2	7	–	10	(39)	(11)	–	–	(50)
Changes to model assumptions	–	–	–	–	–	3	3	–	–	6	3	3	–	–	6
31 December 2021	786	82	21	1	890	(18)	(8)	(16)	–	(42)	768	74	5	1	848

Commercial lending (excluding asset and invoice finance)

Our top 10 commercial exposures total £310 million (2021: £326 million), representing 8% (2021: 7%) of our total commercial lending.

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	3,425	775	326	–	4,526	(23)	(28)	(51)	–	(102)	3,402	747	275	–	4,424
Transfers to/(from) Stage 1	202	(201)	(1)	–	–	(7)	7	–	–	–	195	(194)	(1)	–	–
Transfers to/(from) Stage 2	(148)	149	(1)	–	–	1	(1)	–	–	–	(147)	148	(1)	–	–
Transfers to/(from) Stage 3	(85)	(45)	130	–	–	–	4	(4)	–	–	(85)	(41)	126	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(5)	–	–	(1)	4	(5)	–	–	(1)
New lending	485	36	17	–	538	(9)	(1)	(1)	–	(11)	476	35	16	–	527
Repayments, additional drawdowns and interest accrued	(275)	(42)	(14)	–	(331)	–	–	–	–	–	(275)	(42)	(14)	–	(331)
Derecognitions	(532)	(184)	(269)	–	(985)	2	6	29	–	37	(530)	(178)	(240)	–	(948)
Changes to model assumptions	–	–	–	–	–	(1)	(9)	3	–	(7)	(1)	(9)	3	–	(7)
31 December 2022	3,072	488	188	–	3,748	(33)	(27)	(24)	–	(84)	3,039	461	164	–	3,664

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2021	3,843	906	125	–	4,874	(15)	(43)	(40)	–	(98)	3,828	863	85	–	4,776
Transfers to/(from) Stage 1	189	(184)	(5)	–	–	(7)	7	–	–	–	182	(177)	(5)	–	–
Transfers to/(from) Stage 2	(292)	299	(7)	–	–	1	(2)	1	–	–	(291)	297	(6)	–	–
Transfers to/(from) Stage 3	(179)	(81)	260	–	–	–	3	(3)	–	–	(179)	(78)	257	–	–
Net remeasurement due to transfers	–	–	–	–	–	3	(9)	(16)	–	(22)	3	(9)	(16)	–	(22)
New lending	427	58	6	–	491	(4)	(2)	(1)	–	(7)	423	56	5	–	484
Repayments, additional drawdowns and interest accrued	(120)	(31)	(12)	–	(163)	–	–	–	–	–	(120)	(31)	(12)	–	(163)
Derecognitions	(443)	(192)	(41)	–	(676)	2	8	11	–	21	(441)	(184)	(30)	–	(655)
Changes to model assumptions	–	–	–	–	–	(3)	10	(3)	–	4	(3)	10	(3)	–	4
31 December 2021	3,425	775	326	–	4,526	(23)	(28)	(51)	–	(102)	3,402	747	275	–	4,424

Asset and invoice finance

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	314	5	1	–	320	(4)	(1)	(1)	–	(6)	310	4	–	–	314
Transfers to/(from) Stage 1	3	(3)	–	–	–	–	–	–	–	–	3	(3)	–	–	–
Transfers to/(from) Stage 2	(8)	8	–	–	–	–	–	–	–	–	(8)	8	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(1)	–	–	(1)	–	(1)	–	–	(1)
New lending	200	1	1	–	202	(3)	–	(1)	–	(4)	197	1	–	–	198
Repayments, additional drawdowns and interest accrued	(55)	(2)	(1)	–	(58)	–	–	–	–	–	(55)	(2)	(1)	–	(58)
Derecognitions	(50)	(2)	–	–	(52)	1	1	1	–	3	(49)	(1)	1	–	(49)
Changes to model assumptions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
31 December 2022	402	7	3	–	412	(6)	(1)	(1)	–	(8)	396	6	2	–	404

£'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 2021	272	–	2	–	274	(4)	–	(1)	–	(5)	268	–	1	–	269
Transfers to/(from) Stage 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 2	(5)	5	–	–	–	–	–	–	–	–	(5)	5	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(1)	(1)	–	(2)	–	(1)	(1)	–	(2)
New lending	139	–	–	–	139	(2)	–	–	–	(2)	137	–	–	–	137
Repayments, additional drawdowns and interest accrued	(47)	–	(1)	–	(48)	–	–	–	–	–	(47)	–	(1)	–	(48)
Derecognitions	(43)	–	(2)	–	(45)	1	–	1	–	2	(42)	–	(1)	–	(43)
Changes to model assumptions	–	–	–	–	–	1	–	–	–	1	1	–	–	–	1
31 December 2021	314	5	1	–	320	(4)	(1)	(1)	–	(6)	310	4	–	–	314

Credit risk exposures

Retail mortgages

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	6,194	1,289	33	–	7,516	5,544	1,010	38	–	6,592
1 to 29 days past due	1	21	7	–	29	2	27	9	–	38
30 to 89 days past due	–	33	15	–	48	–	26	16	–	42
90+ days past due	–	–	56	–	56	–	–	51	–	51
Gross carrying amount	6,195	1,343	111	–	7,649	5,546	1,063	114	–	6,723

Consumer lending

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	1,172	235	3	–	1,410	786	71	2	–	859
1 to 29 days past due	8	2	–	–	10	–	2	–	–	2
30 to 89 days past due	–	13	5	–	18	–	9	3	–	12
90+ days past due	–	–	42	–	42	–	–	16	1	17
Gross carrying amount	1,180	250	50	–	1,480	786	82	21	1	890

Commercial lending (excluding asset and invoice finance)

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	3,052	412	64	–	3,528	3,414	654	117	–	4,185
1 to 29 days past due	20	36	5	–	61	11	43	2	–	56
30 to 89 days past due	–	40	20	–	60	–	78	23	–	101
90+ days past due	–	–	99	–	99	–	–	184	–	184
Gross carrying amount	3,072	488	188	–	3,748	3,425	775	326	–	4,526

Asset and invoice finance

£'million	31 December 2022 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total	31 December 2021 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI Lifetime ECL	Total
Up to date	401	7	3	–	411	313	2	1	–	316
1 to 29 days past due	1	–	–	–	1	1	3	–	–	4
30 to 89 days past due	–	–	–	–	–	–	–	–	–	–
90+ days past due	–	–	–	–	–	–	–	–	–	–
Gross carrying amount	402	7	3	–	412	314	5	1	–	320

Credit risk concentration

Retail mortgage lending by repayment type

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

Retail mortgage lending by geographic exposure

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

Retail mortgage lending by DTV

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

Commercial lending – excluding BBLS by repayment type

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

Commercial term lending – excluding BBLS by geographic exposure

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

Commercial term lending – excluding BBLS by sector exposure

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

Commercial term lending – excluding BBLS by DTV

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

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.

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 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

	31 December 2021				
	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	12,290	–	–	12,356	12,356
Investment securities held at fair value through other comprehensive income	798	760	38	–	798
Investment securities held at amortised cost	4,776	2,977	1,710	60	4,747
Financial assets held at fair value through profit and loss	3	–	–	3	3
Derivative financial assets	1	–	–	1	1
Liabilities					
Deposits from customers	16,448	–	–	16,452	16,452
Deposits from central bank	3,800	–	–	3,800	3,800
Debt securities	588	495	–	–	495
Derivative financial liabilities	11	–	11	–	11
Repurchase agreements	169	–	–	169	169

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. Related party transactions

Key management personnel
Our key management personnel, and persons connected with them, are considered to be related parties. Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Directors and members of the Executive Committee are considered to be the key management personnel for disclosure purposes.

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

	2022 £'million	2021 £'million
Short-term benefits	6.2	5.4
Post-employment benefits	0.1	0.1
Termination benefits	0.3	–
Share-based payment costs	1.8	1.3
Total compensation for key management personnel	8.4	6.8

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel. The share-based payment cost represents the IFRS 2 charge for the year which includes awards granted in prior years that have not yet vested.

Banking transactions with key management personnel
We provide banking services to Directors and other key management personnel and persons connected to them.

Deposit transactions during the year and the balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

	2022 £'million	2021 £'million
Deposits held at 1 January	1.5	2.1
Deposits relating to persons and companies newly considered related parties	0.2	0.1
Deposits relating to persons and companies no longer considered related parties	(0.3)	(0.1)
Net amounts deposited/(withdrawn)	0.1	(0.6)
Deposits held as at 31 December	1.5	1.5

Loan transactions during the year and the balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

	2022 £'million	2021 £'million
Loans outstanding at 1 January	3.2	1.9
Loans relating to persons and companies no longer considered related parties	–	(0.5)
Loans issued during the year	0.2	1.8
Net repayments during the year	(1.3)	–
Loans outstanding as at 31 December	2.1	3.2
Interest received on loans (£'000)	60	30

There were two (31 December 2021: three) loans outstanding at 31 December 2022 totalling £2.1 million (31 December 2021: £3.2 million). Both are residential mortgages secured on property; all loans were provided on our standard commercial terms.

In addition to the loans detailed above, we have issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel.

Credit card balances outstanding as at 31 December 2022 and 31 December 2021 were as follows:

	2022 £'000	2021 £'000
Credit cards outstanding as at 31 December	7	5

As with all of our lending we recognise an ECL on loans and credit card balances outstanding with key management personnel. As at 31 December 2022 the only ECL recognised on the balances above was our standard modelled ECL with no individual impairments recognised (31 December 2021: £nil). We have not written-off any balances to key management personnel in either 2021 or 2022.

16. Loss per share

Basic loss per share is calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Loss attributable to our ordinary equity holders (£'million)	(72.7)	(248.2)
Weighted average number of ordinary shares in issue – basic ('000)	172,464	172,421
Basic loss per share (pence)	(42.2)	(144.0)

Diluted loss per share has been calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we made a loss during both the years to 31 December 2022 and 31 December 2021, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive loss per share.

	2022	2021
Loss attributable to our ordinary equity holders (£'million)	(72.7)	(248.2)
Weighted average number of ordinary shares in issue – diluted ('000)	172,464	172,421
Diluted loss per share (pence)	(42.2)	(144.0)

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of loss per share.

17. Non-cash items

	2022 £'million	2021 £'million
Interest income	(564)	(406)
Interest expense	160	110
Depreciation and amortisation	77	80
Impairment and write-offs of property, plant, equipment and intangible assets	10	25
Expected credit loss expense	40	22
Share option charge	2	2
Grant income recognised in the income statement	(2)	(11)
Amounts provided for (net of amounts released)	4	5
Gain on sale of assets	–	(9)
Total adjustments for non-cash items	(273)	(182)

18. Post balance sheet events

There have been no material post balance sheet events.

Reconciliation from statutory to underlying results

Year ended 31 December 2022	**Statutory basis £'million**	Business acquisition and integration costs £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Mortgage portfolio sale £'million	Remediation costs £'million	Holding company insertion costs £'million	**Underlying basis £'million**
Net interest income	404.1	–	–	0.1	–	–	–	–	404.2
Net fee and commission income	81.8	–	–	–	–	–	–	–	81.8
Net gains on sale of assets	-	–	–	–	–	–	–	–	-
Other income	37.6	–	–	(1.5)	–	–	–	–	36.1
Total income	523.5	–	–	(1.4)	–	–	–	–	522.1
General operating expenses	(467.6)	–	–	1.4	3.3	–	5.3	1.8	(455.8)
Depreciation and amortisation	(77.0)	–	–	–		–	–	–	(77.0)
Impairment and write-offs of 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)

Year ended 31 December 2022	**Statutory basis £'million**	Business acquisition and integration costs £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Mortgage portfolio sale £'million	Remediation costs £'million	Holding company insertion costs £'million	**Underlying basis £'million**
Net interest income	295.3	–	–	0.4	–	–	–	–	295.7
Net fee and commission income	69.6	–	–	–	–	–	–	–	69.6
Net gains on sale of assets	9.4	–	–	–	–	(8.7)	–	–	0.7
Other income	44.2	–	–	(9.4)	–	(2.9)	–	–	31.9
Total income	418.5	–	–	(9.0)	–	(11.6)	–	–	397.9
General operating expenses	(536.1)	2.4	–	9.0	8.9	3.3	45.9	–	(466.6)
Depreciation and amortisation	(80.2)	–	–	–	–	–	–	–	(80.2)
Impairment and write-offs of PPE and intangible assets	(24.9)	–	24.9	–	–	–	–	–	–
Total operating expenses	(641.2)	2.4	24.9	9.0	8.9	3.3	45.9	–	(546.8)
Expected credit loss expense	(22.4)	–	–	–	–	–	–	–	(22.4)
Loss before tax	(245.1)	2.4	24.9	–	8.9	(8.3)	45.9	–	(171.3)

Capital information

The information set out within this section does not form part of the statutory accounts for the years ended 31 December 2022 or 31 December 2021.

Key metrics

The table below summarises our key regulatory metrics as at 31 December 2022 and 31 December 2021.

	31 December 2022 £'million	31 December 2021 £'million
Available capital		
CET1 capital	819	936
Tier 1 capital	819	936
Total capital	1,069	1,184
TCR + MREL	1,416	1,527
Risk weighted assets (RWAs)		
Total risk weighted assets	7,990	7,454
Risk-based capital ratios as % of RWAs		
CET1 ratio	10.3%	12.6%
Tier 1 ratio	10.3%	12.6%
Total capital ratio	13.4%	15.9%
MREL ratio	17.7%	20.5%
Additional CET1 buffer requirements as % of RWAs		
Capital conservation buffer requirement	2.5%	2.5%
Countercyclical buffer requirement	1.0%	–
Total of bank CET1 specific buffer requirements	3.5%	2.5%
Leverage ratio		
UK leverage ratio	4.2%	5.2%
Liquidity coverage ratio		
Liquidity coverage ratio (LCR)	213%	281%

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

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 2022 £'million	31 December 2021 £'million
Common equity tier 1 capital	819	936
Additional tier 1 capital	–	–
Tier 1 capital	819	936
CRD IV leverage exposure	19,348	17,869
UK leverage ratio	4.2%	5.2%

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

Our UK leverage ratio is 4.2% which is in excess of the minimum requirement of 3.0% and our strategic target of maintaining a UK leverage ratio of greater than 4.0%.

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 2022 £'million	31 December 2021 £'million
Total HQLA	4,976	6,754
Total net cash outflow	2,342	2,406
Liquidity coverage ratio	213%	281%

Overview of RWAs and capital requirements

The table below sets out the risk weighted assets and Pillar 1 capital requirements for Metro Bank. The bank has applied the standardised approach to measure credit risk and the basic indicator approach to measure operational risk. Under the approach the bank calculates its Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, market risk and counterparty credit risk.

	31 December 2022 £'million	31 December 2021 £'million	Pillar 1 capital required 31 December 2022 £'million
Credit risk (excluding counterparty credit risk (CCR))	7,237	6,704	579
Of which the standardised approach	7,237	6,704	579
CCR	9	6	0.7
Of which mark to market	7	3	0.6
Of which CVA	2	3	0.1
Market risk	–	9	0.0
Operational risk	739	729	59
Of which basic indicator approach	739	729	59
Amounts below the thresholds for deduction (subject to 250% risk weight)	5	5	–
Total	7,990	7,454	639

Credit risk exposures by exposure class

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

	31 December 2022 £'million		31 December 2021 £'million	
	Exposure value	Capital required	Exposure value	Capital required
Central governments or central banks	5,326	–	6,847	—
Exposures to multilateral development banks	1,663	–	1,327	–
Institutions	10	–	167	3
Corporates	703	50	507	35
Retail	1,870	107	1,320	74
Secured by mortgages on immovable property	9,424	308	8,898	305
Covered bonds	693	6	597	5
Claims on institutions and corporates with a short-term credit assessment	97	3	–	–
Securitisation position	1,223	13	1,804	21
Exposure at default	179	15	209	17
Items associated with particularly high risk	18	2	8	1
Collective investment undertakings	59	–	–	–
Other exposures	1,021	75	1,032	76
Total	22,286	579	22,716	537

Capital resources

The table below summarises the composition of regulatory capital.

	31 December 2022 £'million	31 December 2021 £'million
Share capital and premium	1,964	1,964
Retained earnings	(942)	(694)
Loss for the year	(73)	(248)
Available for sale reserve	(13)	(5)
Other reserves	20	18
Intangible assets	(216)	(243)
Other regulatory adjustments	79	144
CET 1 capital	819	936
Tier 1 capital	819	936
Tier 2 capital	250	249
Total capital resources	1,069	1,184
MREL eligible debt	347	342
TCR + MREL	1,416	1,527

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