METRO BANK

INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2020

CONTENTS

Forward-looking statements

This document contains forward-looking statements. Forward-looking statements are not historical facts but are based on certain assumptions of management regarding our present and future business strategies and the environment in which we will operate, which the Group believes to be reasonable but are inherently uncertain, and describe the Group's future operations, plans, strategies, objectives, goals and targets and expectations and future developments in the markets. Forward-looking statements typically use terms such as "believes", "projects", "anticipates", "expects", "intends", "plans", "may", "will", "would", "could" or "should" or similar terminology. Any forward-looking statements in this presentation are based on the Group's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties (including but not limited to the COVID-19 pandemic), many of which are beyond the Group's control, that could cause the Group's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. The Group undertakes no obligation to release the results of any revisions to any forward-looking statements in this presentation that may occur due to any change in its expectations or to reflect events or circumstances after the date of this presentation and the parties named above disclaim any such obligation.

COMPANY INFORMATION

Board of Directors

Chairman

Sir Michael Snyder (Interim)
Robert Sharpe (From 1 November 2020)

Current Non-Executive Directors

Catherine Brown
Sally Clark (Appointed 1 January 2020)
Anne Grim (Appointed 20 April 2020)
Ian Henderson (Appointed 20 April 2020)
Monique Melis
Paul Thandi
Michael Torpey
Nicholas Winsor (Appointed 20 April 2020)

Former Non-Executive Directors

Stuart Bernau (Stepped down 18 May 2020)
Gene Lockhart (Stepped down 28 April 2020)

Executive Directors

Daniel Frumkin – Chief Executive Officer
David Arden – Chief Financial Officer

Company Secretary

David Arden

Registered Office

One Southampton Row
London
WC1B 5HA

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered Number

6419578

www.metrobankonline.co.uk

About Metro Bank

Metro Bank is celebrated for its exceptional customer experience. Its mobile app and online service achieved the top spot in the Competition and Market Authority's Service Quality Survey among personal and business current account holders in February 2020; the Bank also ranked in the top two for overall service and store service for personal and business customers. It was awarded 'Best All Round Personal Finance Provider' at the Moneynet Personal Finance Awards 2019.

Offering retail, business, commercial and private banking services, it prides itself on giving customers the choice to bank however, whenever and wherever they choose. Whether that's through its network of stores; 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.

The bank employs around 3,500 colleagues and is headquartered in Holborn, London.

SUMMARISED INTERIM RESULTS

	Half year to 30 June 2020	Half year to 31 December 2019	Change	Half year to 30 June 2019	Change
Profit and loss					
Underlying (loss)/profit before tax[1]	**(£183.4m)**	(£25.1m)		£13.6m	
Statutory (loss)/profit before tax	**(£240.6m)**	(£134.2m)		£3.4m	
Total income (statutory)	**£168.9m**	£195.1m		£220.5m	
Total operating expenses (Statutory)	**£297.5m**	£322.0m		£212.7m	
Net interest margin	**1.15%**	1.40%	(25bps)	1.62%	(47bps)
Net interest margin + fees	**1.51%**	1.86%	(35bps)	2.07%	(56bps)
Average cost of deposits	**0.82%**	0.85%	(3bps)	0.70%	12bps
	30 June 2020	**31 December 2019**	**Change**	**30 June 2019**	**Change**
Balance sheet					
Customer deposits	**£15,577m**	£14,477m		£13,703m	
Customer loans	**£14,857m**	£14,681m		£14,989m	
Loan to deposit ratio	**95%**	101%	(6pps)	109%	(14pps)
Total assets	**£22,134m**	£21,400m		£21,357m	
Asset quality					
ECL to period-end loans	**0.96%**	0.23%	73bps	0.20%	77bps
Cost of risk (annualised)	**1.55%**	0.10%	145bps	0.06%	149bps
Capital ratios					
Common Equity Tier 1 (CET1) ratio	**14.5%**	15.6%		15.8%	
Regulatory leverage ratio	**5.8%**	6.6%		7.0%	
Total regulatory capital plus MREL ratio	**21.3%**	22.1%		n/a	
Customer metrics					
Customer accounts	**2.1m**	2.0m		1.8m	
Stores	**77**	71		65	

1. Underlying (loss)/profit before tax is an alternative performance measure and excludes Listing Share Awards, impairment and write-off of property, plant & equipment (PPE) and intangible assets, net Banking Competition Remedies Limited (BCR) costs, transformation costs and remediation costs when comparing to our statutory (loss)/profit. A reconciliation between the Groups statutory to underlying results for the half year to 30 June 2020 can be found on page 47.

BUSINESS REVIEW

The first half of 2020 has undoubtedly been one of the most challenging periods in a generation, with social and economic impacts resulting from the COVID-19 pandemic.

I want to start by extending my thanks to all my Metro Bank colleagues. They have shown resilience and have adapted incredibly well, delivering outstanding service. Whilst operating temporarily reduced hours, all of our stores have remained open and our AMAZE Direct call centres have continued to support customers throughout. It is in testing times like these that we truly demonstrate the value of our culture, with colleagues around the business stepping up to support the communities we serve. I am immensely proud of what they have managed to achieve in such difficult conditions.

Having entered 2020 at the start of our transformation journey we remain on track. Despite the impacts of the pandemic, we have been able to demonstrate the resilience of the Bank and have made good progress against our five strategic priorities, with a number of achievements in the period, including:

- Opening of six new stores, in-line with plan;
- Delivering our first ever advertising campaign, celebrating ‘people-people banking’;
- Demonstrating greater cost discipline; and
- Progressing on initiatives to meet more customer needs including the launch of online business account opening (in beta testing) and direct-debit origination for business customers.

COVID-19 has weighed heavily on our financial performance with an increase in our expected credit loss (ECL) expense for the first half of the year, up £107.6 million to £112.0 million (half year to 30 June 2019: £4.4 million), which has driven a loss before tax for the first half of the year of £240.6 million (half year to 30 June 2019: profit of £3.4 million).

Arguably given the current environment, our ambition to become the UK’s best community bank has never been more important and to that effect, I wanted to highlight in more detail how we have supported our customers, communities and colleagues in the past six months.

Supporting our customers

As mentioned at the outset, all of our stores have remained open throughout the pandemic. The business has proved its operational resilience, with digital services and back office functions continuing to perform well. We put in place new processes for more vulnerable customers to access cash and dedicated times to call. With more customers using digital channels, we built a new digital journey for customers to make it easier to reset their online banking credentials, and set up a dedicated section on our website to keep customers updated with the very latest coronavirus support and information.

Colleagues have worked with customers whose personal or business finances have been impacted to ensure they benefit from the most appropriate support. We automatically waived overdraft interest for personal customers on a temporary basis, and offered payment deferrals across our mortgage, credit card and loan products. We extended existing mortgage offers for customers buying a new home for up to three months to give them extra time to complete transactions. We also adopted digital valuations to enable us to continue lending at a time when others withdrew from the market.

Alongside this, in March, we introduced wide-ranging measures to support our business customers before additional Government support measures were introduced. This included capital repayment deferrals, interest roll-ups and covenant waivers to give customers vital peace of mind and additional financial flexibility. We also temporarily waived both arrangement fees and limit amendment fees for customers using a business overdraft.

During the period, Metro Bank also gained accreditation under the British Business Bank’s Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLS) and Coronavirus Large Business Interruption Loan Scheme (CLBILS). We have provided loans to thousands of businesses in need of support, with lending under these schemes at 30 June 2020 totalling £780 million. To support the expected level of demand for Bounce Back Loans, we accelerated the building of our brand new online lending platform, delivered in just six weeks, to enable us to fulfil these applications.

Having granted relief to thousands of customers through these means, we're now working with customers to understand their needs going forward. Where there is evidence that extending further support is the right thing to do, we will do so. We appreciate every situation will be different, so our colleagues are working together with our customers on an individual basis to find a solution that is right for them. The lending schemes described above are underwritten either in part or fully by the Government (BBLS: 100%; CBILS: 80%; and CLBILS: 80%) and we are using them as widely as possible to support our customers, whilst performing the necessary fraud, anti-money laundering and know your customer checks, in line with the scheme guidance.

We remain unwavering in our ambition to become the UK's best community bank and our commitment to being a flexible, responsible lender to our customers - in particular now, as we deal with the long-term financial effects of the coronavirus crisis sits right at the heart of that.

Supporting our communities

We also play an active role in the communities we serve. We already empower colleagues to go out into their local communities and further the causes they choose, encouraging them to give time and become part of something bigger.

In this respect, we have deepened our community engagement during the pandemic, with colleagues from around the business supporting a vast array of local projects ranging from helping food banks to volunteering to assist the NHS.

Each of our colleagues are given a 'Day to Amaze', a day each year to volunteer locally when they'd normally be working. We've extended this to five days in 2020 so our colleagues can do much more for their communities who need us more than ever right now.

Separately, in May 2020, we hit our fundraising target for Teenage Cancer Trust. Over the course of our one-year partnership colleagues and customers across the Bank raised more than £150,000. Fundraising efforts have ranged from bake sales and quizzes, to the Three Peaks Challenge and abseiling down The Orbit in London's Olympic Park. The vital funds raised will enable Teenage Cancer Trust to support three specialist nurses for a year.

In June, we opened two stores in new communities, Sheffield and Cardiff Newport Road. The Cardiff Newport Road store offers a drive-thru service – our fifth drive-thru store in the UK – allowing customers to carry out cashier services from the comfort of their cars and completely contact-free, providing a lifeline to many during the pandemic who are reliant on cash for their banking needs.

Supporting our colleagues

Our primary focus throughout this period has been the safety and welfare of all our colleagues. The past few months have confirmed a simple truth for me: we are an essential service for our customers, delivered by brilliant colleagues. Our colleagues play a vital role for our customers day-in, day-out.

As the virus started to spread, our teams adapted to the latest Government guidelines. We implemented enhanced hygiene procedures and social distancing across all our stores and sites. We also made changes early on so as many colleagues as possible could work from home.

As a bank with a strong store presence, we know customers like to speak to us in person so we did everything we could to keep our stores open and available to customers who needed us, as well as providing support through AMAZE Direct. To do this, we were relying on some of our colleagues, designated as key workers, to come into work because they could not perform their critical role for our customers from home. I know I speak for our customers and our colleagues when I say how grateful and proud we are of each and every one of them for taking this on. To show our appreciation, we set aside a £2 million thank you fund for front line colleagues to share between them.

We extended our sickness policy to ensure all of our colleagues were fully paid while taking the time needed to recover if they fell ill or needed to self-isolate. We also increased paid emergency dependent leave to support parents and carers, and continue to support flexible working arrangements.

We introduced a scheme for our vulnerable colleagues which allowed them to take at least the recommended 12 weeks to shield themselves away from work on full pay. We supported these colleagues directly rather than using the Government Coronavirus Job Retention Scheme. We also offered voluntary leave, funded by Metro Bank with 80% pay, for some customer-facing colleagues who were struggling to come to work, for example due to childcare issues or where they were living with vulnerable people that have been advised to shield.

To ensure our colleagues have plenty of support to keep themselves in good shape, both physically and mentally – wherever they are working - we launched a new health and wellbeing hub. The response from colleagues has been brilliant, and we intend to maintain this hub as a long-term resource. We have also signed up all our colleagues to a free, annual subscription to Headspace – an app dedicated to mindfulness, meditation, sleep and movement.

As lockdown restrictions lift we are supporting the return to the work-place for colleagues who cannot work from home. We will continue to see significant numbers of colleagues continue to work from home for the foreseeable future, as following feedback many prefer this to being fully office based. We continue to engage with colleagues in relation to our location and office approach to make sure this is appropriate. We also remain focused on ensuring that under these new ways of working our culture remains intact and our colleagues feel supported. As part of this both myself and other members of the senior leadership team have increased further our visibility and presence in order to make ourselves fully accessible to colleagues. A more home-based team means we have even more reason to scale back our central London office space, something we had highlighted as part of our refocused strategy at the 2019 full year, and which will result in a reduction in associated costs in the future.

Celebrating our 10th birthday

29 July 2020 saw us celebrate our 10 year anniversary since we launched our first store in Holborn, as the first high street bank to open in more than 100 years. We've since grown from 79 colleagues and one store in July 2010 to 3,500 colleagues, 77 stores and more than two million customers today. Like others celebrating big events during the pandemic, we've reached this milestone in circumstances that we would not have envisaged. However, despite the challenges of social distancing, we wanted to mark the special occasion in style and thank our customers, communities and colleagues for their support over the past decade. To celebrate, we were delighted to have Heather Small, the Voice of M People, perform an exclusive concert recorded at our Holborn store, featuring her greatest hits and our very own Metro Bank colleagues.

Capability and innovation fund

After renegotiating our commitment, under the Capability and Innovation (C&I) fund as announced in February 2020, we remain on track with delivery. During the first six months of the year we opened two further stores in the North, in Liverpool and Sheffield. Alongside this we launched a number of digital initiatives. These included Direct Debit Originations and Business Account Online (in Beta testing). The expansion of our footprint and broadening of our range of services will meet the banking needs of thousands of SMEs, in what remains an underserved section of the market.

RateSetter acquisition

On 3 August 2020 we announced an agreement to acquire Retail Money Market LTD ('RateSetter') for an initial consideration of £2.5 million, followed by up to £0.5 million deferred consideration after 12 months, with additional consideration of up to £9.0 million payable on the third anniversary of the completion of the transaction, subject to the satisfaction of certain key performance criteria. Completion is expected in the second half of the year.

The acquisition, in-line with our strategy, will help us accelerate our capability in unsecured lending, through an established business with a strong technology platform and people who have deep experience in the consumer unsecured lending market. The acquisition allows us to meet more customers' needs and gain scale both quicker and cheaper than building our own system.

Progress on strategic priorities

While we respond to the current situation, we also continue to remain focused on delivering against our strategic priorities as set out in February 2020. That strategy hasn't changed – everything we are doing is to deliver on our ambition to be the UK's best community bank, and that's more important than ever right now. I am pleased to say that we remain on track and are progressing against the five strategic pillars we had set out:

- Costs – we're continuing to demonstrate greater cost control, making sure we're being as efficient as we can, building transparency into our processes and discipline in terms of where we spend our money. Our cost initiatives are on track, with our 'run the bank' costs increasing just 2% compared to the second half of 2019. Key deliverables during the first half included implementation of a preferred supplier list resulting in cost reduction of 15% in respect of targeted suppliers, and outsourcing of our digital testing environment.
- Revenue – we want to grow revenue by meeting more customer needs. Our revenue initiatives are on track, despite net interest income and fees being negatively impacted by COVID-19. Last month we launched our business account online opening (in Beta testing) proposition to help meet the needs of this underserved sector. We've also continued to develop capabilities for specialist mortgages and recently reintroduced 85-90% LTV mortgage products. In the first half of the year we opened six new stores from Liverpool in the North to Hammersmith in the South and also our first stores in Wales.
- Infrastructure – we're continuing to invest in our channels and core infrastructure with a number of changes delivered to improve the customer and colleague experience. Our planned infrastructure initiatives remain on track despite delivery of additional services in response to COVID-19, for example the accelerated development of the first cloud based e-form for digital applications.
- Balance sheet optimisation – we're continuing to assess market opportunities to optimise our balance sheet. Our strategic objective to change the lending mix shift will be accelerated by the RateSetter platform and SME lending supported by BBLS, CBILS and CLBILS. In addition, access to the Term Funding Scheme with additional incentives for SMEs (TFSME) scheme provides us with increased funding flexibility.
- Internal and external communications – we launched our first ever advertising campaign in the first quarter 2020, featuring our own colleagues. We've seen our brand consideration and familiarity increase following the campaign – giving us a strong platform to build upon during the second half of 2020.

Related parties

Since the Bank started 10 years ago we have relied on InterArch to provide architectural, design and creative services. As previously announced we started a process to identify alternative suppliers for these services, after receiving shareholder feedback. Following the expiration of contracts with InterArch in February we entered a short agreement to support this transition. This has now completed and we are now working with new providers for these services.

I would like to take this opportunity to thank both Shirley Hill and her team at InterArch for all they have done for the Bank over the last decade, particularly their work in developing the Metro Bank brand and helping shape our distinct identity.

Board changes

Over the last six month period we also completed our search for a new Chairman, announcing in July the appointment of Robert Sharpe who will commence in role from 1 November 2020 taking over from Sir Michael Snyder, who has transformed the Board under his tenure.

Robert will join us from Bank of Ireland, where he is currently Chairman of their UK operations and has previously held board positions at companies including Vaultex Limited, Aldermore Bank plc, Barclays Pension Trustees Limited, George Wimpey plc and Al Rayan Bank plc.

In addition during his executive career he was CEO at West Bromwich Building Society, Portman Building Society and for Bank of Ireland's consumer business in the UK and brings a wealth of experience in retail banking which will help us in our ambition to become the UK's best community bank.

We have also welcomed a number of new Non-Executives Directors – Sally Clark, Ian Henderson, Anne Grim and Nicholas Winsor – all of whom bring invaluable experience to the Board, as we – together with the Executive Committee and all our colleagues – remain focused on delivering our strategy.

Finally, and following completion of 10 years of service, Gene Lockhart and Stuart Bernau have stepped down from our Board and I would like to extend my thanks to them for their service and commitment over many years.

Executive committee changes

During the first half of the year, there have also been a number of changes to our Executive Committee (ExCo).

Ian Walters has taken on the new role of Managing Director, Distribution, bringing together Retail, Business and Commercial banking, Martin Boyle has been appointed Chief Transformation Officer, bringing invaluable transformation and change expertise that will be instrumental to ensuring the successful execution of our strategic plan, and Carol Frost joined the Bank in August as Chief People Officer.

In addition, David Thomasson (appointed Chief Commercial Officer), Jessica Myers (Director, Brand and Marketing), and Tina Coates (Director, Corporate Affairs) have joined the ExCo, bringing fresh representation to the leadership team from within the Bank. I also wanted to thank Andrew Shiels who has been undertaking the role of Interim Chief Risk Officer. Richard Lees, who is currently Chief Risk Officer at the Co-operative Bank, will be taking over the role on a permanent basis from early 2021.

These changes ensure that there is both continuity as well as new thinking within the Bank's leadership. I am confident that they will help the Bank work towards achieving its long-term ambition of being the UK's best community bank.

Outlook

The first half of 2020 has been an incredibly tough six months within a difficult operating environment. I am therefore pleased with how resilient the Bank has been, particularly in supporting our customers and communities.

We continue to work on delivering our turnaround strategy and addressing the legacies of the past. It is now more important than ever that we ensure the success of our transformation, as we reshape the Bank to be more efficient and adaptable in order to face the future.

COVID-19 remains an unprecedented challenge and the pace of recovery in expected credit losses in particular will largely be driven by the wider macroeconomic recovery. An even lower interest rate environment has emboldened our focus on reducing our cost of deposits through a continued focus on customer service. Additionally, we are accelerating our move to higher yielding assets, through our acquisition of the RateSetter platform and expansion into specialist mortgages.

Given the uncertainty caused by the pandemic, it is too early to establish if there is any impact on our 2024 targets. However, whilst the outlook remains uncertain, our strategy provides us with a route to profitability in the medium term, and I, along with our management team, remain focused on executing it.

Daniel Frumkin
Chief Executive Officer
5 August 2020

FINANCE REVIEW

Despite the impacts of the unforeseen and unprecedented COVID-19 pandemic, we have delivered good progress against the plan we laid out in February 2020 and, excluding the impacts of COVID-19, we are broadly on track both financially and operationally.

COVID-19 impacts

The outbreak of COVID-19 has had a marked impact on our financial performance. Expected credit losses increased by over £100 million to £112.0 million (half year to 30 June 2019: £4.4 million) representing a cost of risk of 1.55% (half year to 30 June 2019: 0.06%) and are reflective of the forecasted macroeconomic scenarios provided by Moody's Analytics.

Whilst fee, commission and other income remained broadly flat year-on-year (up 4% from £50.2 million to £52.0 million), income has been markedly impacted by lower transaction volumes during the period as a result of the lockdown.

Alongside these factors we have also experienced higher costs as a result of our response. These range from adapting our stores in order to continue to operate safely (including cleaning and personal protective equipment) through to scaling up colleague's ability to work from home.

Although the impact of COVID-19 has been significantly adverse to our financial performance, our financial and capital ratios remain above regulatory minima. In addition, the various changes made by the Government and regulators as part of their response to the pandemic, including a reduction in the counter-cyclical buffer as well as the introduction of certain Capital Requirements Regulation "Quick Fixes" have increased our CET1. Furthermore, the Government launched several lending schemes to support businesses, which have low or no impact on regulatory capital and carry reduced credit risk:

- Bounce Back Loans – This scheme is designed to help small and medium-sized businesses to borrow between £2,000 and £50,000 (capped at 25% of their turnover) at a fixed rate of 2.5% a year. The Government guarantees 100% of the loan and also pays the interest for the first 12 months. These loans attract a zero per cent risk weighting and therefore have no impact on regulatory capital.

- Coronavirus Business Interruption Loans - This scheme is designed to help small and medium-sized businesses to borrow up to £5 million. The Government guarantees 80% of the loan and also pays the interest for the first 12 months. No risk weighting is applied to the Government-guaranteed part of the loan, and the unguaranteed part attracts the standard risk weighting. As such, these loans attract a significantly lower risk weighting and therefore have a lower impact on our regulatory capital ratios.

- Coronavirus Large Business Interruption Loans- This scheme is designed to help medium and large sized businesses to access loans and other kinds of finance up to £200 million. Like the CBILS scheme, the Government guarantees 80% of the loan and no risk weighting is applied to the Government-guaranteed part of the loan. As a result, they attract a significantly lower risk weighting and have a lower impact on regulatory capital compared to our standard commercial loans.

We were successful in achieving accreditation for all three schemes. In total we have lent over £780 million of eligible loans as at 30 June 2020. Given the importance of these loans to our customers and the effect they have in supporting the wider economy, along with their capital and credit risk efficiencies, these loans will continue to be a key focus for us in the months ahead whilst the schemes continue to operate.

Table 1: Breakdown of Government-backed lending (as at 30 June 2020)

	Number of loans (unaudited)	Gross carrying amount (unaudited) £'million	Average loan size (unaudited) £'000
Bounce back loans	19,390	730	38
Coronavirus business interruption loans	187	50	267
Coronavirus large business interruption loans	-	-	-
Total	**19,577**	**780**	

Income statement review

Table 2: Summary income statement

	Half year to 30 June 2020 (unaudited) £'million	Half year to 30 June 2019 (unaudited) £'million	Growth
Net interest income	**115.9**	166.2	(30%)
Net fee, commission and other income	**52.0**	50.2	
Net gains on sale of assets	**1.0**	4.1	
Total income	**168.9**	220.5	(23%)
General operating expenses	**(234.1)**	(174.7)	34%
Depreciation and amortisation	**(36.8)**	(37.0)	
Impairment and write-off of PPE and intangible assets	**(26.6)**	(1.0)	
Expected credit loss expense	**(112.0)**	(4.4)	>100%
(Loss)/profit before tax	**(240.6)**	3.4	(>100%)
Taxation	**1.1**	(2.1)	
(Loss)/profit after tax	**(239.5)**	1.3	(>100%)

Net interest income

Net interest income was down 30% year-on-year to £115.9 million (six months to 30 June 2019: £166.2 million) primarily a result of continued net interest margin (NIM) compression, as well as the sale of a £521m mortgage portfolio in July 2019, the lower average lending volumes and the various actions taken to protect the balance sheet in 2019.

NIM for the first six months of the year was 1.15% down from 1.62% for the same period last year. This was as a consequence of a number of factors including a continued competitive lending environment, the absorption of our MREL debt issuance (which was issued in the second half of 2019 at 9.5%) and the deposit pricing actions taken during 2019. NIM was weakened further by the base rate cuts to 0.10% in March, which led to a short-term timing difference whereby lending products repriced immediately and deposits repriced following appropriate notice periods to customers.

We anticipate that NIM will recover in the second half of the year as the revised base rate fully transitions on both sides of the balance sheet and legacy fixed rate deposits begin to roll off. Additionally, and in line with our strategy, we will begin to accelerate our lending in the new higher yielding sectors of speciality mortgages and unsecured lending, for which the acquisition of RateSetter is a catalyst.

Fee, commission and other income

COVID-19 has impacted fee and commission income as a result of significant falls in transaction volumes, particularly in relation to foreign exchange and ATM income following a decline in foreign travel and a move away from cash. We are starting to see volumes recover and therefore see a return to growth going forward.

Fee income is also distorted year on year by the changes to the rules regarding fees charged to customers who go into unarranged overdrafts. These fees were removed in December 2019 as a result of the rules introduced by the Financial Conduct Authority. We have replaced these fees with increased overdraft interest rates and therefore going forward a decline in this fee income will be offset by an increase in interest income. This offset is not however observed in the first half of the year as a result of our suspension of overdraft interest charges to help customers through the COVID-19 pandemic.

Operating expenses

Operating expenses during the first six months of the year rose to £234.1 million up from £174.7 million in the same period in 2019, largely reflecting the ongoing remediation programmes as well as transformation spend. Even including the additional spend required by COVID-19 this increase is in line with expectations and reflects the continued focus on 'Run the Bank' cost discipline.

Expected credit loss expense

Our expected credit loss expense increased to £112.0 million for the first six months of 2020 up from £4.4 million for the comparable period in 2019. This has primarily been driven by the effects of deteriorating macro-economic factors used in the modelling or where specific impairments are attributable to COVID-19 related factors. Alongside COVID-19 related factors the remaining increase is generally as a result of the portfolio maturing as well as a small number of individual loans.

Commercial lending has been the single largest constituent of our portfolio which has contributed to the increase in the expected credit losses, particularly amongst sectors where we anticipate COVID-19 will have a disproportionate impact, such as retail and hospitality. For these sectors we have provisioned for higher levels of expected credit losses to reflect the risk of a higher default rate.

Balance sheet review

Table 3: Summary balance sheet

	30 June 2020 (unaudited) £'million	31 December 2019 (audited) £'million	Growth
Assets			
Cash and balances with the Bank of England	**3,080**	2,989	
Loans and advances to customers	**14,857**	14,681	1%
Investment securities	**3,021**	2,565	
Property, plant and equipment	**821**	856	
Intangible assets	**202**	168	
Other assets	**153**	141	
Total assets	**22,134**	21,400	3%
Liabilities			
Deposits from customers	**15,577**	14,477	8%
Deposits from central banks	**3,801**	3,801	
Debt securities	**599**	591	
Repurchase agreements	**211**	250	
Lease liabilities	**340**	341	
Deferred grant	**31**	50	
Other liabilities	**228**	307	
Total liabilities	**20,787**	19,817	
Total equity	**1,347**	1,583	

Deposits

Deposits grew by 8% from 31 December 2019 to £15,577 million at 30 June 2020 (31 December 2019: £14,477 million). The increase was primarily driven by our core retail and SME franchises which were up 7% and 26% respectively from the start of the year.

Current accounts grew by 23% during the first half of the year and make up 34% of total customer deposits as at 30 June 2020 (31 December 2019: 30%). We are seeing a shift in customer preference towards having instant access to funds, leading to growth of current accounts and instant access savings accounts. Growth in fixed rate savings also slowed as result of us unwinding the pricing decision we took last year.

We envisage a slowdown in deposit growth in the second half as customers start to utilise cash balances as and when Government support measures are reduced and the broader macro environment improves. We have particularly noticed that a significant proportion of the BBLS loans we have issued have been unused and remain in customers' accounts. This is likely to be as a result of businesses drawing these loans in advance of potential need; given they pay no interest on these for the first year it is a cost effective and accessible method of additional liquidity.

Lending

Net lending ended the period at £14,857 million, up from £14,681 million at 31 December 2019. The £176 million increase has been driven by the £780 million lent out under the Government support schemes, offset by increased credit provisions as well as the back book continuing to pay down as it matures.

Retail mortgages remained the largest component of the lending book at 68% of gross lending (31 December 2019: 71%), down £240 million to £10,190 million at 30 June 2020 from £10,430 million at 31 December 2019 reflecting attrition and lower activity in the market. We plan to increase our penetration into the specialist mortgage market as part of our strategy.

Commercial loans, which now comprise 31% of our lending, increased £562 million to £4,614 million at 30 June 2020 from £4,052 million at 31 December 2019. This includes the £730 million of BBLS and £50 million CBILS which are continuing to grow.

Consumer unsecured lending still remains a relatively immaterial part of our lending portfolio, accounting for only 1% of our gross lending at 30 June 2020. As part of our strategy we aim to significantly increase this area of lending, the acquisition of RateSetter gives us the platform and capability in order to be able to scale this area of lending at pace.

Term funding scheme

In March the Bank of England launched TFSME to support lending to small and medium sized business. We welcome the introduction of TFSME as it will allow access to additional funding and provides further flexibility to our broader funding plans, including the repayment of the Term Funding Scheme (TFS) drawings.

Property, plant & equipment and intangibles

Non-current assets have increased during the period, reflecting the investment we continue to make as a Group. The largest increase is in relation to intangible assets which have increased by £34 million to £202 million as a result of our digital initiatives, including those part funded by the capability and innovation fund grant. These include direct debit origination and online business account opening (in Beta testing).

The rate of increase in both intangibles and PPE has slowed as we continue to moderate our growth plans and focus on ensuring maximum capital efficiency. This is particularly evident in our PPE where we expect growth to be more measured in the short term as a result of the scaling back of our store opening plans.

During the first half of the year we opened six new stores, including our first in Wales. This includes a further two northern stores in Sheffield and Liverpool, where the running costs are being partly funded by the capability and innovation fund grant for their first 18 months in operation.

We will not be opening any further stores over the course of 2020 and only one store, which is already under construction, in 2021.

Capital

Our CET1 and total capital plus MREL ratios at 30 June 2020 were 14.5% and 21.3% respectively, above the regulatory minimum of 9.6% and 20.5% (minimums based on current capital requirements, excluding any confidential PRA buffer, if applicable). CET1 also remains materially above our target of c.12%.

During the first six months of the year a number of favourable changes have occurred, consisting of a reduction in the counter-cyclical buffer and the Capital Requirements Regulation “Quick Fixes”. Consultation is ongoing with regards to further capital changes, particularly in relation to the capital treatment of software and the MREL framework review. We continue to monitor these developments and retain an active dialogue with our regulators on these matters.

Liquidity

Our liquidity position continues to be strong and we were well placed entering the pandemic. We ended 30 June 2020 with a Liquidity Coverage Ratio (LCR) of 226%. We will continue to prudently manage our investments and to invest in high quality securities while maintaining a strong cash position.

The reduction in our loan to deposit ratio back to below 100% and access to TFSME also provide sustainable funding going forward and also means we have little dependence on non-central bank wholesale funding.

RateSetter acquisition

On 3 August we announced an agreement to acquire Retail Money Market LTD ("RateSetter") for an initial consideration of £2.5 million, followed by up to £0.5 million deferred consideration after 12 months, with additional consideration of up to £9.0 million payable on the third anniversary of the completion of the transaction, subject to the satisfaction of certain key performance criteria. Completion is expected in the second half of the year. RateSetter will have minimal impact on our capital at the point of acquisition. Going forward the ability to grow our unsecured portfolio at scale will be NIM accretive and help cushion the impacts of the low interest rate environment and the effects of a competitive mortgage market.

Going concern

These condensed consolidated interim financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors considered a wide range of information relating to present and future conditions, including future projections of profitability, liquidity and capital resources as well as factoring in the uncertainties surrounding the ongoing COVID-19 pandemic.

Outlook

Looking ahead to the second half of 2020 and beyond, we anticipate continued economic uncertainty, which will continue to weigh on both our financial performance as the longer-term economic consequences begin to materialise, particularly as immediate Government support measures are withdrawn.

Despite these clear challenges we are well positioned to continue the execution of our strategy and a return to profitability over the medium term. We continue to see a path to delivering the targets we set out in February 2020 and to delivering acceptable returns for our shareholders

David Arden
Chief Financial Officer
5 August 2020

RISK REVIEW

Our risk management approach lies at the heart of everything we do and consists of:

• A robust compliance and control environment
• Fair and consistent customer treatment and outcomes
• Maintaining a strong risk culture, with the right expertise

We have adopted a set of risk management principles that must be followed across the Bank with robust controls in place to ensure risk is managed effectively. Our risk strategy and Risk Management Framework is maintained by the Chief Risk Officer and approved by the Board and are kept under continuous review.

Principal risks

As at 30 June 2020 there had been no significant change to the business model, risk management framework or risk appetites we outlined in our 2019 Annual Report and Accounts.

A detailed description of our principal risks and uncertainties to which we are exposed, along with the Group's approach to mitigating these risk, is set out in the risk report which can be found on pages 18 to 39 of our 2019 Annual Report and Accounts. These risks consist of:

1. **credit risk** - the risk of financial loss due to a borrower's failure to meet the terms of any debt contract or where a borrower otherwise fails to perform as agreed, due to financial difficulties.
2. **operational risk -** the risk of direct or indirect loss from failed or inadequate processes, people or systems, or exposure to external events.
3. **liquidity and funding risk** - the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time.
4. **market risk** - the risk that earnings or the economic value of equity will underperform due to changes in interest rates, foreign exchange rates, or other financial market asset prices. Our ability to manage market risks contributes to our overall capital management.
5. **financial crime** - the risk of financial loss or reputational damage due to regulatory fines or penalties, 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 (which we define as including internal or external fraud, anti-money laundering/counter terrorist financing, bribery and corruption and sanctions compliance).
6. **regulatory risk** - the risk of financial loss or reputational damage due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations and supervisory guidance.
7. **conduct risk** - the risk of treating customers unfairly, and delivering inappropriate outcomes that lead to customer detriment.
8. **model risk** – the potential for negative outcomes from random or systematic errors in model development, input, calculation or use of outputs. Models are always approximations and never perfect and there are therefore risks associated with using them. These risks range from their theoretical basis, the data and methods used in their construction, the economic conditions under which they are developed, and their use.

Further information on credit risk and liquidity risk are outlined below.

Impacts of COVID-19 on principal risks

Expected credit losses

The most significant factor that has impacted our principal risks for the first six months has been the COVID-19 pandemic. Primarily this has impacted our credit risk profile with our expected credit loss provisions increasing from £34 million at 31 December 2019 to £145 million at 30 June 2020.

Table 4: Expected credit loss movements

	31 December 2019 (audited) £'million	Underlying expected credit loss increase[1] (unaudited) £'million	COVID-19 expected credit loss increase[2] (unaudited) £'million	30 June 2020 (unaudited) £'million
Retail mortgages	8	3	29	40
Consumer lending	13	2	7	22
Commercial lending	13	9	61	83
Total	**34**	**14**	**97**	**145**

(1) Underlying ECL represents the natural deterioration of the book as it matures and specific impairments where there was an indication of credit deterioration prior to the COVID-19 pandemic.
(2) COVID-19 ECL represents the estimated increase in credit risk specifically due to the impacts of the COVID-19 pandemic on customers.

Support for customers

We are committed to supporting customers during this difficult time, In line with regulatory requirements, we offered payment deferrals to mortgage and personal customers to who required that support measure. This was initially for a three month period from March to June, however this has been extended for a further three month period until September.

In addition, we have proactively offered support measures to commercial customers. In total we have granted customer support arrangements on 22% of our commercial lending portfolio (based on gross exposure).

As at 30 June 2020 we had granted over 10,000 customer support measures (primarily consisting of payment deferrals). Additionally, we have provided covenant waivers for our elements of our commercial loan portfolio to provide additional support. We are continuing to monitor and support customers currently utilising customer support measures to ensure we minimise our credit risk.

The weighted average debt-to-value of the retail mortgages and commercial lending subject to support measures up to 30 June 2020 was 64% and 57% respectively.

Table 5: Customer measures support provided during 2020 (up to 30 June 2020)[1]

	Number of loans subject to support measures (unaudited)	Gross carrying amount (unaudited) £'million	Proportion of portfolio (unaudited) %
Retail mortgages	**6,419**	**1,776**	**17**
Consumer lending	**1,415**	**9**	**5**
Commercial lending	**2,621**	**1,010**	**22**
Total	**10,455**	**2,795**	**19**

(1) Excludes covenant waivers

In addition to providing payment deferrals and similar support measures we have undertaken a number of other initiatives to support customers in this difficult period. These include participation in all three of the Government's lending support programmes. As at 30 June 2020 we had lent £780 million under these schemes including £730 million of BBLS and £50 million of CBILS. As at 31 July 2020 we have written over 25,000 BBLS, CBILS and CLBILS loans, totalling over £1 billion. Alongside this we have provided further support to businesses and household through waiving certain account fees as well as suspending interest on overdrafts.

Credit risk

Residential mortgage lending

The majority of our lending comprises residential mortgages, typically issued by ourselves with a loan to value of less than 90% and with strong collateral providing mitigation to withstand economic stress and therefore minimise our credit losses. Loans with a debt to value (DTV) of greater than 90% have typically been acquired as part of a portfolio purchase.

The average debt to value (DTV) of our residential mortgage book as at 30 June 2020 was 59% (31 December 2019: 59%).

Table 6: Residential mortgage lending by DTV banding[1]

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Less than 50%	**2,609**	**433**	**3,042**	2,647	464	3,111
51-60%	**1,362**	**383**	**1,745**	1,383	393	1,776
61-70%	**1,381**	**482**	**1,863**	1,422	505	1,927
71-80%	**1,804**	**560**	**2,364**	1,813	554	2,367
81-90%	**1,131**	**14**	**1,145**	1,201	13	1,214
91-100%	**20**	**-**	**20**	23	-	23
More than 100%	**3**	**8**	**11**	4	8	12
Total retail mortgage lending	**8,310**	**1,880**	**10,190**	8,493	1,937	10,430

(1) Property valuations have not been updated since March 2020

Table 7: Residential mortgage lending by repayment type

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Interest only	**2,579**	**1,784**	**4,363**	2,573	1,834	4,407
Capital and interest	**5,731**	**96**	**5,827**	5,920	103	6,023
Total retail mortgage lending	**8,310**	**1,880**	**10,190**	8,493	1,937	10,430

Table 8: Residential mortgage lending by geographic exposure

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Greater London	**3,349**	**1,161**	**4,510**	3,424	1,197	4,621
South East	**2,048**	**325**	**2,373**	2,094	337	2,431
South West	**728**	**95**	**823**	738	97	835
East of England	**552**	**74**	**626**	570	76	646
North West	**471**	**65**	**536**	482	66	548
West Midlands	**333**	**60**	**393**	340	62	402
Yorkshire and the Humber	**270**	**37**	**307**	275	37	312
East Midlands	**237**	**26**	**263**	243	26	269
Wales	**166**	**20**	**186**	169	21	190
North East	**90**	**10**	**100**	93	11	104
Scotland	**66**	**7**	**73**	65	7	72
Total retail mortgage lending	**8,310**	**1,880**	**10,190**	8,493	1,937	10,430

Commercial lending

Table 9: Summary of commercial lending

	30 June 2020 (unaudited) £'million	31 December 2019 (audited) £'million
Professional buy-to-let	**1,167**	1,219
Other commercial term loans	**2,222**	2,327
Non-Government backed commercial term loans	**3,389**	3,546
Bounce back loans	**730**	-
Coronavirus business interruption loans	**50**	-
Government backed commercial term loans	**780**	-
Total commercial term loans	**4,169**	3,546
Overdrafts and revolving credit facilities	**185**	202
Credit cards	**3**	3
Asset and invoice finance	**257**	301
Total commercial lending	**4,614**	4,052

Our commercial lending remains largely comprised of term loans. Roughly half of this consists of professional buy-to-let lending and the new Government backed lending schemes, with the remaining balance consisting of other term loans to a diverse range of businesses in differing sectors.

Other term loans have a much greater DTV range, with 15% of the book (31 December 2019: 17%) having a DTV of greater than 100%. For these types of loans we have typically obtained additional forms of collateral which are not included in the DTV figure (such as debentures or unsupported guarantees) which provide an additional level of mitigation not accounted for in the calculation of expected credit loss. As at 30 June 2020 the average DTV of our commercial term loan book was 60% (31 December 2019: 60%).

COVID-19 has had a disproportionate impact on a number of sectors, particularly hospitality and retail and correspondingly we have provisioned for higher levels of expected credit losses in these sectors to reflect the risk of higher default rate.

Table 10: Commercial term lending (exc. Government-backed lending) by DTV banding[1]

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Less than 50%	**364**	**882**	**1,246**	363	911	1,274
51-60%	**270**	**541**	**811**	283	535	818
61-70%	**371**	**324**	**695**	404	343	747
71-80%	**136**	**69**	**205**	135	86	221
81-90%	**11**	**51**	**62**	10	31	41
91-100%	**6**	**13**	**19**	12	37	49
More than 100%	**9**	**342**	**351**	12	384	396
Total commercial term lending	**1,167**	**2,222**	**3,389**	1,219	2,327	3,546

(1) Property valuations have not been updated since March 2020

Table 11: Commercial term lending (exc. Government-backed lending) by repayment type

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Interest only	**1,109**	**281**	**1,390**	1,155	328	1,483
Capital and interest	**58**	**1,941**	**1,999**	64	1,999	2,063
Total commercial term lending	**1,167**	**2,222**	**3,389**	1,219	2,327	3,546

Table 12: Commercial term lending (exc. Government-backed lending) by geographic exposure

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Greater London	**812**	**1,355**	**2,167**	850	1,414	2,264
South East	**216**	**399**	**615**	224	424	648
South West	**51**	**169**	**220**	52	156	208
East of England	**32**	**124**	**156**	35	104	139
North West	**20**	**63**	**83**	21	115	136
West Midlands	**11**	**49**	**60**	11	49	60
Yorkshire and the Humber	**11**	**24**	**35**	11	26	37
East Midlands	**5**	**12**	**17**	5	12	17
Wales	**4**	**11**	**15**	4	10	14
North East	**3**	**10**	**13**	4	9	13
Northern Ireland	**1**	**5**	**6**	1	5	6
Scotland	**1**	**1**	**2**	1	3	4
Total commercial term lending	**1,167**	**2,222**	**3,389**	1,219	2,327	3,546

Table 13: Commercial term lending (exc. Government-backed lending) by industry exposure

	30 June 2020 (unaudited)			31 December 2019 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Real estate (rent, buy and sell)	**1,167**	**1,070**	**2,237**	1,219	1,155	2,374
Legal, Accountancy & Consultancy	**-**	**202**	**202**	-	236	236
Health & Social Work	**-**	**243**	**243**	-	263	263
Hospitality	**-**	**323**	**323**	-	308	308
Retail	**-**	**95**	**95**	-	100	100
Real estate (management of)	**-**	**11**	**11**	-	11	11
Construction	**-**	**33**	**33**	-	35	35
Recreation, cultural and sport	**-**	**51**	**51**	-	51	51
Investment and unit trusts	**-**	**7**	**7**	-	8	8
Education	**-**	**29**	**29**	-	30	30
Real estate (development)	**-**	**82**	**82**	-	62	62
Other	**-**	**76**	**76**	-	68	68
Total commercial term lending	**1,167**	**2,222**	**3,389**	1,219	2,327	3,546

Consumer lending

Consumer unsecured lending still remains a relatively immaterial part of our lending portfolio, although as part of our strategy we aim to significantly increase this area of lending, underlined by our acquisition of RateSetter.

Non-performing loans

Table 14: Non-performing loans

	30 June 2020 (unaudited)		31 December 2019 (audited)	
	NPLs £'million	**NPL ratio %**	NPLs £'million	NPL ratio %
Retail mortgages	**39**	**0.39%**	25	0.24%
Consumer lending	**11**	**5.74%**	10	4.30%
Commercial (exc. Government backed lending)	***91***	***2.54%***	*42*	*1.12%*
BBLS & CBILS	**-**	**-**	-	-
Commercial lending (including asset and invoice finance)	**91**	**2.06%**	42	1.12%
Total	**142**	**0.96%**	77	0.53%

The increase in retail mortgage non-performing loans (NPL) is a result of a small number of large balance mortgages with relatively lower DTV.

The Commercial NPL ratio has deteriorated due to seasoning of the portfolio and COVID-19 related issues driven by individual single name customers entering the highest risk category of our watch list coupled with customers receiving forbearance. We have not grown the commercial book, with the exception of the Government-backed lending schemes over the first half of 2020.

The Consumer NPL ratio has deteriorated due to maturity of the book.

Cost of risk

Table 15: Cost of risk

	Half year to 30 June 2020 (unaudited) %	Full year 31 December 2019 (audited) %
Retail mortgages	**0.66%**	-
Consumer lending	**7.35%**	1.92%
Commercial (exc. Government backed lending)	***3.61%***	*0.11%*
BBLS & CBILS	**-**	-
Commercial lending (including asset and invoice finance)	**3.49%**	0.11%
Total	**1.55%**	0.08%

Liquidity and funding risk

Liquidity

Our liquidity position continues to be strong and we were therefore well placed entering the pandemic. We ended 30 June 2020 with an LCR of 226%. We prudently manage our investments and continue to invest in high quality securities as well as maintaining a strong cash position. We ended the period with a loan to deposit ratio of 95%, which is back in line with our long term appetite of being below 100%.

Capital

We manage capital in accordance with prudential rules issued by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), in line with the European Union (EU) Capital Requirements Directive and we are committed to maintaining a strong capital base, under both existing and future regulatory requirements.

From 1 January 2020, MREL took effect on an interim basis, and will come fully into effect in 2022. Holding MREL debt is a requirement placed on larger firms to ensure that in the event of their failing and requiring resolution by the Bank of England, their customers continue to have access to their funds, and the operation of their accounts will not be affected. We raised £350 million in qualifying MREL debt in the second half of 2019 and remain above the regulatory minimum.

Table 16: Capital resources

	30 June 2020 (unaudited) £'million	31 December 2019 (audited) £'million
Ordinary share capital	**-**	-
Share premium	**1,964**	1,964
Retained earnings	**(632)**	(392)
Intangible assets	**(202)**	(168)
Deferred tax liability (CET1 element)	**4**	4
Other reserves	**15**	11
IFRS 9 transitional adjustments	**94**	8
Total Tier 1 capital (CET1 capital)	**1,243**	1,427
Debt securities	**249**	249
Total Tier 2 capital	**249**	249
Total	**1,492**	1,676

Emerging risks

Alongside COVID-19, which is covered above, within our annual report we outlined a number of emerging risks. An update to these is provided below, where appropriate. We have not identified any new emerging risks in the first half of 2020.

Emerging risk	Change from full year
Operational resilience	A strong COVID-19 response has seen a large proportion of our colleagues working from home since March and this will continue for the months ahead. The availability of technology, suppliers and processes has been managed through the height of the pandemic, with limited impacts to critical processes. Short term manual processes have increased to support the rapid delivery of COVID-19 driven change and more sustainable mitigations are being developed to support increased home working in the future. Evolving cyber and fraud threats are being monitored, and a number of change programmes are underway to improve our technology and data control environment and increase our operational resilience.
Culture and people	There is an emerging risk relating to retaining or attracting colleagues in key roles to support the execution of our revised strategy. Additionally, 2020 has seen a significant increase in the number of colleagues working from home, many for the foreseeable future. Whilst colleagues have adapted to this new operating environment, we are aware of the additional pressures it can bring in many instances, partially in relation to colleague's physical and mental health. We continue to support colleagues as much as we can and have launched a new health and wellbeing hub as well as signing up all our colleagues to a free, annual subscription to Headspace (an app dedicated to mindfulness, meditation, sleep and movement). Prolonged working from home also presents emerging challenges in preserving our unique culture. We are working hard to ensure our culture is retained in this different operating environment and have made concerted efforts, including our 10th Birthday celebrations. We have continued to hire and on-board new colleagues through the year, including during lockdown and are continuing to evolve this process to make it as easy and welcoming as possible. Management continues to monitor this area of emerging risk as a top priority; making the Bank a great place to work is key to retaining and attracting the colleagues needed to deliver our strategy.
Climate change	Despite the current situation, climate change risk remains high and is still considered important to us as well as many of our stakeholders. As part of stimulating a return to economic growth, policy makers are increasingly looking towards encouraging a faster transition to a low-carbon future. As such we continue to develop our approach toward climate change risk.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The directors confirm to the best of their knowledge these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months ended 30 June 2020 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months ended 30 June 2020 and any material changes in the related-party transactions described in the last annual report.

Signed on its behalf by:

Daniel Frumkin
Chief Executive Officer
5 August 2020

David Arden
Chief Financial Officer
5 August 2020

INDEPENDENT REVIEW REPORT TO METRO BANK PLC

Report on the interim financial statements

Our conclusion

We have reviewed Metro Bank PLC's condensed consolidated interim financial statements (the "interim financial statements") in the interim report of Metro Bank PLC for the six month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- The consolidated balance sheet as at 30 June 2020;
- The consolidated statement of comprehensive income for the period then ended;
- The consolidated cash flow statement for the period then ended;
- The consolidated statement of changes in equity for the period then ended; and
- The notes to the interim financial statements.

The interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
5 August 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the half year to 30 June 2020[1]

	Note	**Half year to 30 June 2020 £'million**	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Interest income	2	**217.7**	244.2	252.0
Interest expense	2	**(101.8)**	(102.3)	(85.8)
Net interest income		**115.9**	141.9	166.2
Net fee and commission income		**23.5**	28.5	32.5
Net gains/(losses) on sale of assets		**1.0**	(2.5)	4.1
Other income		**28.5**	27.2	17.7
Total income		**168.9**	195.1	220.5
General operating expenses	3	**(234.1)**	(205.9)	(174.7)
Depreciation and amortisation	7,8	**(36.8)**	(39.4)	(37.0)
Impairment and write offs of PPE and intangible assets	7,8	**(26.6)**	(76.7)	(1.0)
Total operating expenses		**(297.5)**	(322.0)	(212.7)
Expected credit loss expense		**(112.0)**	(7.3)	(4.4)
(Loss)/profit before tax		**(240.6)**	(134.2)	3.4
Tax credit/(expense)	5	**1.1**	(49.7)	(2.1)
(Loss)/profit for the period		**(239.5)**	(183.9)	1.3
Other comprehensive income/(expense) for the period				
Items which will be reclassified subsequently to profit or loss where specific conditions are met:				
Movements in respect of investment securities held at fair value through other comprehensive income (net of tax):				
- changes in fair value		**3.2**	2.0	0.7
- changes in fair value transferred to the income statement on disposal		**(0.2)**	(2.8)	0.4
Total other comprehensive income/(expense)		**3.0**	(0.8)	1.1
Total comprehensive income for the period		**(236.5)**	(184.7)	2.4
Earnings per share				
Basic earnings per share (pence)	12	**(138.9)**	(106.7)	1.0
Diluted earnings per share (pence)	12	**(138.9)**	(106.7)	1.0

1. A reconciliation between our statutory and underlying results can be found on page 47.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2020

	Note	**30 June 2020 £'million**	31 December 2019 £'million	30 June 2019 £'million
Assets				
Cash and balances with the Bank of England		**3,080**	2,989	2,298
Loans and advances to customers	6	**14,857**	14,681	14,989
Investment securities held at FVOCI		**444**	411	419
Investment securities held at amortised cost		**2,577**	2,154	1,951
Property, plant and equipment	7	**821**	856	798
Intangible assets	8	**202**	168	217
Prepayments and accrued income		**70**	66	65
Deferred tax asset	5	**-**	-	39
Assets classified as held for sale		**-**	-	521
Other assets		**83**	75	60
Total assets		**22,134**	21,400	21,357
Liabilities				
Deposits from customers		**15,577**	14,477	13,703
Deposits from central banks		**3,801**	3,801	3,801
Debt securities		**599**	591	249
Repurchase agreements		**211**	250	1,176
Derivative financial liabilities		**12**	8	9
Lease liabilities	9	**340**	341	342
Deferred grants	10	**31**	50	115
Provisions		**12**	17	2
Deferred tax liabilities	5	**15**	15	-
Other liabilities		**189**	267	193
Total liabilities		**20,787**	19,817	19,590
Equity				
Called up share capital	11	**-**	-	-
Share premium account	11	**1,964**	1,964	1,964
Retained earnings		**(632)**	(392)	(208)
Other reserves		**15**	11	11
Total equity		**1,347**	1,583	1,767
Total equity and liabilities		**22,134**	21,400	21,357

The notes on pages 29 to 46 form part of the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 5 August 2020 and were signed on its behalf by:

Sir Michael Synder
Interim Chairman

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the half year to 30 June 2020

	Note	**Half year to 30 June 2020 £'million**	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Reconciliation of (loss)/profit before tax to net cash flows from operating activities:				
(Loss)/profit before tax		**(241)**	(134)	3
Adjustments for:				
Impairment and write offs of PPE and intangible assets	7,8	**27**	77	1
Interest on lease liabilities	9	**9**	9	9
Depreciation and amortisation	7,8	**37**	39	37
Share option award charges	4	**1**	2	2
Grant income recognised in the income statement	10	**(16)**	(11)	(5)
Amounts provided for		**5**	12	-
(Gain)/loss on sale of assets		**(1)**	2	(4)
Accrued interest on and amortisation of investment securities		**(2)**	(11)	3
Changes in operating assets and liabilities				
Changes in loans and advances to customers		**(176)**	309	(754)
Changes in deposits from customers		**1,100**	774	(1,958)
Changes in operating assets		**(11)**	824	(850)
Changes in operating liabilities		**(61)**	(1,213)	1,182
Net cash inflows/(outflows) from operating activities		**671**	679	(2,334)
Cash flows from investing activities				
Net (purchase)/sale of investment securities		**(454)**	(190)	1,765
Purchase of PPE		**(10)**	(87)	(33)
Purchase and development of intangible assets	8	**(53)**	(40)	(39)
Net cash (outflows)/inflows from investing activities		**(517)**	(317)	1,693
Cash flows from financing activities				
Shares issued (net of costs)	11	**-**	-	359
Debt securities issued (net of costs)		**-**	342	-
Grants received	10	**-**	-	120
Grants repaid	10	**(50)**	-	-
Repayment of capital element of leases	9	**(13)**	(13)	(12)
Net cash (outflows)/inflows from financing activities		**(63)**	329	467
Net increase/(decrease) in cash and cash equivalents		**91**	691	(174)
Cash and cash equivalents at start of period		**2,989**	2,298	2,472
Cash and cash equivalents at end of period		**3,080**	2,989	2,298
(Loss)/profit before tax includes:				
Interest received		**217**	240	253
Interest paid		**(107)**	(95)	(79)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

For the half year to 30 June 2020

	Called-up Share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance at 1 January 2020	**-**	**1,964**	**(392)**	**(3)**	**14**	**1,583**
Loss for the period	**-**	**-**	**(240)**	**-**	**-**	**(240)**
Other comprehensive income (net of tax) relating to investment securities designated at fair value through other comprehensive income	**-**	**-**	**-**	**3**	**-**	**3**
Total comprehensive income	**-**	**-**	**(240)**	**3**	**-**	**(237)**
Net share option movements	**-**	**-**	**-**	**-**	**1**	**1**
Balance at 30 June 2020	**-**	**1,964**	**(632)**	**-**	**15**	**1,347**
Balance at 1 July 2019	-	1,964	(208)	(2)	13	1,767
Loss for the period	-	-	(184)	-	-	(184)
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	(1)	-	(1)
Total comprehensive income	-	-	(184)	(1)	-	(185)
Net share option movements	-	-	-	-	1	1
Balance at 31 December 2019	-	1,964	(392)	(3)	14	1,583
Balance at 1 January 2019	-	1,605	(209)	(3)	10	1,403
Profit for the period	-	-	1	-	-	1
Other comprehensive income (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	1	-	1
Total comprehensive income	-	-	1	1	-	2
Shares issued	-	375	-	-	-	375
Cost of shares issued	-	(16)	-	-	-	(16)
Net share option movements	-	-	-	-	3	3
Balance at 30 June 2019	-	1,964	(208)	(2)	13	1,767
Note	11	11				

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

1.1 General information

Metro Bank PLC ("our" or "we") provides retail and commercial banking services in the UK, is a public limited liability company incorporated and domiciled in England and Wales and is listed on the London Stock Exchange (LON:MTRO). The address of its registered office is: One Southampton Row London WC1B 5HA.

1.2 Basis of preparation

The condensed consolidated interim financial statements of Metro Bank and its subsidiaries ("the Group") for the half year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 5 August 2020.

These condensed consolidated interim financial statements for the half year ended 30 June 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the FCA and IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should be read in conjunction with our Annual Report and Accounts for the year ended 31 December 2019 which are available on our website.

The comparative financial information for the year ended 31 December 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position as well as other principal risks. As part of this process the Directors have considered an updated long-term plan including associated upside and downside scenarios. All scenarios considered incorporate assumptions surrounding the potential impacts of the COVID-19 pandemic on the economy over both the near and longer terms. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources (including liquidity and capital) to be able to continue to operate for the foreseeable future. The Directors did not deem there to be any material uncertainties with regards to the assessment on going concern.

1.3 Accounting policies

The accounting policies are consistent with those applied in our 2019 Annual Report and Accounts.

Future accounting developments

There are no known future accounting developments that are likely to have a material impact on the Group.

1.4 Critical accounting judgements

In our 2019 Annual Report and Accounts we identified three critical accounting judgements:

- Measurement of the expected credit loss allowance (significant increase in credit risk)
- Recognition of provisions
- Write-off of intangible assets

1. Basis of preparation and accounting policies (continued)

We continue to consider measurement of the expected credit loss allowance (significant increase in credit risk) and recognition of provisions to be significant accounting judgements at 30 June 2020. The only change to the nature of the judgements described in the 2019 Annual Report and Accounts relates to the judgment applied when determining if there has been a significant increase in credit risk. During the half year to 30 June 2020 we introduced the ability for our customers to request payment deferrals as a result of the COVID-19 pandemic. The use of a payment deferral is not in itself considered to be trigger of a significant increase in credit risk and as such the granting of a COVID-19 related payment holiday does not in itself result in a transfer between stages for the purposes of IFRS 9. Payment deferral is however a potential indicator of a significant increase in credit risk and the increased risk has been reflected via a judgemental uplift to the probabilities of default for loans subject to payment deferral. Otherwise the process we apply to determine whether a significant increase in credit risk has occurred is consistent with that outlined in our 2019 Annual Report and Accounts.

Following the impairment exercise performed in 2019 and having given due consideration to the current economic environment have not identified any new impairment indicators in the 6 months to 30 June 2020. We therefore do not consider the write-off or impairment of intangible assets to be a significant accounting judgement at 30 June 2020.

No new critical accounting judgements have been identified as at 30 June 2020.

1.5 Critical accounting estimates

In our 2019 Annual Report and Accounts we identified one critical accounting estimate relating to the formulation and incorporation of multiple forward-looking economic scenarios into the measurement of the expected credit loss allowance. We continue to consider this to be a critical accounting estimate.

As described in the 2019 Annual Report and Accounts, the ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. At 30 June 2020 we used three scenarios (“Baseline”, “Upside” and “Downside”) all of which reflect the impact of the current uncertainty in the UK economy due to the COVID-19 pandemic.

The following factors, considered to be the key drivers of ECL, have been used for the scenarios applied:

- UK five year mortgage interest rates
- UK unemployment rates
- UK house price index (HPI) changes, year on year
- UK gross domestic product (GDP) changes, year on year

The weightings applied to each scenario at 30 June 2020 are:

- Baseline – 40%
- Upside and Downside – 30% each

The weighted ECL is higher than the Baseline scenario, reflecting the impact of the Downside scenario, offset by the impact of the Upside scenario.

The weightings applied to each scenario are considered to represent significant accounting estimates. We have performed an assessment of the impact on the ECL if each of the Baseline, Upside and Downside scenarios were applied to the ECL calculation using a 100% weighting (that is, ignoring all other scenarios in each case):

Scenario	ECL £’million	Variance to reported weighted ECL at 30 June 2020
Weighted	145	-
Baseline	136	(6%)
Upside	118	(19%)
Downside	184	27%

1. Basis of preparation and accounting policies (continued)

We note that the sensitivities disclosed above represent example scenarios and may not represent actual scenarios which occur in the future. If one of these scenarios did arise then at that time the ECL would not equal the amount disclosed above, as the amounts disclosed do not take account of the alternative possible scenarios which would be considered at that time. We also note that the sensitivities disclosed above do not take into account movements in impairment stage allocations that would result under the different scenarios.

The period-end assumptions used for the ECL estimate as at 30 June 2020 are as follows:

Macroeconomic variable	Scenario	2020	2021	2022	2023
UK five year mortgage interest rates (%)	Baseline	1.73%	1.91%	2.24%	2.78%
	Upside	1.99%	2.44%	2.85%	3.32%
	Downside	1.77%	1.92%	1.90%	2.06%
Unemployment (%)	Baseline	8.41%	8.40%	7.86%	6.93%
	Upside	7.65%	6.79%	6.43%	5.73%
	Downside	9.94%	10.77%	10.39%	9.22%
House price index (YoY%)	Baseline	(14.64%)	(4.88%)	5.75%	9.95%
	Upside	(12.13%)	1.26%	7.21%	8.27%
	Downside	(19.48%)	(14.44%)	1.99%	10.35%
UK GDP (YoY%)	Baseline	(7.66%)	3.85%	5.17%	3.47%
	Upside	(4.71%)	3.85%	4.96%	3.42%
	Downside	(10.64%)	4.38%	5.27%	3.41%

1.6 Operating segments

We provide retail and commercial banking services. The Board considers the results of the Group as a whole when assessing the performance of the business and allocating resources. Accordingly we have only a single operating segment.

We operate solely in the UK and as such no geographical analysis is required

2. Net interest income

Interest income

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Cash and balances held with the Bank of England	**4.9**	9.4	7.6
Loans and advances to customers	**191.7**	216.2	218.8
Investment securities held at amortised cost	**19.5**	17.3	23.3
Investment securities held at FVOCI	**1.6**	1.3	2.3
Total interest income	**217.7**	244.2	252.0

Interest expense

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Deposits from customers	**60.3**	61.2	51.2
Deposits from central banks	**6.8**	14.4	14.1
Repurchase agreements	**1.2**	2.7	4.7
Debt securities	**24.2**	15.1	7.0
Lease liabilities	**9.3**	8.9	8.8
Total interest expense	**101.8**	102.3	85.8

3. General operating expenses

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
People costs	**88.7**	84.6	86.3
Information technology costs	**21.7**	17.1	16.7
Occupancy expenses	**17.2**	14.7	13.9
Money transmission and other banking related costs	**13.5**	11.0	16.1
Transformation costs	**12.4**	6.8	4.7
Remediation costs	**17.8**	24.5	2.3
Capability & Innovation fund (C&I) costs	**15.1**	12.7	3.8
Legal, regulatory and professional fees	**24.0**	9.0	6.9
Contractor costs	**2.8**	2.8	3.0
Printing, postage and stationery costs	**3.1**	2.9	2.7
Travel costs	**1.3**	2.0	1.9
Marketing and advertising costs	**3.6**	1.8	1.7
Costs relating to preparing for the RBS alternative remedies package	**-**	-	1.2
Other	**12.9**	16.0	13.5
Total general operating expenses	**234.1**	205.9	174.7

4. People costs

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Wages and salaries	**74.6**	70.4	71.8
Social security costs	**7.9**	7.4	7.3
Pension costs	**5.0**	4.9	4.9
Equity-settled share based payments	**1.2**	1.9	2.3
Total people costs	**88.7**	84.6	86.3

5. Taxation

Tax (expense)/credit for the period

The components of tax (expense)/credit for the six months ended 30 June 2020, 31 December 2019 and 30 June 2019 are:

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
Current tax			
Current tax	**0.6**	3.6	(0.1)
Adjustment in respect of prior years	**-**	(0.2)	(0.1)
Total current tax credit/(expense)	**0.6**	3.4	(0.2)
Deferred tax			
Origination and reversal of temporary differences	**(1.3)**	(50.7)	(1.3)
Effect of changes in tax rates	**1.8**	(1.9)	(0.9)
Adjustment in respect of prior periods	**-**	(0.5)	0.3
Total deferred tax credit/(expense)	**0.5**	(53.1)	(1.9)
Total tax credit/(expense)	**1.1**	(49.7)	(2.1)

5. Taxation (continued)

Reconciliation of the total tax credit/(expense)

The tax credit/(expense) shown in the income statement differs from the tax credit/(expense) that would apply if all accounting profits had been taxed at the UK corporation tax rate.

A reconciliation between the tax credit/(expense) and the accounting profit multiplied by the UK corporation tax rate for the half year ended 30 June 2020, 31 December 2019 and 30 June 2019 are as follows:

	Half year to 30 June 2020 £'million	**Effective tax rate %**	Half year to 31 December 2019 £'million	Effective tax rate %	Half year to 30 June 2019 £'million	Effective tax rate %
(Loss)/Profit before tax	**(240.6)**		(134.2)		3.4	
Tax credit/(expense) at statutory income tax rate of 19%	**45.7**	**19.0%**	25.5	19.0%	(0.6)	19%
Tax effects of:						
Non-deductible expenses - depreciation on non-qualifying fixed assets	**(1.4)**	**(0.6%)**	(2.7)	2.0%	(0.3)	9.2%
Non-deductible expenses - PPE impairment	**(2.2)**	**(0.9%)**	(1.1)	0.8%	-	-
Non-deductible expenses - remediation	**(3.0)**	**(1.3%)**	(4.4)	3.3%	-	-
Non-deductible expenses - other	**(0.5)**	**(0.2%)**	(0.6)	0.4%	(0.1)	1.1%
Impact of intangible asset impairment on R&D deferred tax liability	**-**	**-**	1.8	(1.3%)	-	-
Share based payments	**(0.2)**	**(0.1%)**	(1.5)	1.1%	(0.4)	11.1%
Adjustment in respect of prior years	**-**	**-**	(0.7)	0.5%	0.2	(5.5%)
Losses for the period for which no deferred tax asset has been recognised	**(39.1)**	**(16.3%)**	(11.4)	8.5%	-	-
Derecognition of tax losses arising in prior years	**-**	**-**	(52.7)	39.3%	-	-
Effect of changes in tax rates	**1.8**	**0.8%**	(1.9)	1.4%	(0.9)	27.6%
Tax (expense) / credit reported in the consolidated income statement	**1.1**	**0.4%**	(49.7)	37.0%	(2.1)	62.5%

Effective tax rate

The effective tax rate for half year to 30 June 2020 is 0.4% (half year to 31 December 2019: 37.0%; half year to 30 June 2019: 62.5%). The main reasons for this, in addition to the reported accounting loss before tax for the period are set out below:

Derecognition of tax losses carried forward	We derecognised the deferred tax asset for tax losses carried forward as at 31 December 2019, due to the reduction in our expected forecast short term profit. This is due to our long term investment in cost, revenue and infrastructure transformation. The tax relief on current year losses to date for which no deferred tax asset has been recognised is £39.1 million at 30 June 2020 (31 December 2019: £11.4, 30 June 2019: £nil).
Effect of changes in tax rates	This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate, announced in the Budget on 11 March 2020 and substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 remained at 19%, rather than the previously enacted reduction to 17%.

5. Taxation (continued)

Deferred tax

A deferred tax asset must be regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable tax profits from which the future of the underlying timing differences can be deducted.

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the tax expense:

	Unused tax losses £'million	Investment securities & impairments £'million	Share based payments £'million	Property, plant & equipment £'million	Intangible assets £'million	Total £'million
30 June 2020						
Deferred tax assets	**-**	**5**	**-**	**-**	**-**	**5**
Deferred tax liabilities	**-**	**(2)**	**-**	**(14)**	**(4)**	**(20)**
Deferred tax liabilities (net)	**-**	**3**	**-**	**(14)**	**(4)**	**(15)**
At 1 January 2020	**-**	**4**	**-**	**(15)**	**(4)**	**(15)**
Income statement	**-**	**(1)**	**-**	**1**	**-**	**-**
At 30 June 2020	**-**	**3**	**-**	**(14)**	**(4)**	**(15)**
31 December 2019						
Deferred tax assets	-	6	-	-	-	6
Deferred tax liabilities	-	(2)	-	(15)	(4)	(21)
Deferred tax liabilities (net)	-	4	-	(15)	(4)	(15)
At 1 July 2019	53	5	-	(12)	(7)	39
Income statement	(53)	(1)	-	(3)	3	(54)
At 31 December 2019	-	4	-	(15)	(4)	(15)
30 June 2019						
Deferred tax assets	53	7	-	-	-	60
Deferred tax liabilities	-	(2)	-	(12)	(7)	(21)
Deferred tax assets (net)	53	5	-	(12)	(7)	39
At 1 January 2019	53	5	1	(11)	(7)	41
Income statement	-	-	(1)	(1)	-	(2)
At 30 June 2019	53	5	-	(12)	(7)	39

6. Loans and advances to customers

	30 June 2020		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Retail mortgages	**10,190**	**(40)**	**10,150**
Consumer lending	**198**	**(22)**	**176**
Commercial lending	**4,614**	**(83)**	**4,531**
Total loans and advances to customers	**15,002**	**(145)**	**14,857**

	31 December 2019		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	10,430	(8)	10,422
Consumer lending	233	(13)	220
Commercial lending	4,052	(13)	4,039
Total loans and advances to customers	14,715	(34)	14,681

	30 June 2019		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	10,412	(7)	10,405
Consumer lending	265	(11)	254
Commercial lending	4,343	(13)	4,330
Total loans and advances to customers	15,020	(31)	14,989

Loans and advances to customers by category

	30 June 2020 £'million	31 December 2019 £'million	30 June 2019 £'million
Retail owner occupied	**8,310**	8,493	8,447
Retail buy-to-let	**1,880**	1,937	1,965
Total retail mortgages	**10,190**	10,430	10,412
Overdrafts	**73**	77	73
Credit cards	**10**	11	11
Term loans	**115**	145	181
Total consumer lending	**198**	233	265
Total retail lending	**10,388**	10,663	10,677
Professional buy-to-let	**1,167**	1,219	1,313
Bounce back loans	**730**	-	-
Coronavirus business interruption loans	**50**	-	-
Other commercial term loans	**2,222**	2,327	2,498
Commercial term loans	**4,169**	3,546	3,811
Overdrafts and revolving credit facilities	**185**	202	225
Credit cards	**3**	3	3
Asset and invoice finance	**257**	301	304
Total commercial lending	**4,614**	4,052	4,343
Total gross loans to customers	**15,002**	14,715	15,020

6. Loans and advances to customers (continued)

Credit risk exposures

The following tables show the loans for each of our portfolios by days past due along with their corresponding staging. Where payment deferrals have been given as a result of COVID-19 the days past due figure exclude the deferral period. Overall COVID-19 has impacted a number of our customers, and this is reflected in the deterioration in the proportion of loans which are past due. We have provisioned for higher levels of expected credit losses to reflect this risk.

Retail mortgages

	30 June 2020			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI Lifetime ECL £'million**
Up to date	**9,382**	**680**	**33**	**-**
1 to 29 days past due	**-**	**14**	**7**	**-**
30 to 89 days past due	**-**	**29**	**11**	**-**
90+ days past due	**-**	**-**	**34**	**-**
Gross carrying amount	**9,382**	**723**	**85**	**-**

	31 December 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	9,873	449	16	-
1 to 29 days past due	1	21	4	-
30 to 89 days past due	-	32	10	-
90+ days past due	-	-	24	-
Gross carrying amount	9,874	502	54	-

	30 June 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	10,154	163	16	1
1 to 29 days past due	6	8	5	-
30 to 89 days past due	-	40	9	-
90+ days past due	-	-	10	-
Gross carrying amount	10,160	211	40	1

Consumer lending

	30 June 2020			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI Lifetime ECL £'million**
Up to date	**177**	**-**	**-**	**-**
1 to 29 days past due	**2**	**1**	**-**	**-**
30 to 89 days past due	**-**	**7**	**-**	**-**
90+ days past due	**-**	**-**	**11**	**-**
Gross carrying amount	**179**	**8**	**11**	**-**

6. Loans and advances to customers (continued)

	31 December 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	213	-	-	-
1 to 29 days past due	10	-	-	-
30 to 89 days past due	-	-	-	-
90+ days past due	-	-	10	-
Gross carrying amount	223	-	10	-

	30 June 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	243	-	-	-
1 to 29 days past due	11	-	-	-
30 to 89 days past due	-	2	-	-
90+ days past due	-	-	9	-
Gross carrying amount	254	2	9	-

Commercial lending

	30 June 2020			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI Lifetime ECL £'million**
Up to date	**4,353**	**2**	**43**	**-**
1 to 29 days past due	**2**	**39**	**1**	**-**
30 to 89 days past due	**-**	**97**	**16**	**-**
90+ days past due	**-**	**-**	**61**	**-**
Gross carrying amount	**4,355**	**138**	**121**	**-**

	31 December 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	3,900	-	7	-
1 to 29 days past due	29	18	4	-
30 to 89 days past due	-	54	9	-
90+ days past due	-	-	31	-
Gross carrying amount	3,929	72	51	-

	30 June 2019			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	4,293	-	-	-
1 to 29 days past due	7	8	-	-
30 to 89 days past due	-	26	-	-
90+ days past due	-	-	9	-
Gross carrying amount	4,300	34	9	-

6. Loans and advances to customers (continued)

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of our loans and advances during the period.

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**
Balance at 1 January 2020	**9,874**	**502**	**54**	**-**	**10,430**	**-**	**(3)**	**(5)**	**-**	**(8)**	**9,874**	**499**	**49**	**-**	**10,422**
Transfers to/from stage 1[1]	**127**	**(126)**	**(1)**	**-**	**-**	**(1)**	**1**	**-**	**-**	**-**	**126**	**(125)**	**(1)**	**-**	**-**
Transfers to/from stage 2[1]	**(383)**	**383**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(383)**	**383**	**-**	**-**	**-**
Transfers to/from stage 3[1]	**(24)**	**(14)**	**38**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(24)**	**(14)**	**38**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**	**-**	**-**	**(5)**	**(3)**	**-**	**(8)**	**-**	**(5)**	**(3)**	**-**	**(8)**
New lending[3]	**260**	**4**	**-**	**-**	**264**	**(2)**	**-**	**-**	**-**	**(2)**	**258**	**4**	**-**	**-**	**262**
Repayments, additional drawdowns and interest accrued	**(127)**	**(5)**	**-**	**-**	**(132)**	**-**	**-**	**-**	**-**	**-**	**(127)**	**(5)**	**-**	**-**	**(132)**
Derecognitions[4]	**(345)**	**(21)**	**(6)**	**-**	**(372)**	**-**	**-**	**-**	**-**	**-**	**(345)**	**(21)**	**(6)**	**-**	**(372)**
Changes to assumptions[6]	**-**	**-**	**-**	**-**	**-**	**(18)**	**(4)**	**-**	**-**	**(22)**	**(18)**	**(4)**	**-**	**-**	**(22)**
Balance at 30 June 2020	**9,382**	**723**	**85**	**-**	**10,190**	**(21)**	**(11)**	**(8)**	**-**	**(40)**	**9,361**	**712**	**77**	**-**	**10,150**

£'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
Balance at 1 July 2019	10,160	211	40	1	10,412	-	(3)	(4)	-	(7)	10,160	208	36	1	10,405
Transfers to/from stage 1[1]	38	(35)	(3)	-	-	-	-	-	-	-	38	(35)	(3)	-	-
Transfers to/from stage 2[1]	(269)	270	(1)	-	-	-	-	-	-	-	(269)	270	(1)	-	-
Transfers to/from stage 3[1]	(22)	(7)	29	-	-	-	-	-	-	-	(22)	(7)	29	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	-	-	(1)	-	(1)	-	-	(1)	-	(1)
New lending[3]	502	75	-	-	577	-	-	-	-	-	502	75	-	-	577
Repayments, additional drawdowns and interest accrued	(116)	(7)	(2)	-	(125)	-	-	-	-	-	(116)	(7)	(2)	-	(125)
Derecognitions[4]	(419)	(5)	(9)	(1)	(434)	-	(1)	1	-	-	(419)	(6)	(8)	(1)	(434)
Changes to assumptions[6]	-	-	-	-	-	-	1	(1)	-	-	-	1	(1)	-	-
Balance at 31 December 2019	9,874	502	54	-	10,430	-	(3)	(5)	-	(8)	9,874	499	49	-	10,422

£'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
Balance at 1 January 2019	9,245	336	39	5	9,625	-	(5)	(4)	(2)	(11)	9,245	331	35	3	9,614
Transfers to/from stage 1[1]	131	(127)	(4)	-	-	(1)	1	-	-	-	130	(126)	(4)	-	-
Transfers to/from stage 2[1]	(100)	100	-	-	-	-	-	-	-	-	(100)	100	-	-	-
Transfers to/from stage 3[1]	-	(9)	9	-	-	-	-	-	-	-	-	(9)	9	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	1	(1)	(1)	-	(1)	1	(1)	(1)	-	(1)
New lending[3]	1,620	2	-	-	1,622	-	-	-	-	-	1,620	2	-	-	1,622
Repayments, additional drawdowns and interest accrued	(128)	(2)	(1)	-	(131)	-	-	-	-	-	(128)	(2)	(1)	-	(131)
Derecognitions[4]	(247)	(9)	-	(4)	(260)	-	-	-	2	2	(247)	(9)	-	(2)	(258)
Transfer to disposal group classified as held for sale[5]	(361)	(80)	(3)	-	(444)	-	3	1	-	4	(361)	(77)	(2)	-	(440)
Changes to assumptions[6]	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)	-	-	(1)
Balance at 30 June 2019	10,160	211	40	1	10,412	-	(3)	(4)	-	(7)	10,160	208	36	1	10,405

1. Represents the stage transfers prior to any ECL remeasurement
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off
5. Represents the decrease in balances resulting from the reclassification of loans and advances that as at the reporting date are treated as held for sale
6. Represents the change in loss allowances resulting from changes to assumptions notably forward looking macro-economic information and changes in the customer's risk profile

6. Loans and advances to customers (continued)

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
Balance at 1 January 2020	**223**	**-**	**10**	**-**	**233**	**(3)**	**(1)**	**(9)**	**-**	**(13)**	**220**	**(1)**	**1**	**-**	**220**
Transfers to/from stage 1[1]	**1**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**
Transfers to/from stage 2[1]	**(8)**	**8**	**-**	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**(7)**	**7**	**-**	**-**	**-**
Transfers to/from stage 3[1]	**(1)**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**-**	**1**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(2)**	**-**	**(1)**	**(1)**	**-**	**(2)**
New lending[3]	**8**	**1**	**-**	**-**	**9**	**-**	**-**	**-**	**-**	**-**	**8**	**1**	**-**	**-**	**9**
Repayments, additional drawdowns and interest accrued	**(25)**	**-**	**-**	**-**	**(25)**	**-**	**-**	**-**	**-**	**-**	**(25)**	**-**	**-**	**-**	**(25)**
Derecognitions[4]	**(19)**	**-**	**-**	**-**	**(19)**	**-**	**-**	**-**	**-**	**-**	**(19)**	**-**	**-**	**-**	**(19)**
Changes to assumptions[5]	**-**	**-**	**-**	**-**	**-**	**(6)**	**(1)**	**-**	**-**	**(7)**	**(6)**	**(1)**	**-**	**-**	**(7)**
Balance at 30 June 2020	**179**	**8**	**11**	**-**	**198**	**(8)**	**(4)**	**(10)**	**-**	**(22)**	**171**	**4**	**1**	**-**	**176**

£'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
Balance at 1 July 2019	254	2	9	-	265	(3)	(1)	(7)	-	(11)	251	1	2	-	254
Transfers to/from stage 1[1]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to/from stage 2[1]	1	(1)	-	-	-	-	-	-	-	-	1	(1)	-	-	-
Transfers to/from stage 3[1]	(1)	(1)	2	-	-	-	-	-	-	-	(1)	(1)	2	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	-	-	(2)	-	(2)	-	-	(2)	-	(2)
New lending[3]	12	-	-	-	12	-	-	-	-	-	12	-	-	-	12
Repayments, additional drawdowns and interest accrued	(16)	-	(1)	-	(17)	-	-	-	-	-	(16)	-	(1)	-	(17)
Derecognitions[4]	(27)	-	-	-	(27)	-	-	-	-	-	(27)	-	-	-	(27)
Changes to assumptions[5]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2019	223	-	10	-	233	(3)	(1)	(9)	-	(13)	220	(1)	1	-	220

£'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
Balance at 1 January 2019	275	8	5	-	288	(3)	(3)	(3)	-	(9)	272	5	2	-	279
Transfers to/from stage 1[1]	5	(5)	-	-	-	-	-	-	-	-	5	(5)	-	-	-
Transfers to/from stage 2[1]	(2)	2	-	-	-	-	-	-	-	-	(2)	2	-	-	-
Transfers to/from stage 3[1]	(2)	(2)	4	-	-	-	2	(2)	-	-	(2)	-	2	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	-	-	(2)	-	(2)	-	-	(2)	-	(2)
New lending[3]	27	-	-	-	27	-	-	-	-	-	27	-	-	-	27
Repayments, additional drawdowns and interest accrued	(21)	-	-	-	(21)	-	-	-	-	-	(21)	-	-	-	(21)
Derecognitions[4]	(28)	(1)	-	-	(29)	-	-	-	-	-	(28)	(1)	-	-	(29)
Changes to assumptions[5]	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2019	254	2	9	-	265	(3)	(1)	(7)	-	(11)	251	1	2	-	254

1. Represents the stage transfers prior to any ECL remeasurement
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off
5. Represents the change in loss allowances resulting from changes to assumptions notably forward looking macro-economic information and changes in the customer's risk profile

6. Loans and advances to customers (continued)

Commercial 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
Balance at 1 January 2020	**3,929**	**72**	**51**	**-**	**4,052**	**(6)**	**(1)**	**(6)**	**-**	**(13)**	**3,923**	**71**	**45**	**-**	**4,039**
Transfers to/from stage 1[1]	**20**	**(16)**	**(4)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20**	**(16)**	**(4)**	**-**	**-**
Transfers to/from stage 2[1]	**(107)**	**107**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(107)**	**107**	**-**	**-**	**-**
Transfers to/from stage 3[1]	**(66)**	**(19)**	**85**	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**	**(66)**	**(19)**	**84**	**-**	**(1)**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**	**(20)**	**-**	**(26)**	**-**	**(6)**	**(20)**	**-**	**(26)**
New lending[3]	**919**	**2**	**2**	**-**	**923**	**(2)**	**-**	**-**	**-**	**(2)**	**917**	**2**	**2**	**-**	**921**
Repayments, additional drawdowns and interest accrued	**(112)**	**-**	**(3)**	**-**	**(115)**	**-**	**-**	**-**	**-**	**-**	**(112)**	**-**	**(3)**	**-**	**(115)**
Derecognitions[4]	**(228)**	**(8)**	**(10)**	**-**	**(246)**	**-**	**-**	**1**	**-**	**1**	**(228)**	**(8)**	**(9)**	**-**	**(245)**
Changes to assumptions[6]	**-**	**-**	**-**	**-**	**-**	**(40)**	**(2)**	**-**	**-**	**(42)**	**(40)**	**(2)**	**-**	**-**	**(42)**
Balance at 30 June 2020	**4,355**	**138**	**121**	**-**	**4,614**	**(48)**	**(9)**	**(26)**	**-**	**(83)**	**4,307**	**129**	**95**	**-**	**4,531**

£'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
Balance at 1 July 2019	4,300	34	9	-	4,343	(7)	-	(6)	-	(13)	4,293	34	3	-	4,330
Transfers to/from stage 1[1]	(12)	12	-	-	-	1	(1)	-	-	-	(11)	11	-	-	-
Transfers to/from stage 2[1]	(43)	43	-	-	-	-	-	-	-	-	(43)	43	-	-	-
Transfers to/from stage 3[1]	(13)	(7)	20	-	-	-	1	(1)	-	-	(13)	(6)	19	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	(1)	(1)	(1)	-	(3)	(1)	(1)	(1)	-	(3)
New lending[3]	125	1	15	-	141	-	-	(2)	-	(2)	125	1	13	-	139
Repayments, additional drawdowns and interest accrued	(98)	(3)	11	-	(90)	-	-	-	-	-	(98)	(3)	11	-	(90)
Derecognitions[4]	(330)	(8)	(4)	-	(342)	-	-	3	-	3	(330)	(8)	(1)	-	(339)
Changes to assumptions[6]	-	-	-	-	-	1	-	1	-	2	1	-	1	-	2
Balance at 31 December 2019	3,929	72	51	-	4,052	(6)	(1)	(6)	-	(13)	3,923	71	45	-	4,039

£'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
Balance at 1 January 2019	4,265	77	14	-	4,356	(6)	(3)	(5)	-	(14)	4,259	74	9	-	4,342
Transfers to/from stage 1[1]	55	(55)	-	-	-	(2)	2	-	-	-	53	(53)	-	-	-
Transfers to/from stage 2[1]	(21)	21	-	-	-	-	-	-	-	-	(21)	21	-	-	-
Transfers to/from stage 3[1]	(4)	(2)	6	-	-	-	-	-	-	-	(4)	(2)	6	-	-
Net remeasurement due to transfers[2]	-	-	-	-	-	2	-	(1)	-	1	2	-	(1)	-	1
New lending[3]	388	1	-	-	389	(1)	-	-	-	(1)	387	1	-	-	388
Repayments, additional drawdowns and interest accrued	(105)	-	(5)	-	(110)	-	-	-	-	-	(105)	-	(5)	-	(110)
Derecognitions[4]	(201)	(6)	(4)	-	(211)	-	-	-	-	-	(201)	(6)	(4)	-	(211)
Transfer to disposal group classified as held for sale[5]	(77)	(2)	(2)	-	(81)	-	-	-	-	-	(77)	(2)	(2)	-	(81)
Changes to assumptions[6]	-	-	-	-	-	-	1	-	-	1	-	1	-	-	1
Balance at 30 June 2019	4,300	34	9	-	4,343	(7)	-	(6)	-	(13)	4,293	34	3	-	4,330

1. Represents the stage transfers prior to any ECL remeasurement
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off
5. Represents the decrease in balances resulting from the reclassification of loans and advances that as at the reporting date are treated as held for sale
6. Represents the change in loss allowances resulting from changes to assumptions notably forward looking macro-economic information and changes in the customer's risk profile

7. Property, plant and equipment

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Right of use assets £'million	Total £'million
Cost							
1 January 2020	**18**	**314**	**262**	**26**	**10**	**332**	**962**
Additions	**-**	**3**	**4**	**1**	**2**	**3**	**13**
Write-offs	**-**	**(2)**	**-**	**(1)**	**(1)**	**-**	**(4)**
30 June 2020	**18**	**315**	**266**	**26**	**11**	**335**	**971**
Accumulated depreciation							
1 January 2020	**10**	**49**	**14**	**12**	**5**	**16**	**106**
Charge for the period	**-**	**6**	**2**	**2**	**2**	**9**	**21**
Write-offs	**-**	**-**	**-**	**(1)**	**(1)**	**-**	**(2)**
Impairments	**-**	**9**	**-**	**1**	**-**	**15**	**25**
30 June 2020	**10**	**64**	**16**	**14**	**6**	**40**	**150**
Net book value at 30 June 2020	**8**	**251**	**250**	**12**	**5**	**295**	**821**

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Right of use assets £'million	Total £'million
Cost							
1 July 2019	10	298	206	35	40	330	919
Additions	-	28	55	3	1	9	96
Disposals	-	-	-	-	-	(7)	(7)
Write-offs	-	(3)	-	(12)	(31)	-	(46)
Transfers	8	(9)	1	-	-	-	-
31 December 2019	18	314	262	26	10	332	962
Accumulated depreciation							
1 July 2019	3	44	11	20	35	8	121
Charge for the period	-	6	2	4	1	8	21
Write-offs	-	-	-	(12)	(31)	-	(43)
Transfers	-	(1)	1	-	-	-	-
Impairments	7	-	-	-	-	-	7
31 December 2019	10	49	14	12	5	16	106
Net book value at 31 December 2019	8	265	248	14	5	316	856

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Right of use assets £'million	Total £'million
Cost							
1 January 2019	10	275	199	33	39	313	869
Additions	-	23	7	2	1	17	50
30 June 2019	10	298	206	35	40	330	919
Accumulated depreciation							
1 January 2019	3	39	9	18	33	-	102
Charge for the period	-	5	2	2	2	8	19
30 June 2019	3	44	11	20	35	8	121
Net book value at 30 June 2019	7	254	195	15	5	322	798

8. Intangible assets

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2020	**4**	**-**	**224**	**228**
Additions	**-**	**-**	**53**	**53**
Write-offs	**-**	**-**	**(6)**	**(6)**
Deferred grant (see note 10)	**-**	**-**	**(3)**	**(3)**
30 June 2020	**4**	**-**	**268**	**272**
Accumulated amortisation				
1 January 2020	**-**	**-**	**60**	**60**
Charge for the period	**-**	**-**	**16**	**16**
Write-offs	**-**	**-**	**(6)**	**(6)**
30 June 2020	**-**	**-**	**70**	**70**
Net book value at 30 June 2020	**4**	**-**	**198**	**202**
Cost				
1 July 2019	4	1	286	291
Additions	-	-	40	40
Write-offs	-	(1)	(99)	(100)
Deferred grant (see note 10)	-	-	(3)	(3)
31 December 2019	4	-	224	228
Accumulated amortisation				
1 July 2019	-	1	73	74
Charge for the period	-	-	19	19
Write-offs	-	(1)	(32)	(33)
31 December 2019	-	-	60	60
Net book value at 31 December 2019	4	-	164	168
Cost				
1 January 2019	4	1	249	254
Additions	-	-	39	39
Write-offs	-	-	(1)	(1)
Deferred grant (see note 10)	-	-	(1)	(1)
30 June 2019	4	1	286	291
Accumulated amortisation				
1 January 2019	-	1	56	57
Charge for the period	-	-	17	17
30 June 2019	-	1	73	74
Net book value at 30 June 2019	4	-	213	217

9. Lease liabilities

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
At beginning of the period	**341**	342	328
Additions and modifications	**3**	6	17
Disposals	**-**	(3)	-
Lease payments made	**(13)**	(13)	(12)
Interest on lease liabilities	**9**	9	9
At the end of the period	**340**	341	342

10. Deferred grants

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
At beginning of the period	**50**	115	-
Grants received	**-**	-	120
Released to the income statement	**(16)**	(12)	(4)
Offset against capital expenditure (see note 8)	**(3)**	(3)	(1)
Amounts awaiting repayment	-	(50)	-
At the end of the period	**31**	50	115

Our only deferred grants relate to amounts received in relation to the C&I Fund which formed part of the RBS alternative remedies programme. The programme was aimed to increase competition in the UK business banking marketplace.

Originally we were awarded a grant of £120 million, however following changes to our strategy in 2019, a revised business case was submitted to BCR (the awarding body). On 25 February 2020 the revised business case was accepted by BCR, as part of which the public commitments attached to the grant were amended. The commitments relate to the delivery of certain digital initiatives as well as opening at least 15 stores in the north of England. Full details of the commitment can be found on BCR's website. As part of this, it was agreed that £50 million of the grant would be returned to BCR.

The acceptance of our proposal by BCR post year end was considered an adjusting event for the purposes of our 2019 financial statements and, as such, the £50 million to be repaid was classified as a liability as at 31 December 2019, with the money being returned in the first half of 2020.

11. Share capital

As at 30 June 2020 we had 172.4 million ordinary shares of 0.0001 pence (31 December 2019: 172.4 million, 30 June 2019 172.4 million) in issue.

Called up ordinary share capital (issued and fully paid)

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
At beginning of the period	**-**	-	-
Shares issued	**-**	-	-
At end of the period	**-**	-	-

Share premium

	Half year to 30 June 2020 £'million	Half year to 31 December 2019 £'million	Half year to 30 June 2019 £'million
At beginning of the period	**1,964**	1,964	1,605
Shares issued	**-**	-	375
Cost of shares issued	**-**	-	(16)
At end of the period	**1,964**	1,964	1,964

12. Earnings per share

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

	Half year to 30 June 2020	Half year to 31 December 2019	Half year to 30 June 2019
(Loss)/profit attributable to ordinary equity holders (£'million)	**(239.5)**	(183.9)	1.3
Weighted average number of ordinary shares in issue (thousands)	**172,420**	172,420	122,420
Basic earnings per share (pence)	**(138.9)**	(106.7)	1.0

12. Earnings per share (continued)

Diluted EPS has been calculated by dividing the (loss)/profit attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the 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 the half years to 30 June 2020 and 31 December 2019, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS.

	Half year to 30 June 2020	Half year to 31 December 2019	Half year to 30 June 2019
(Loss)/profit attributable to ordinary equity holders (£'million)	**(239.5)**	(183.9)	1.3
Weighted average number of ordinary shares in issue (thousands)	**172,420**	172,420	122,425
Diluted earnings per share (pence)	**(138.9)**	(106.7)	1.0

13. Fair value of financial instruments

	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**
30 June 2020					
Assets					
Loan and advances to customers	**14,857**	**-**	**-**	**14,975**	**14,975**
Investment securities held at FVOCI	**444**	**444**	**-**	**-**	**444**
Investment securities held at amortised cost	**2,577**	**850**	**1,753**	**-**	**2,603**
Liabilities					
Deposits from customers	**15,577**	**-**	**-**	**15,559**	**15,559**
Deposits from central banks	**3,801**	**-**	**-**	**3,801**	**3,801**
Debt securities	**599**	**460**	**-**	**-**	**460**
Repurchase agreements	**211**	**-**	**-**	**211**	**211**
31 December 2019					
Assets					
Loan and advances to customers	14,681	-	-	14,652	14,652
Investment securities held at FVOCI	411	411	-	-	411
Investment securities held at amortised cost	2,154	508	1,647	-	2,155
Liabilities					
Deposits from customers	14,477	-	-	14,448	14,448
Deposits from central banks	3,801	-	-	3,801	3,801
Debt securities	591	602	-	-	602
Repurchase agreements	250	-	-	250	250
30 June 2019					
Assets					
Loan and advances to customers	14,989	-	-	14,920	14,920
Investment securities held at FVOCI	419	419	-	-	419
Investment securities held at amortised cost	1,951	414	1,532	-	1,946
Liabilities					
Deposits from customers	13,703	-	-	13,656	13,656
Deposits from central banks	3,801	-	-	3,801	3,801
Debt securities	249	210	-	-	210
Repurchase agreements	1,176	-	-	1,176	1,176

13. Fair value of financial instruments (continued)

Information on how fair values are calculated for the financial assets and liabilities noted above 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).

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 generally short dated.

14. Legal proceedings and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters, the majority of which are not considered to have a material impact on the business.

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible at the moment to predict the outcome of any of these matters or reliably estimate any financial impact. As such, at the reporting date no provision has been made for any of these cases within the financial statements.

PRA and FCA investigations into RWA Adjustment and AIRB Accreditation

We are currently subject to enforcement investigations by both the Prudential Regulation Authority (PRA) and FCA.

- The PRA's investigation relates to potential breaches of the PRA's Fundamental Rules 2 and 6. The PRA is investigating whether there were failures to conduct regulatory reporting with due skill, care and diligence, to remedy an issue identified by the PRA in a timely fashion and/or to provide effective oversight and control to comply with its regulatory reporting obligations. These issues relate to our assessment and reporting of our risk-weighted assets. We are co-operating with the PRA's investigation. As yet, the PRA has given no indication of the likely timeframe for completing their investigation or of the action that might be taken as a result. As a result, it is not possible to identify the likely outcome of the investigation or quantify any potential liability for penalties or possible costs associated with the investigation with any certainty.
- The current scope of the FCA's investigation concerns potential breaches of articles 15 and 17 of the Market Abuse Regulation (EU 596/2014), Principle 11 of the FCA's Principles for Business, and Listing Principle 1, Premium Listing Principle 6 and Rule 1.3.3 of the Listing Rules, in the period between 1 June 2017 and 26 February 2019. The investigations relate to the announcements made on 23 January 2019 and 26 February 2019 in relation to risk-weighted assets and AIRB accreditation respectively and the impact these announcements had on our share price. We are co-operating with the FCA's investigation. As yet, the FCA has given no indication of the likely timeframe for completing their investigation or of any action that might be taken as a result. As a result, it is not possible to identify the likely outcome of the investigation or quantify any potential liability for penalties or possible costs associated with the investigation with any certainty.

14. Legal proceedings and regulatory matters (continued)

Sanctions-related matters

In November 2017, on the advice of external legal counsel, we notified the Office of Foreign Assets Control (OFAC) that we had discovered that a UK-based entity with which we had a banking relationship was subject to US sanctions relating to Cuba. We ended our relationship with the relevant entity. In addition, in 2019, we discovered that a payment made to a customer's account, which it had received from a UK-based financial institution, had been routed to the UK-based financial institution from Iran. A further notification was made to OFAC. We have initiated a review of the foregoing matters, together with a review of our broader sanctions compliance policies and transaction monitoring policies and procedures with the support of external advisers which is still ongoing. We continue to fully co-operate with our regulators in relation to their enquiries in this regard. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact of these matters with any certainty.

US class action

We are also defending civil claims brought against us in the State of California based on breaches of US Federal Securities laws arising from allegedly false and misleading statements in relation to our loan book between March 2018 and May 2019. We intend to vigorously defend these proceedings. They are at an early stage, and so it is not practicable to identify the likely outcome or estimate the potential financial impact.

15. Related party transactions

During the period, architecture, design and branding services were provided to us by InterArch, Inc., ("InterArch") a firm which is owned by Shirley Hill, the wife of Vernon W. Hill II. Vernon W. Hill II was Chairman until 23 October 2019 and a Board member until 17 December 2019 when he stepped down. He retains an honorary role as Chairman Emeritus.

By virtue of his previous position in the Bank, as well as status of founder, InterArch continues to be considered a related party. The creative and brand services contract and architectural design service contract ended on 27 February 2020. In order to ensure the smooth transition to new providers, we entered into a short agreement with InterArch to support the transition until the end of June 2020. This process has now fully completed.

The cost of these services in the half year to 30 June 2020 was £0.6 million (half year to 31 December 2019: £1.7 million; half year to 30 June 2019: £3.6 million). The balance owed to InterArch at 30 June 2020 was £nil million (31 December 2019: £0.1 million; 30 June 2019: £0.2 million).

16. Post balance sheet events

Retail Money Market LTD

On 3 August 2020 we announced an agreement to acquire Retail Money Market LTD, which trades under the name RateSetter, for an initial consideration of £2.5 million, followed by up to £0.5 million deferred consideration after 12 months, with additional consideration of up to £9.0 million payable on the third anniversary of the completion of the transaction, subject to the satisfaction of certain key performance criteria. Completion is expected in the second half of the year.

END OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

RECONCILIATION OF STATUTORY TO UNDERLYING RESULTS (UNAUDITED)

Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business. Details of the item that are considered to be non-underlying and their reasons for exclusion can be found on page 178 of our 2019 Annual Report and Accounts:

A reconciliation from our statutory to underlying results is set out below:

Half year to 30 June 2020	Statutory basis £'million	FSCS levy £'million	Listing Share Awards £'million	Impairment and write offs of PPE and intangible assets £'million	Net BCR costs £'million	Transformation costs £'million	Remediation costs £'million	Underlying basis £'million
Interest income	**217.7**	-	-	-	-	-	-	**217.7**
Interest expense	**(101.8)**	-	-	-	0.3	-	-	**(101.5)**
Net interest income	**115.9**	-	-	-	0.3	-	-	**116.2**
Net fee and commission income	**23.5**	-	-	-	-	-	-	**23.5**
Net gains on sale of assets	**1.0**	-	-	-	-	-	-	**1.0**
Other income	**28.5**	-	-	-	(15.9)	-	-	**12.6**
Total income	**168.9**	-	-	-	(15.6)	-	-	**153.3**
General operating expenses	**(234.1)**	0.2	0.2	-	15.4	12.4	17.8	**(188.1)**
Depreciation and amortisation	**(36.8)**	-	-	-	0.2	-	-	**(36.6)**
Impairment and write offs of property, plant & equipment and intangible assets	**(26.6)**	-	-	26.6	-	-	-	**-**
Total operating expenses	**(297.5)**	0.2	0.2	26.6	15.6	12.4	17.8	**(224.7)**
Expected credit loss expense	**(112.0)**							**(112.0)**
Loss before tax	**(240.6)**	0.2	0.2	26.6	-	12.4	17.8	**(183.4)**
Taxation	**1.1**	-	-	-	-	(2.2)	(3.1)	**(4.2)**
Loss after tax	**(239.5)**	**0.2**	**0.2**	**26.6**	**-**	**10.2**	**14.7**	**(187.6)**