Metro Bank PLC
Full year results
Trading Update 2020
24 February 2021

Metro Bank PLC (LSE: MTRO LN)

Results for Year ended 31 December 2020

Highlights:

- **Continued support for customers, communities and colleagues through COVID-19**
- **Accelerated transition to higher yielding assets**
    - **£3.1 billion mortgage disposal**
    - **RateSetter platform and back book acquisitions drive growth in unsecured lending**
    - **Shift towards specialist mortgages (>80% of applications)**
- **Extended over 36,000 government-backed business loans totalling £1.5 billion**
- **11% growth in deposits; meaningful mix shift to more current accounts**
- **#1 high street bank for service for the sixth time in a row**
- **10% growth in customer accounts**

Summary

- **Continued support for customers, communities and colleagues during COVID-19**, demonstrating that community banking has never been more relevant.
- **Transformation plan is on track,** although financial performance impacted by COVID-19.
- **Strategic pillars unchanged.** The liability-led strategy has been supplemented by an acceleration of asset mix shift in response to longer term impacts of COVID-19.
- **Underlying loss before tax of £271.8 million for the year (2019: loss of £11.7 million)**
- **Estimated £124 million of impact from COVID-19**, comprising c.£100million COVID-19 expected credit loss (ECL) expense and lower transaction fee income.
- **Underlying loss halved H2 vs H1**, with improved net interest margin (NIM) and fee income combined with significantly lower ECL charge.
- **Statutory loss before tax of £311.4 million** (2019: loss of £130.8 million) reflecting the underlying loss and a number of one-off items including the exit from a central London office and remediation costs.
- **11% year-on-year growth in deposits to £16.1 billion** (2019: £14.5 billion) and 3% growth in H2, with mix improved as fixed term deposit accounts reduced to 21% (31 December 2019: 32%) and the share of retail (excluding partnerships) and SME customers increased to 73% (31 December 2019: 70%). Cost of deposits exited the year at 39bps.
- **£3.1 billion residential mortgage portfolio disposal** removes current need to issue MREL qualifying debt and creates headroom for growth in higher-yielding assets**.**
- **Completion of RateSetter platform acquisition and announcement of back book purchase** accelerating rebalancing of lending mix towards unsecured lending.

- **Pro forma Common Equity Tier 1 (CET1) ratio of 16.3%[1] (31 December 2019: 15.6%)**, including c.0.8% of software assets. Pro forma total capital plus MREL of 24.4%[1] (31 December 2019: 22.1%).
- **Strong liquidity position**, pro forma liquidity coverage ratio (LCR) 331% [1].
- **Continued to attract new customers**, reaching 2.2 million customer accounts (31 December 2019: 2.0 million).
- **Awarded Moneynet Banking Brand of Year 2021 and MoneyAge Bank of the Year 2020.**
- **Strengthened the Board and Executive Committee** including appointment of Robert Sharpe as Chair on 1 November 2020.

Key Financials:

£ in millions	31-Dec 2020	31-Dec 2019	Change from FY 2019	30-Jun 2020	Change from HY 2020
Assets	£22,579	£21,400	6%	£22,134	2%
Loans	£12,090	£14,681	(18%)	£14,857	(19%)
Deposits	£16,072	£14,477	11%	£15,577	3%
Loan to deposit ratio	75%	101%	(26pps)	95%	(20pps)
CET1 capital ratio	15.0%	15.6%	(60bps)	14.5%	50bps
Total capital ratio (TCR)	18.1%	18.3%	(20bps)	17.3%	80bps
TCR plus MREL	22.4%	22.1%	30bps	21.3%	110bps
Liquidity coverage ratio	187%	197%	(10pps)	226%	(39pps)

£ in millions	Year ended 31-Dec 2020	Year ended 31-Dec 2019	YoY Change	Half year ended 31-Dec 2020	Half year ended 30-Jun 2020	HoH Change
Total underlying revenue[2]	£340.9	£400.1	(15%)	£187.6	£153.3	22%
Underlying loss before tax [3]	(£271.8)	(£11.7)		(£88.4)	(£183.4)	
Statutory loss before tax	(£311.4)	(£130.8)		(£71.0)	(£240.6)	
Net interest margin	1.22%	1.51%	(29bps)	1.28%	1.15%	13bps
Underlying EPS- basic	(151.7p)	(10.8p)		(42.9p)	(108.8p)	
Underlying EPS- diluted	(151.7p)	(10.8p)		(42.9p)	(108.8p)	

1. Pro forma on completion of the residential mortgage portfolio sale, including the settlement of a receivable outstanding at year end
2. Underlying revenue excludes amounts grant income recognised relating to the Capability & Innovation fund and the gain on the mortgage portfolio sale
3. Underlying loss before tax excludes the FSCS levy (for half year figures only), Listing Share Awards, impairment and write-off of property, plant & equipment (PPE) and intangible assets, net BCR costs, transformation costs, remediation costs, business acquisition and integration costs and mortgage portfolio sale. Statutory loss after tax is included in the Profit and Loss Account.

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

"It has been a truly unprecedented year for our business, colleagues and customers. Never has the role of a community bank been more important for people across the UK and I am incredibly proud of the way Metro Bank has continued to support and deliver for our customers. Whether through our colleagues who have kept all stores open and been available on the phone throughout national and regional lockdowns, or through our back office colleagues who have helped business and personal customers access much-needed government backed loan schemes, Metro Bank has made a real difference to the communities we serve.

“The pandemic has clearly impacted performance, leading to significant expected credit losses, but our transformation strategy is firmly on track and we have accelerated initiatives to shift our asset mix, bringing higher yield and improving net interest margin, as evidenced in the second half. The purchase of the RateSetter platform has allowed us to enter the unsecured lending market. In addition, we have made progress against each of our strategic pillars, including the sale of part of our residential mortgage portfolio to further optimise our balance sheet, the launch of higher yielding products including specialist mortgages, and we have grown customer accounts to 2.2 million.

“2020 marked Metro Bank’s 10th anniversary and whilst challenging, the strategic actions we have taken, supported by our incredible team of dedicated colleagues, means we remain on track to achieve our transformation plan as the UK's best community bank.”

A presentation for investors and analysts will be held at 11:30AM (UK Time) on 24 February 2021.

The presentation will be webcast on:

https://onlinexperiences.com/Launch/QReg/ShowUUID=581E4973-0E91-467D-A85E-8C23D1FCA10D

For those wishing to dial-in:

From the UK dial: 0800 358 9473
From the US dial: +1 855 85 70686
Participant Pin: 78468426#
URL for other international dial in numbers:
https://event.sharefile.com/share/view/s7bae1d9235d495a8

Progress on strategic plan

Differentiated customer proposition and customer centric model has once again been recognised in the CMA Service Quality Survey, with Metro Bank the highest rated high street bank for overall service quality for personal and business customers. We were also awarded Moneynet Banking Brand of Year 2021 and MoneyAge Bank of the Year 2020.

Strategic pillars unchanged. The liability-led strategy supplemented by the acceleration of asset mix shift, in response to the significant reduction in treasury yields resulting from COVID-19. The actions taken in 2020 reflect this change of emphasis.

Driving profitable revenue growth through **meeting more customer needs by better executing and enhancing product offerings** remains a key part of our strategy which in turn supports our acceleration towards higher yielding assets.

Committed to leveraging our existing network of 77 stores, with no expansion beyond stores in Bradford and Leicester in 2021. Future expansion is subject to review, with no new stores planned in 2022 or 2023.

2020 actions

Balance sheet optimisation	- £3.1 billion residential mortgage portfolio disposal with an average yield of 2.1% - Acquisition and integration of RateSetter platform accelerates growth in consumer unsecured lending - Re-entered high LTV mortgage market as part of specialist mortgages strategy, specialist mortgage applications accounted for >80% of all mortgage applications in 4Q20
Revenue	- Launched Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) government backed loans including BBLS top-ups - New products launched enhancing both retail and business customer propositions, including Business Account Online (BAO) - Unsecured consumer lending now originating through the RateSetter platform
Cost	- Accelerated property strategy; exited central London property, purchased three freeholds of existing stores and shift to continued remote working - Procurement transformation and IT outsourcing transformed - E-forms and process automation across the Bank - Leveraging the existing store estate is a key driver and future store plans are always under evaluation
Infrastructure	- RateSetter platform integrated and originating unsecured consumer lending - Regulatory requirements delivered including PSD2, high cost of credit and cross border regulation - IT landscape enhanced with a security operations centre and platform upgrades

2021 priorities and outlook

Balance sheet optimisation	- Accelerate unsecured lending and specialist mortgages to drive improved yields and reduce the lag effect on NIM - Remain dynamic and opportunistic to seek capital efficiencies
Revenue	- Further proposition enhancements for both retail and business customers including insurance, credit cards, small business loans and enhanced business overdrafts - Focus on opportunity to reach more customers through digital channels - Furthering range of specialist mortgage products

Cost	- Customer service transformation - Continued development of a strategic collections capability for the Bank including meeting BBLS requirements - Management focus on cost discipline, review of cost performance and discretionary spend
Infrastructure	- Product delivery through digital channels - Delivery of regulatory requirements and enhancements to regulatory reporting - IT and operational resilience programmes

2021 economic and market outlook remains uncertain but commitment to customers, colleagues and communities is unwavering.

Financial performance for the year and six months ended 31 December 2020

Deposits

£ in millions	31-Dec 2020	31-Dec 2019	Change from FY 2019	30-Jun 2020	Change from HY 2020
Demand: current accounts	£6,218	£4,278	45%	£5,274	18%
Demand: savings accounts	£6,430	£5,593	15%	£5,982	7%
Fixed term: savings accounts	£3,424	£4,606	(26%)	£4,321	(21%)
Deposits from customers	£16,072	£14,477	11%	£15,577	3%
Deposits from customers includes:					
Retail customers (excl. retail partnerships)	£7,364	£6,891	7%	£7,355	-%
SMEs	£4,420	£3,261	36%	£4,093	8%
	£11,784	£10,152	16%	£11,448	3%
Retail partnerships	£1,596	£1,839	(13%)	£1,705	(6%)
Commercial customers (excluding SMEs[4])	£2,692	£2,486	8%	£2,424	11%
	£4,288	£4,325	(1%)	£4,129	4%

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

- **Customer account growth of 0.2 million** (2019: 0.4 million) in the year to 2.2 million, despite lockdown restrictions for much of the period and supported by the launch of Business Current Account Online.

- **Total deposits grew by over £1.5 billion to £16,072 million as at 31 December 2020 (31 December 2019: £14,477 million)**, following an increase in SME and retail deposits, that together comprise 73% (2019: 70%) of the total. SME balances were boosted by the deposit of BBLSs loans provided. Action taken to reduce pricing of fixed term deposit (FTD) accounts to be more in line with high street competitors combined with a change in customer preference for current accounts and instant access (demand) savings improved the deposit mix during the year. Current accounts comprised 39% of total deposits at 31 December 2020, increased from 30% a year earlier, while FTD accounts reduced from 32% to 21% over the same period.

Following higher than anticipated growth in 2020, deposit expansion will have less of a focus in 2021 with balances reflecting the transitory nature of the BBLS-related deposits together with the roll-off of high cost FTD accounts. Focus will remain on maintaining a high-quality mix of deposits.

- **Cost of deposits was 65bps for the year,** a decrease of 13bps compared to 78bps in 2019, reflecting the 65bps base rate reductions to 10bps and the roll-off of higher cost FTD accounts. The reduction in cost of deposits from 82bps in H1 to 49bps in H2 and the year-end exit rate of 39bps reflects the timing of the base rate cut in March and the progressive roll off of FTD accounts. The favourable impact on cost of deposits from FTD roll off and repricing is expected to continue into 2021.

Loans

- **Total net loans as at 31 December 2020 were £12,090 million, down 18% from £14,681 million at 31 December 2019** primarily reflecting the £3.1 billion residential mortgage portfolio sale in December partially offset by capital-efficient government-supported new SME/business lending. Total net loans are expected to increase in the year ahead, with accelerating mix shift towards higher yielding assets benefitting from the actions taken in 2020.

- **Commercial loans increased £1,096 million to £5,148 million at 31 December 2020** from £4,052 million at 31 December 2019. Commercial lending included £1,353 million of BBLS and £114 million of Coronavirus Business Interruption Loan Scheme (CBILS) lending at 31 December 2020.

- **Retail mortgages remained the largest component of the lending book** at 56% of gross lending down from 71% a year earlier, reflecting the £3.1 billion mortgage portfolio disposal in December. Higher yielding speciality mortgages comprised more than 80% of retail mortgage applications in the fourth quarter, a trend that is expected to continue.

- **Consumer lending remained at 2% of the loan book**, with a marginal decline in H1 reversed in Q4 following the start of Metro Bank funded lending through the RateSetter platform.

  Consumer lending is set to increase substantially in 2021, benefitting from the acquisition of the RateSetter back book (£384 million as at 29 January 2021) and the continued roll out of lending through the RateSetter platform across all of the Bank's channels.

- **Loan to deposit ratio ended the year at 75%** (December 2019: 101%), reflecting the mortgage portfolio disposal and the increase in deposits.

£ in millions	**31-Dec 2020**	**31-Dec 2019**	**Change from FY 2019**	**30-Jun 2020**	**Change from HY 2020**
Gross Loans and advances to customers	£12,244	£14,715	(17%)	£15,002	(18%)
Less: allowance for impairment	(£154)	(£34)	>100%	(£145)	6%
Net Loans and advances to customers	£12,090	£14,681	(18%)	£14,857	(19%)
Gross loans and advances to customers consists of:					
Commercial lending	£5,148	£4,052	27%	£4,614	12%
Retail mortgages	£6,892	£10,430	(34%)	£10,190	(32%)
Consumer lending	£204	£233	(12%)	£198	3%

Expected Credit Loss

- **ECL expense of £126.7 million** of which £112.0 million was incurred in H1 primarily reflected a deterioration in macro-economic assumptions and single name charges resulting from COVID-19. In H2, the ECL expense reduced to £14.7 million attributable to portfolio changes and single name charges.

  ### Macro-economic assumptions

Baseline scenario	**2020**	**2021**	**2022**	**2023**	**2024**
Unemployment rate - %	5.8%	9.2%	9.3%	8.3%	7.6%
House price index - YoY%	2.1%	(9.8%)	(1.9%)	4.7%	6.8%
UK GDP - YoY%	(11.1%)	1.8%	7.0%	3.0%	1.0%
Mortgage 5 year interest rates - %	2.0%	1.7%	2.3%	2.6%	2.7%

  Source: Moody's Analytics December 2020

- **Less than 1% of residential mortgage customers by value had active payment deferrals as at 31 December 2020**, significantly below the 17% of customers who had active deferrals as at 30 June 2020.

- **Average debt to value (DTV)** of the residential mortgage book as at 31 December 2020 was 56% (2019: 59%), while DTV in the commercial book was 56% (2019: 60%).

- **Non-performing Loans increased to 2.10%** (31 December 2019: 0.53%) primarily driven by customers who have received temporary COVID-19 support measures and now require further forbearance support.

Profit and Loss Account

- **Net interest margin (NIM) of 1.22% compared to 1.51% for the year ended 31 December 2019**, reflected continued margin compression following the 65bps base rate cut, a reduction in the loan-to-deposit ratio and a significant volume of new lending comprising lower yielding, although capital-efficient, government-backed schemes. NIM in the first half of 1.15% absorbed the lag effect of deposits repricing more slowly than lending in response to the March base rate cuts, while H2 gained momentum from lower cost of deposits, increasing to 1.28%.

  Continued reduction in cost of deposits combined with a favourable asset mix shift is expected to improve NIM performance in the year ahead compared to H2 NIM.

- **Underlying net interest income down 19% year-on-year to £250.3 million** (2019: £308.1 million), with H2 at £134.1 million higher than H1 (£116.2 million) following the movements in NIM described above.

- **Underlying net fee and other income decreased 5% to £86.3 million** (2019: £90.4 million) primarily reflecting the impact of lockdowns on customer activity. This effect was evident within the year with a weaker performance in the first half (£36.1 million) than the second half when fewer social restrictions were in place. The outlook for 2021 will be significantly affected by the path towards the exit from the current lockdown.

- **Underlying cost:income ratio increased to 143% in 2020 from 100% in the prior year**, largely reflecting net interest income headwinds and planned higher investment opex. 'Run the Bank' (RTB) cost growth was 1% on a like for like basis, adjusting for items including RateSetter acquisition, COVID-19 related costs, six store openings, and colleague reward, or 9% in total. 'Change the Bank' (CTB) expenditure increased to £63m plus £33m of amortisation, with the new investment spend at a lower average capitalisation rate, in line with previous guidance.

  RTB is expected to deliver low to mid-single digit percentage growth in 2021, in addition to the annualisation of RateSetter costs. Expect marginally higher CTB spend in 2021 with the pace of expenditure dependent on capacity of the Bank to absorb the rate of change, plus amortisation.

- **Underlying loss before tax was £271.8 million, an increase from the £11.7 million loss in 2019**, reflecting ECL expense and income challenges including those arising from COVID-19. Within the year, the return towards profitability gathered momentum as the underlying loss in H2 was half the loss in the first six months.

- **Statutory loss before tax of £311.4 million in 2020** (2019: loss of £130.8 million) including:
  - **Impairment and write-off of property plant & equipment and intangible assets** (£40.6 million): primarily relates to the accelerated exit from the Central London Office at Old Bailey and intangible asset impairment.
  - **Remediation costs** (£40.8 million): reflect primarily the ongoing remediation programme in relation to a previously disclosed review of the Bank's sanctions procedures and to the January 2019 risk weighted assets (RWA) adjustment, and associated regulatory investigations.
  - **Transformation costs** (£16.7 million): costs associated with the delivery of the cost transformation programme and includes some costs related to the Old Bailey exit.
  - **Business acquisition and integration costs** (£5.4 million): costs associated with acquisition of the RateSetter platform, completed in September.

- **Net gain on Mortgage portfolio sale** (£63.7 million): relates to the 90% of the £3.1 billion disposal derecognised upon signing in December, net of costs. The transaction completed on 2 February 2021, consequently the remaining gain on sale will be recognised in H1 2021.

- **Statutory loss after tax of £301.7 million in 2020** (2019: £182.6 million) after a £9.7 million corporation tax credit.

Capital, Funding and Liquidity

- **Strong liquidity and funding position maintained**, supported by 2020 deposit growth. As a result, the Bank's Liquidity Coverage Ratio (LCR) was 187% as of 31 December 2020, compared to the requirement of 100%. Following the settlement of a receivable on completion of the mortgage portfolio disposal in February 2020, pro forma LCR was estimated at 331%.

  We continue to use funds from the BoE's Term Funding Scheme (TFS) which was closed to further drawdowns in February 2018. In 2020 we rolled over £550 million of maturing TFS drawings into TFSME (Term Funding Scheme with additional incentives for SMEs) which provides access to significant additional funding and further flexibility to the Bank's funding plans.

- **CET1 capital of £1,192 million** as at 31 December 2020 (31 December 2019: £1,427) was 15.0% of RWA (31 December 2019: 15.6%), including £75 million related to software assets, equivalent to 0.8%, this compares to our minimum requirement of 9.3%[5].

  The Bank's capital ratios include the application of the Capital Requirements Regulation 'Quick Fix' package, of this the revised IFRS9 transitional agreement contributes c. 1.1% to CET1 and a further c. 0.6% is derived from changes to the SME supporting factor. In addition, further capital relief has been provided through the EBA's changes to the capital treatment of software, although the PRA has announced their intention in CP5/21 to modify the regulatory requirements and we expect that software will return to being fully deducted prior to 1 January 2022. We are therefore not considering the benefit when making capital decisions today or in our longer-term strategic planning.

- **Total capital as a percentage of RWA was 18.1%** reflecting the statutory loss reported in the period. Total capital plus MREL resources were £1,783 million with a total capital plus MREL ratio of 22.4% of RWA at 31 December 2020, this compares to our minimum interim requirement of 20.5%[5].

  The requirement to meet the end-state MREL threshold is now 1 January 2023, as is the requirement to implement a HoldCo structure.

- **Total RWA as at 31 December 2020 was £7,957 million** (31 December 2019: £9,147 million). The reduction in 2020 reflects the mortgage portfolio disposal and capital-efficient lending through government-backed BBLS and CBILS together with lending discipline in other areas. The result is a loan risk weight density of 47% as at 31 December 2020 (31 December 2019: 48%).

- On completion of the residential mortgage portfolio sale, including the settlement of a receivable outstanding at the year-end, the 31 December **pro forma CET1 ratio is estimated at 16.3% and the pro forma total capital plus MREL ratio at 24.4%.**
- **Regulatory leverage ratio of 5.6%.**

5. Based on current capital requirements, excluding any confidential PRA buffer, if applicable

Board and Executive Committee Changes

- Since the last full year results in February 2020, Robert Sharpe joined the Board as Chair on 1 November 2020, while Anne Grim, Ian Henderson, and Nicholas Winsor were appointed as independent Non-Executive Directors. Following these changes, the Board is comprised of nine Non-Executive Directors in addition to the Chair, all of whom are independent, and two Executive Directors.

- In the same period, a number new appointments completed changes to the Executive Committee: Martin Boyle as Chief Transformation Officer; Carol Frost as Chief People Officer; and Richard Lees as Chief Risk Officer.

Metro Bank PLC

Summary Balance Sheet and Profit & Loss Account

(Unaudited)

Balance Sheet	Year-on-year change	31-Dec 2020	30-Jun 2020	31-Dec 2019
		£'million	*£'million*	*£'million*
Assets				
Loans and advances to customers	(18%)	12,090	14,857	14,681
Treasury assets[6]		6,406	6,101	5,554
Assets classified as held for sale		295	-	-
Other assets[7]		3,788	1,176	1,165
Total assets	6%	**22,579**	**22,134**	**21,400**
Liabilities				
Deposits from customers	11%	16,072	15,577	14,477
Deposits from central banks		3,808	3,801	3,801
Debt securities		600	599	591
Other liabilities		810	810	948
Total liabilities		**21,290**	**20,787**	**19,817**
Total shareholder's equity		**1,289**	**1,347**	**1,583**
Total equity and liabilities		**22,579**	**22,134**	**21,400**

6 Comprises investment securities and cash & balances with the Bank of England

7 Comprises property, plant & equipment, intangible assets and other assets. Other assets at 31 December 2020 include £2.6 billion receivable from NatWest. This was received post year-end upon the completion of the transaction.

Profit & Loss Account	Year-on-year change	31-Dec 2020	31-Dec 2019
		£'million	*£'million*
Underlying net interest income	(19%)	250.3	308.1
Underlying net fee and other income		86.3	90.4
Underlying net gains on sale of assets		4.3	1.6
Total underlying revenue	**(15%)**	**340.9**	**400.1**
‘Run the Bank’ costs		(390.4)	(358.6)
‘Change the Bank’ costs[8]		(95.6)	(41.5)
Underlying operating costs	21%	(486.0)	(400.1)
Expected credit loss expense		(126.7)	(11.7)
Underlying loss before tax	**(>100%)**	**(271.8)**	**(11.7)**

Listing Share Awards		0.2	(0.6)
Impairment and write-off of property plant & equipment and intangible assets		(40.6)	(77.7)
Net BCR costs		-	(2.6)
Transformation costs		(16.7)	(11.5)
Remediation costs		(40.8)	(26.8)
Business acquisition and integration costs		(5.4)	-
Gain on mortgage portfolio sale (net of costs)		63.7	-
Statutory loss before tax	**(>100%)**	**(311.4)**	**(130.8)**
Statutory taxation		**9.7**	(51.8)
Statutory loss after tax	**(>100%)**	**(301.7)**	**(182.6)**

Key metrics	**31-Dec 2020**	**31-Dec 2019**
Underlying earnings per share - basic	(151.7p)	(10.8p)
Underlying earnings per share - diluted	(151.7p)	(10.8p)
Number of shares – undiluted	172.4m	147.4m
Number of shares – diluted	172.4m	147.4m
Net interest margin (NIM)	1.22%	1.51%
Cost of deposits	0.65%	0.78%
Cost of risk	0.86%	0.08%
Underlying cost:income ratio	143%	100%

8 Change the Bank costs consists of investment spend, including amortisation

Profit & Loss Account	**Year-on-year change**	**Half year ended**		
		31-Dec 2020	**30-Jun 2020**	**31-Dec 2019**
		£'million	***£'million***	***£'million***
Underlying net interest income	(5%)	134.1	116.2	141.9
Underlying net fee and other income		50.2	36.1	44.0
Underlying net gains/(losses) on sale of assets		3.3	1.0	(2.5)
Total underlying revenue	**2%**	**187.6**	**153.3**	**183.4**
‘Run the Bank’ costs		(206.3)	(184.1)	(179.7)
‘Change the Bank’ costs[8]		(55.0)	(40.6)	(21.5)
Underlying operating costs	30%	(261.3)	(224.7)	(201.2)
Expected credit loss expense		(14.7)	(112.0)	(7.3)

Underlying loss before tax	**>100%**	**(88.4)**	**(183.4)**	**(25.1)**
FSCS levy		-	(0.2)	0.4
Listing Share Awards		0.4	(0.2)	(0.2)
Impairment and write-off of property plant & equipment and intangible assets		(14.0)	(26.6)	(76.7)
Net BCR costs		-	-	(1.3)
Transformation costs		(4.3)	(12.4)	(6.8)
Remediation costs		(23.0)	(17.8)	(24.5)
Business acquisition and integration costs		(5.4)	-	-
Gain on mortgage portfolio sale (net of costs)		63.7	-	-
Statutory loss before tax	**(47%)**	**(71.0)**	**(240.6)**	**(134.2)**
Statutory taxation		8.6	1.1	(49.7)
Statutory loss after tax	**(66%)**	**(62.4)**	**(239.5)**	**(183.9)**

	Half year ended		
Key metrics	**31-Dec 2020**	**30-Jun 2020**	**31-Dec 2019**
Underlying earnings per share - basic	(42.9p)	(108.8p)	(14.9p)
Underlying earnings per share - diluted	(42.9p)	(108.8p)	(14.9p)
Number of shares – undiluted	172.4m	172.4m	172.4m
Number of shares – diluted	172.4m	172.4m	172.4m
Net interest margin (NIM)	1.28%	1.15%	1.40%
Cost of deposits	0.49%	0.82%	0.85%
Cost of risk	0.20%	1.55%	0.10%
Underlying cost:income ratio	139%	147%	110%

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ENDS

About Metro Bank

Metro Bank serves more than two million customer accounts and is celebrated for its exceptional customer experience. It is the highest rated high street bank for overall service quality for personal and business customers and the number one bank for service in stores in the Competition and Market Authority's Service Quality Survey in February 2021. It was recognised as 'Bank of the Year' at the 2020 MoneyAge Awards and 'Banking Brand of The Year' at the Moneynet Personal Finance Awards 2021.

The community bank offers retail, business, commercial and private banking services, and prides itself on giving customers the choice to bank however, whenever and wherever they choose, and supporting the customers and communities it serves. Whether that's through its network of 77 stores open seven days a week, early until late, 362 days a year; on the phone through its UK-based 24/7 contact centres; or online through its internet banking or award-winning mobile app: the bank offers customers real choice.

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It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk.

All Metro Bank products are subject to status and approval.

Metro Bank PLC is an independent UK bank – it is not affiliated with any other bank or organisation (including the METRO newspaper or its publishers) anywhere in the world. Please refer to Metro Bank using the full name.

Metro Bank PLC

Preliminary Announcement

(Unaudited)

For the year ended 31 December 2020

Chief executive officer's statement

In February 2020, shortly after being appointed as CEO and having completed a comprehensive review of the business, we launched our strategic priorities with a clear plan to return the Bank to sustainable profitability built around a community banking model.

It's hard to believe that only a few weeks later the country was in lockdown, and the world entered the most difficult social and economic crisis of a generation. It has been a truly unprecedented year for our business, colleagues and customers. But never has the role of a community bank been more important for people across the UK and I'm incredibly proud of the way colleagues have stepped up to support each other, our customers and the communities we serve.

Our community banking model has proven itself over the past 12 months, with the Competition and Market Authority's Service Quality Survey once again confirming that Metro Bank is number one for store service and number one on the high street for overall service. We pride ourselves on giving customers the choice to bank however, whenever and wherever they choose by delivering full-service banking across stores, digital and telephony – and customers continue to choose us, with customer accounts growing to more than 2.2 million by the end of 2020.

Despite the pandemic weighing on our financial performance during the course of the year, we've made good progress delivering against the strategic priorities we set out in February 2020 and while there is still much to do, we remain on track to achieve our transformation plan as the UK's best community bank.

COVID-19

The response of Metro Bank colleagues to the pandemic has left me humbled, and the resilience they have shown has been inspiring. The unique culture that we have built and our unwavering focus on serving customers has shone through. Whether it be our front line colleagues who have kept stores and been available on the phone open throughout national and regional lockdowns, through our back office colleagues who have helped business and personal customers access much-needed government backed loan schemes, those who have worked remotely to keep our essential services running while continuing to launch new products, or those that have volunteered and fundraised for local causes in need of support.

Our colleagues have made a real difference to the communities we serve. I want to say a huge thank you to them for all their efforts during 2020 to look after our customers, our communities and most importantly each other.

OUR STRATEGY

In February 2020 we identified five strategic drivers to help return us to delivering adequate shareholder return in line with our ambition to become the UK's best community bank.

In spite of the challenges that the pandemic brings, those drivers remain unchanged and the business has remained resilient. Our underlying performance and the foundations on which our turnaround plan is built are strong.

Fundamentally we have seen, and continue to see, a significant opportunity to deepen relationships with existing customers by improving our product offering, enhancing our channels and by continuing to remain completely focused on delivering excellent customer service.

STRATEGIC RESPONSE TO THE PANDEMIC

While the key strategic drivers and the transformation plan we set out last year remain appropriate, the pandemic's impact on the macro-economic environment meant we've clearly had to adapt and accelerate the delivery of some strategic initiatives.

Starting in April, alongside the significant operational response and initiatives put in place to support customers, colleagues and communities, we worked to understand the impact of the pandemic on our plan. It is clear that the pandemic has caused both shorter term effects and more systemic medium term effects that influence our plans. Shorter term effects arise from lower customer activity, for example with notable impact on interchange fees, ATM and foreign exchanges volumes. However these are transitory, evidenced by a strong bounce back in activity during the period of lockdown easing over the summer.

Clearly the resulting fall in economic activity has in turn created pressure on our customers leading to a rise in credit provisioning. While we have seen limited actual losses to date, the underlying impact of the pandemic cannot yet be fully understood as a result of the appropriate government support schemes that remain in place. We therefore anticipate the impact on our customers will become clearer over the next 12-18 months. We remain committed to supporting consumers and businesses as we navigate the months ahead.

In line with the government support measures announced during the course of 2020, we worked hard to support our customers through these government backed lending schemes, notably BBLS, CBILS and CLBILS. These loans provide lending with little capital and credit risk impact due to them being partly or fully underwritten by the Government. To date, we have helped more than 36,000 customers and lent out £1.5 billion.

The more systemic medium term effects of the pandemic revolve around lower interest rates and quantitative easing measures taken by the Bank of England that have meaningfully depressed yields on investible assets. In February 2020, we were clear that our transformation agenda would be driven by a liability-led strategy given Metro Bank's proven ability to grow deposits. The deposits would then be invested in low risk weight investments which, while weighing on net interest margin, would have meaningfully improved our return on tangible equity.

While shifting our asset mix and the associated yield enhancement alongside this was a core part of our plan, these activities were not due to be a focus until the latter years of our plan. However, in an enduring lower for longer interest-rate environment, and given there is less inherent value in excess liquidity, we have accelerated some initiatives to deliver a different asset mix quicker – with higher yielding assets and improving net interest margin. As a result, the Executive team took several actions during the course of the year including:

- Purchasing the RateSetter platform bringing technology and talented colleagues with deep expertise in the unsecured lending market to accelerate our entry into this area.
- Continuing the use of the RateSetter brand on aggregator sites, opening up a new distribution channel that was not in our plans a year ago with the Metro Bank brand not present on aggregators.
- An immediate shift away from prime residential mortgages into more specialist offerings generating higher yield.
- Repricing fixed term deposits, moving from best on high street rates and bringing us into line with incumbent providers.

While it is still early days, and acknowledging that it will take time to change the shape of the balance sheet to ultimately improve net interest margin, the early results are encouraging.

For example, RateSetter lending is now available through the Metro Bank website and app, and ready to launch in Metro Bank stores when lockdown restrictions ease. Since launch, we have extended more than £120 million unsecured consumer loans to customers; this is more than twelve times the value of consumer lending that Metro Bank has delivered organically in any year since launch.

Furthermore, following the decision to more quickly focus on specialist products, more than 80% of applications in the last six months of 2020 were for specialist mortgages. Cost of deposits and our deposit mix at the year-end show the results of our focus on repricing fixed term deposits during the course of the year, and it should be expected that we will remain disciplined on deposit mix, deposit pricing and deposit growth – given the lower inherent value of excess liquidity going forward.

As a result of the impact of the pandemic on financial performance, capital has been reduced more quickly than anticipated and access to capital markets has been more volatile. Given this, and the desire to shift our asset mix more quickly to enhance yield, we were swift to identify and deliver on opportunities presented by the current climate with the sale of a portfolio of residential mortgages in December 2020. We are pleased with the outcome of this transaction, with both the gain on sale and the resulting release of risk-weighted assets removing the need to raise additional capital as well as allowing us to increase our lending in higher yielding areas. In February 2021 we announced our intention to deploy some of this capital to acquire the RateSetter back book from peer-to-peer investors, to accelerate the optimisation of our balance sheet.

STRATEGIC PROGRESS

Alongside the actions taken to support customers through COVID-19 and to react to the changing external environment, as outlined above, we have continued to make solid progress on delivering against our strategic pillars. We're continuing to deliver what we said we would do, and the business has demonstrated its resilience with the pandemic having limited effect on our ability to drive and deliver change.

1) Cost initiatives

Despite the high fixed cost base nature of retail banking, we have controlled business as usual ('Run the Bank') costs. Cost growth was 1% on a like for like basis, adjusting for the RateSetter acquisition, COVID-19 related costs, six store openings, and colleague reward, or 9% in total. Costs to transform the business ('Change the Bank') have increased

130%. We always anticipated these change costs would be frontloaded and remain focused on keeping these appropriately contained.

We are taking a more proactive management approach to our property estate. In our interim results we announced we had taken the decision to vacate our office at Old Bailey, London. The success of our working from home arrangements as well as feedback from colleagues is leading us to explore other opportunities for office space rationalisation, including better utilising excess space in our store network rather than occupying standalone office space. An example of this is our new operations centre in our Bristol store, using previously underused space.

We have also taken the opportunity to capitalise on our strong liquidity position to take advantage of the current commercial property market. This has seen us buy the freeholds of certain stores at an attractive yield and either at, or close to, the carrying amount of their right of use asset – meaning only a marginal upfront capital impact in exchange for longer-term run rate savings and flexibility.

2) Revenue initiatives
Despite various national and regional lockdowns throughout the year, we have continued to grow our customer accounts – increasing to 2.2 million as at the year-end (31 December 2019: 2.0 million). During 2020 we opened six stores, including two, in Sheffield and Cardiff, following the initial COVID-19 outbreak. We will open two further stores in 2021.

In August 2020, we launched the Bank's first switching offer, helping us give something back to our existing customers by rewarding them for referring friends to open an account whilst welcoming new customers too. In September we launched Business Account Online (BAO) that enables new customers to open a business account on their mobile or online, 24 hours a day, and taking just 15 minutes from application to approval. We had to pause applications temporarily due to the overwhelming demand received, but we started to resume openings in 2021. We have also continued to see a meaningful share of the business switching market join us from RBS through the Incentivised Switching Scheme.

Furthermore, this year we will begin to make insurance products available to better serve Metro Bank customers and drive incremental revenue – initially through a partnership with Churchill Expert providing SME insurance, and with further partnerships to follow during the course of 2021.

3) Infrastructure
Alongside building the digital application system for BBLS in less than six weeks, we have continued to launch digital initiatives throughout the year including launching Business Account Online (BAO); account sweeping; Direct Debit origination in partnership with Bottomline Technologies; in-app receipt management technology in partnership with Sensibill; and an accounting software partnership with Clear Books.

We have also demonstrated the operational resilience of the bank – moving a significant proportion of colleagues to home-based working almost overnight, alongside delivering a significant programme of mandatory, regulatory and discretionary change.

4) Balance sheet optimisation
Our main focus this year has been on increasing our return on regulatory capital. We continue to explore corporate transactions where there are attractive opportunities that would be strategically advantageous to us, although our predominant focus remains on growing organically. We have accelerated the delivery of this pillar of our strategy in particular as outlined in our strategic response to the pandemic above.

5) Internal and external communications
The start of the year saw us launch our first marketing campaign – people-people banking – which showcased our incredible colleagues and was designed to help customers and potential customers understand Metro Bank's differentiators.

Following the success of our first advertising campaign, we are planning to launch a new advertising campaign focusing on business banking for SMEs. This is an area we see as key for future growth enabling us to deepen relationships, earn greater levels of fee income and is an area that remains underserved by larger competitors.

As well as a greater level of communications with customers we have continued to remain fully engaged with colleagues, regulators and shareholders. As a large proportion of colleagues have been working fully from home, maintaining effective communication has been critical in preserving our culture. This will continue to be important moving forward as we move towards a more flexible model with regard to location.

RESULTS
COVID-19 has weighed heavily on our financial performance during 2020, with us making a loss before tax of £311.4 million (2019: loss of £130.8 million). Adjusted for non-underlying items the loss for the year was £271.8 million (2019: loss of £11.7 million).

The loss has primarily been driven by an increase in our expected credit loss expense which rose from £11.7 million in 2019 to £126.7 million in 2020, reflecting the worsened economic outlook. The results also reflect the low interest rate environment and competitive marketplace as well as the costs of delivering our turnaround plan.

However, excluding the impact of COVID-19, financial performance is on track and in line with our expectations one-year into our turnaround plan. And half-on-half P&L performance demonstrates the momentum of the transformation plan – with underlying loss before tax halving in H2 compared with H1.

BUILDING THE TEAM
In April 2020, I also began making a series of changes to our Executive Committee (ExCo) in order to ensure we were best set up with the right skills and experience to support customers and colleagues in executing our strategy. This included bringing onboard a number of external hires – Richard Lees joined as Chief Risk Officer, Martin Boyle as Chief Transformation Officer, and Carol Frost as Chief People Officer.

With our refreshed ExCo now established, I am confident they will help me and the Bank to navigate the ongoing choppy waters and deliver our ambition to be the UK's best community bank.

THE FUTURE
This year marked the 10-year anniversary of 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 location to more than 3,500 colleagues, 77 stores and more than 2.2 million customer accounts today.

In February 2021, we were rated the top high street bank for overall service for personal and business customers in the latest Competition and Market Authority's Service Quality Service and number one for store service for the 6th time running. This is a huge endorsement to all our colleagues and the professionalism they have shown through very trying times.

Whilst the past decade had not been without its challenges, and there is plenty of heavy lifting still to do, we have built a business to be proud of. The level of dedication amongst my colleagues, the strong start we have made in executing our strategic plan, and our relentless focus on delivering great customer service across all channels gives me every confidence we can deliver on our growth ambitions and meet more customer needs.

One year into my role I am continually reminded what an amazing group of colleagues I work alongside. Their dedication to our FANS, communities and each other allows us to drive Metro Bank forward. It has been an extremely challenging year, but I could not ask more from our colleagues.

Finally, it would be remiss not to remember the real cost of the pandemic and extend my deepest sympathies to anyone who has lost a loved one.

Daniel Frumkin
Chief Executive Officer
24 February 2021

Finance review (unaudited)

	2020 £'million	2019 £'million	Change
Net interest income	**250.3**	308.1	(19%)
Underlying fee and other income	**86.3**	90.4	(5%)
Underlying net gains on sale of assets	**4.3**	1.6	>100%
Total underlying revenue	**340.9**	400.1	(15%)
Operating costs	**(486.0)**	(400.1)	21%
Expected credit loss expense	**(126.7)**	(11.7)	>100%
Underlying loss before tax	**(271.8)**	(11.7)	>100%
Non-underlying items	**(39.6)**	(119.1)	(67%)
Statutory loss before tax	**(311.4)**	(130.8)	>100%

Our financial performance in 2020 reflects the challenging year we have faced, as the anticipated costs of our turnaround have been compounded by a difficult operating environment.

Notwithstanding these challenges, we have made good progress against our turnaround plan, whilst at the same time maintaining a strong balance sheet. Our underlying performance is on track against our expectations, once adjusted for the impacts of COVID-19.

Entering 2020, the main constraint on the business remained regulatory capital. In response to this, and in line with our strategy, we took the decision in December 2020 to divest £3.1 billion of residential mortgages (90% were derecognised at year-end). The sale increased total capital plus MREL resources by 4%, removing the need to raise additional capital in the near term, as well as allowing us to continue to shift our product portfolio towards higher yielding segments.

Further supporting this strategy, in September 2020 we acquired RateSetter which provided immediate capabilities to accelerate our reach into the unsecured lending. In February 2021 we further announced our intention to utilise some of the capital freed up from the mortgage sale to buy the back book of peer-to-peer loans from the RateSetter investors. Additionally, during 2020 we significantly increased the proportion of mortgage lending in speciality segments.

Our statutory loss before tax for the year was £311.4 million, up from the loss of £130.8 million we made in 2019. A key driver of the increased loss was a higher expected credit loss expense which was £126.7 million compared to £11.7 million in 2019. Non-underlying items, particularly transformation and remediation costs, remained a significant component during 2020 reflecting the costs of the turnaround plan.

However, these costs were partly offset by a £63.7 million gain recognised on the mortgage sale (net of costs) in 2020. A further gain of £8.0 million for this sale (net of costs) was recognised in 2021.

	2020 £'million
Underlying loss before tax	**(271.8)**
Gain on mortgage portfolio sale (net of costs)	**63.7**
Listing Share Awards	**0.2**
Impairment and write-off of PPE and intangible assets	**(40.6)**
Remediation costs	**(40.8)**

Transformation costs	**(16.7)**
Business acquisition and integration costs	**(5.4)**
Statutory loss before tax	**(311.4)**

INCOME

NIM Reconciliation	Reconciliation
2019 Full Year Net Interest Margin	**1.51%**
Treasury assets (disposal)	(0.07%)
Lending mix	0.02%
Lending yield	(0.19%)
Cost of deposits	0.10%
Loan-to-deposit ratio and other	(0.15%)
2020 Full Year Net Interest Margin	**1.22%**

Total statutory income increased 4% year-on-year to £432.6 million from £415.6 million. This was driven by the £69.0 million gain recognised in relation to the mortgage sale. Adjusting for this and for grant income relating to the C&I programme, underlying income reduced by 15% year-on-year from £400.1 million to £340.9 million. This principally reflects margin compression due to the timing lag on asset and liability pricing following the 65bps base reduction in March, as well as the reduction in the loan to deposit ratio. These effects were most keenly felt in the first half of the year with net interest margin (NIM) reducing to 1.15% in H1.

NIM recovered somewhat in H2 to 1.28%, due to repricing actions taken on the deposit book, improved deposit mix benefiting from an 11% reduction in fixed term deposits and a 9% increase in non-interest bearing current accounts, plus improved asset mix. While the full year cost of deposits was 0.65%, the exit rate was 0.39%. In 2021, we anticipate further improvements in NIM as we continue to reprice deposits and move to higher yielding assets.

Fee income was materially impacted by lower volumes due to the various COVID-19 lockdowns and regional restrictions implemented throughout the year. Despite this, underlying fee and other income only fell 5%, reflecting continued account growth, as well as fee optimisation and other initiatives. Of note is the material recovery we saw in H2, with a 39% increase in underlying fees and other income from H1 as lockdown restrictions were eased over the summer and autumn. At the timing of writing it is difficult to predict when the current lockdown will end, however we do expect to see a normalisation of fee levels over the course of 2021, supported by current account growth and our SME propositions, as well as the introduction of new products during 2021.

COSTS

Total statutory costs grew by 15% during the year to £617.3 million (2019: £534.7 million). This reflects continued growth in non-underlying expenditure, most notably ongoing remediation costs, as well as previously communicated front-loaded ‘Change the Bank’ investment spend. ‘Run the Bank’ costs, which exclude investments and reflect our core operating expenses, grew 9% year-on-year. However, this growth includes the increased store footprint, the acquired costs from RateSetter, as well as COVID-19 related costs. Excluding these items, ‘Run the Bank’ cost increases were contained to 1% on a like for like basis, demonstrating improved cost discipline within the business.

The majority of ‘Change the Bank’ expenditure has been focused on required infrastructure and regulatory programmes during 2020. While this will continue into 2021, we do anticipate focusing more spend on revenue and cost avoidance initiatives.

During the year we took the decision to vacate one of our central London offices. The costs of this exit are reflected within transformation and impairment and write-off of PPE and intangible assets lines.

	2020 £'million	2019 £'million	Change
Depreciation and amortisation	**74.4**	76.4	(3%)
Total operating expense	**617.3**	534.7	15%
Total underlying operating expenses	**486.0**	400.1	21%
'Run the bank' costs	**390.4**	358.6	9%
'Change the bank' costs	**95.6**	41.5	>100%
Statutory cost:income ratio	**143%**	129%	
Underlying cost:income ratio	**143%**	100%	

Alongside this we have taken advantage of the opportunities afforded to us by our strong liquidity position and a weakened commercial property market to buy the freeholds of three of our stores. The stores purchased were on 25-year leases with no break clauses and were bought at amounts close or equal to their right of use asset – meaning only a marginal upfront capital impact in exchange for longer-term savings and flexibility. Freeholds now make up 30% of our store estate.

2021 will also see us start to realise synergies from the integration of RateSetter as well as focus on other areas where costs can be reduced across the business.

Depreciation and amortisation remained flat at £74.4 million during 2020 (2019: £76.4 million) reflecting reduced amortisation as a result of the write-offs made in 2019, offset by the increased store presence and new digital initiatives.

EXPECTED CREDIT LOSS EXPENSE

Expected credit losses were severely impacted by the deteriorating macro-economic conditions resulting from the COVID-19 pandemic, increasing £115.0 million to £126.7 million (2019: £11.7 million) representing a cost of risk of 0.86% (2019: 0.08%).

Balance sheet expected credit loss provisions were £154 million at the year-end (31 December 2019: £34 million) which represents coverage ratio of 1.30% of our total gross lending.

The increase in expected credit losses has been driven by deteriorating macro-economic scenarios which have primarily increased the probability of default. Observed losses still remain relatively low, however will likely increase through 2021 as COVID-19 related government support measures roll off.

We have applied a number of post-model adjustments and overlays to reflect the continued uncertainties in the economic environment, particularly in relation to sectors heavily impacted by the COVID-19 pandemic.

Throughout the course of the pandemic we have been committed to supporting customers and, in line with regulatory requirements, we offered payment deferrals to mortgage and personal customers who required support. This was initially for a three-month period from March to June, however this has been subject to extensions. In addition, we offered support measures to commercial customers and in total offered support arrangements on 29% of our commercial lending portfolio (based on gross exposure).

In line with regulatory guidance, the use of a support measure by a customer does not in itself signify an increase in credit risk for that loan.

At 31 December 2020 less than 1% of the mortgage portfolio were subject to support measures with weighted average debt-to-values of 64% on these loans.

DEPOSITS

Deposits from customers ended the year at £16.1 billion up 11% from £14.5 billion at the end of 2019. The increase has primarily been driven by an 10% increase in new accounts as well as higher savings levels during the pandemic, a trend that has been seen across the market. Deposits have also increased as a result of the BBLS loans being redeposited, where businesses have secured funding but are yet to fully utilise the loan. These effects are particularly prevalent in our core deposit base of retail customers and SMEs.

Customer deposits	**2020 £'billion**	2019 £'billion	Change
Retail customers (excluding retail partnerships)	**7.4**	6.9	7%
Retail partnerships	**1.6**	1.8	(13%)
Commercial customers (excluding SMEs)	**2.7**	2.5	8%
SMEs	**4.4**	3.3	36%
Total customer deposits	**16.1**	14.5	11%

We continue to use funds from the BoE's Term Funding Scheme (TFS) which was closed to further drawdowns in February 2018. In 2020 we rolled over £550 million of TFS drawing that matured into TFSME - a similar style scheme aimed at supporting lending to SMEs.

ASSETS

Total assets increased to £22.6 billion from £21.4 billion at the end of 2019.

Loans and advances to customers fell to £12.1 billion from £14.7 billion, this decrease primarily reflects the £3.1 billion mortgage sale to NatWest. Following the sale, retail mortgages now make up 56% of our gross lending (31 December 2019: 71%).

Following the acquisition of RateSetter in September, unsecured personal loans ended the year at £121 million. Whilst this still only represents a small part of our lending, this will increase as we scale up the volumes over the course of 2021.

During the year we also grew our commercial lending by 27% to £5.1 billion (31 December 2019: £4.1 billion). The increase has been driven by government-backed lending schemes in the form of BBLS, CBLS and CLBLS which totalled £1.5 billion at year end.

	2020 £'billion	2019 £'billion	Change
Loans and advances to customers	**12.1**	14.7	(18%)
Total assets	**22.6**	21.4	6%
Loan to deposit ratio	**75%**	101%	
Cost of risk	**0.86%**	0.08%	

Our loan to deposit ratio returned to below 100% ending the year at 75% (31 December 2019: 101%). The sale of the mortgage portfolio in December lowered the ratio. Excluding the mortgage sale, the loan to deposit ratio would have been 94%.

TAXATION

During 2020 we made a total tax contribution of £132.9 million (2019: £123.1 million), which comprised £86.5 million (2019: £78.2 million) of taxes we paid and a further £46.4 million (2019: £44.9 million) of taxes we collected.

Taxes paid	**2020**	2019
Corporation tax	0.0%	1.6%
Business rates	13.5%	12.9%
Land transaction tax	1.3%	3.3%

Employer NICs	20.4%	20.6%
Irrecoverable VAT and Customs duty	64.5%	61.3%
Other	0.3%	0.3%
Total taxes paid	**£86.5m**	**£78.2m**

Taxes collected on behalf of HMRC	**2020**	2019
Employer NICs	25.1%	23.6%
PAYE	65.5%	62.1%
Net VAT	9.1%	14.3%
Other	0.4%	-
Total taxes collected	**£46.4m**	**£44.9m**

In 2020 our tax credit recognised in the income statement was £9.7 million (2019: expense £51.8 million).

ACQUISITION OF RATESETTER

In September 2020 we acquired Retail Money Market Ltd ('RateSetter'). The acquisition was in line with our strategy to shift our lending mix and the acquisition provided a quicker and more cost-efficient route to market than building out the capability in-house. As part of the acquisition we recognised £32 million of intangible assets in respect of RateSetter's unsecured lending platform.

RateSetter was bought for consideration of £12 million, of which £0.5 million was deferred for 12 months from purchase and £9 million is payable up to three years from purchase subject to certain lending volumes being met. Goodwill of £6 million was recognised in relation to the purchase.

Prior to acquisition by Metro Bank, the RateSetter peer-to-peer business was put into run off, which closed the platform to new investors and started the process of running down the back book of loans.

Since the acquisition we have injected further capital into the business allowing it to repay £21 million of external debt, on which it was paying an average of 7% interest. Whilst RateSetter will continue to be loss making in the short term, in the near term we anticipate achieving cost synergies as it becomes more closely integrated into the Group and as we increase lending volumes.

On 2 February 2021 we announced our intention to purchase the back book of loans from the RateSetter peer-to-peer investors, in line with our strategy of increasing this area of lending.

CAPITAL

	2020 £'million	2019 £'million	Change
CET1 capital	1,192	1,427	(16%)
Risk-weighted assets (RWAs)	7,957	9,147	(13%)
CET1 ratio	15.0%	15.6%	(60bps)
Total regulatory capital ratio	18.1%	18.3%	(20bps)
Total regulatory capital plus MREL ratio	22.4%	22.1%	30bps

Regulatory leverage ratio	5.6%	6.6%

As a result of the pandemic the regulator took a number of measures in relation to regulatory capital. These included a reduction in the countercyclical buffer to 0% from 1% (previously expected to increase to 2% in December 2020) and the Capital Requirements Regulation (CRR) 'Quick Fix' package including a revised IFRS 9 transitional agreement and changes to the SME supporting factor.

In addition, further capital relief has been provided through the EBA's changes to the capital treatment of software, although the PRA has announced through CP5/21 their intention to modify the regulatory requirements and we expect that software will return to being fully deducted prior to 1 January 2022. We are therefore not considering this benefit when making capital decisions today or in our longer term strategic planning.

We ended the year with a CET1 ratio of 15.0% (2019: 15.6%) and a total capital ratio plus MREL 22.4% (2019: 22.1%). On a pro forma basis adjusting for the mortgage portfolio sale which was in the process over the year end these ratios would be 16.3% and 24.4% respectively.

	Reconciliation
Total capital plus MREL ratio at 31 December 2019	**22.1%**
Annual operational risk adjustment	(0.4)%
Movement in lending (excl. portfolio sale)	1.8%
Mortgage portfolio sale	2.0%
Intangible assets (excluding RateSetter)	(1.1)%
EBA software add back	0.8%
SME supporting factor	0.9%
Expected credit losses	(1.6)%
IFRS9 add-back	1.0%
Loss for the year (ex ECL and gain on mortgage portfolio sale)	(3.1)%
Total capital plus MREL ratio at 31 December 2020	**22.4%**
Completion of mortgage portfolio sale	2.0%
Total capital plus MREL ratio at 31 December 2020 (pro forma)	**24.4%**

LOOKING AHEAD

Despite the clear challenges resulting from the COVID-19 pandemic, 2020 brought many encouraging signs which demonstrate our turnaround is beginning to take effect.

Whilst the external challenges we face will inevitably continue into 2021, we are now in a stronger position to tackle these. The sale of the residential mortgage portfolio has removed the immediate need to raise additional capital, as well as allowing us to reinvest the proceeds in higher yielding assets to maximise capital efficiency.

The capabilities and systems obtained via our acquisition of RateSetter will allow us to accelerate a shift in our product mix to focus on yield over volume.

We will continue to focus on cost control and ensure that we can return to sustainable profitability. That remains our key focus.

David Arden
Chief Financial Officer

24 February 2021

RISK REPORT

Effective risk management underpins everything we do and is critical to realising our strategic priorities. We have an established risk management framework to manage and report the various risks that we face over the course of our daily business. The framework:

- is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor, and report all internal and external sources of material risk;
- ensures all principal and emerging risks are identified, assessed, mitigated, monitored and reported;
- ensures risk appetite is clearly articulated and influences the strategic plan;
- promotes a clearly defined risk culture that emphasises risk management across all areas of the Bank; and
- undertakes ongoing analysis of the environment in which we operate and proactively address potential risk issues as they arise.

We have a structured risk governance framework to support the Board of Directors' aim of achieving long-term and sustainable growth. The risk governance structure strengthens risk evaluation and management, while also positioning us to manage the changing regulatory environment in an efficient and effective manner.

Principal risks
As at 31 December 2020 we had the following principal risk:

Principal risk	Risk movement in 2020	Impact of COVID-19
Credit risk The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.	Increased Although the impacts on our retail and business credit portfolios are yet to fully manifest, it is clear that the level of risk has increased, with levels of defaults expected to increase over time, particularly once government support schemes come to an end.	We have participated in regulatory and government support schemes, with a priority focus on supporting existing customers through COVID-19. Capital repayment holidays, interest free overdrafts (for retail customers) and extensions of credit, as well as other flexible supporting measures, continue to be provided and monitored. Policies, risk appetite, credit decisioning and supporting frameworks have been reviewed and updated to reflect the changing environment and risk profiles.
Operational risk The risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our FANS.	Increased The risk has increased, driven by increased remote working, the implementation of new processes and pressure on customer support areas arising from changing customer needs, which could lead to increased errors or delays and subsequent losses.	COVID-19 brought heightened people risk as some of our colleagues worked to keep our Stores open, whilst others worked from home. It also necessitated changes to working practices, which are managed closely via an enhanced governance structure. We are now investigating permanent improvements that can be made.
Liquidity and funding risk The risk that we fail to meet our short term obligations as they fall due. The risk that we cannot fund assets that are difficult to monetise at short notice (i.e. illiquid assets) with funding that is behaviourally or contractually long term (i.e. stable funding).	Decreased Liquidity and funding risk has decreased during the year, increasing stability.	The impact of COVID-19 has resulted in an overall improvement to our overall liquidity profile through improved deposit balances and participation in the Bounce Back Loan Scheme, with clients placing funds drawn-down on deposit, prior to their utilisation.
Market risk The risk of loss arising from movements in market prices. Market risk is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates.	No change Market risk has remained stable through the year.	Not directly impacted by COVID-19, we are able to manage and hedge interest rate risk through different rate environments.
Financial crime risk The risk of financial loss or reputational damage due to regulatory fines, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime.	Decreased The risk has decreased during the year due to enhancements made to our AML and Sanctions controls through the Financial Crime Improvement Programme Overall fraud attacks continue to significantly increase in line with what is being seen across the industry, year on year; albeit, in 2020, fraud losses have reduced from 2019.	New government support schemes have provided opportunities for fraudsters and we have implemented controls to counter their attempts.

Regulatory compliance risk The risk of: failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests or failing to meet regulatory deadlines; or obstructing the regulator.	No change We remain exposed to regulatory and compliance risk as a result of significant ongoing and new regulatory change. We will seek to comply with all regulations as they evolve, and as customer expectations continue to develop.	We have deployed multiple new policies and processes to implement government, regulatory and central bank COVID-19 support measures. Additional regulatory and compliance risks are associated with adherence to both COVID-19-specific regulatory guidance and with existing regulation. Consequently, additional risk assessments, governance processes and assurance activities have been deployed across the Bank.
Conduct risk The risk of treating customers unfairly and delivering poor outcomes that lead to customer detriment, such as financial loss and/or distress and inconvenience. This can also result in wider adverse impacts, for example, loss of our FANS, reputational damage, regulatory and/or legal action.	Increased The risk has increased driven by the impact of the external environment, namely COVID-19 and the UK economy, where customers are increasingly more vulnerable to dramatic income changes, job losses and behavioural changes driven by social/political agendas.	COVID-19 has generally had a detrimental impact on customers' financial stability and affordability due to income loss caused by furlough and/or complete job loss. This has resulted in increased reliance on savings, inability to meet repayment demands and the need for the regulator and lenders to introduce enhanced forbearance measures, such as payment deferrals. We have now sought to include some of these measures as part of our ongoing collections strategy .
Model risk The risk of potential loss and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models.	Increased The risk has increased as a result of the rapid application of COVID-19 model adjustments.	The uncertain economic environment has affected all model components including input data, default markers, outputs, model accuracy and performance.
Capital risk The risk that we fail to meet minimum regulatory capital (and MREL) requirements. Management of capital is essential to the prudent management of our balance sheet, ensuring our resilience under stress, and the maintenance of the confidence of our current and potential creditors (including bond holders, the bond market, and customers) and key stakeholders in the pursuit of our business strategy	No change Our capital ratios were broadly flat year-on-year. We took action to strengthen our MREL resources through the sale of a portfolio of owner occupied residential mortgages, which is in line with our strategy to enhance risk-adjusted returns on capital through the ongoing focus on balance sheet optimisation. We also purchased the peer-to-peer lender RateSetter, to provide unsecured personal loans direct to customers.	There have been several regulatory capital developments in the UK and Europe in response to COVID-19, which have reduced certain capital requirements for banks across the industry. Additionally, in order to provide operational capacity for banks to respond to the immediate financial stability priorities resulting from the impact of COVID-19, both the PRA and Basel communicated revised timelines across key regulatory initiatives.

Consolidated statement of comprehensive income (unaudited)

For the year ended 31 December 2020

	Notes	Year ended 31 December 2020 £'million	Year ended 31 December 2019 £'million
Interest income	2	**426.3**	496.2
Interest expense	2	**(176.6)**	(188.1)
Net interest income		**249.7**	308.1
Fee and commission income		**61.1**	67.4
Fee and commission expense		**(1.2)**	(6.4)
Net fee and commission income		**59.9**	61.0
Net gains on sale of financial assets		**73.3**	1.6
Other income		**49.7**	44.9
Total income		**432.6**	415.6
General operating expenses		**(502.3)**	(380.6)
Depreciation and amortisation	7,8	**(74.4)**	(76.4)
Impairment and write-offs of property, plant, equipment and intangible assets	7,8	**(40.6)**	(77.7)
Total operating expenses		**(617.3)**	(534.7)
Expected credit loss expense		**(126.7)**	(11.7)
Loss before tax		**(311.4)**	(130.8)
Taxation	3	**9.7**	(51.8)
Loss for the year		**(301.7)**	(182.6)
Other comprehensive income for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
– changes in fair value		**5.6**	2.7
– fair value changes transferred to the income statement on disposal		**(0.1)**	(2.4)
Total other comprehensive income		**5.5**	0.3
Total comprehensive loss for the year		**(296.2)**	(182.3)
Loss per share			
Basic (pence)	14	**(175.0)**	(123.9)
Diluted (pence)	14	**(175.0)**	(123.9)

Consolidated balance sheet (unaudited)

As at 31 December 2020

	Notes	31 December 2020 £'million	31 December 2019 £'million
Assets			
Cash and balances with the Bank of England		**2,993**	2,989
Loans and advances to customers	5	**12,090**	14,681
Investment securities held at fair value through other comprehensive income	6	**773**	411
Investment securities held at amortised cost	6	**2,640**	2,154
Financial assets held at fair value through profit and loss	15	**30**	–
Property, plant and equipment	7	**806**	856
Intangible assets	8	**254**	168
Prepayments and accrued income		**77**	66
Assets classified as held for sale	9	**295**	–
Other assets		**2,621**	75
Total assets		**22,579**	21,400
Liabilities			
Deposits from customers		**16,072**	14,477
Deposits from central banks		**3,808**	3,801
Debt securities		**600**	591
Financial liabilities held at fair value through profit and loss	15	**30**	–
Repurchase agreements		**196**	250
Derivative financial liabilities		**8**	8
Lease liabilities	10	**327**	341
Deferred grants	11	**28**	50
Provisions		**11**	17
Deferred tax liability	3	**12**	15
Other liabilities		**198**	267
Total liabilities		**21,290**	19,817
Equity			
Called-up share capital	12	**–**	–
Share premium	12	**1,964**	1,964
Retained losses		**(694)**	(392)
Other reserves		**19**	11
Total equity		**1,289**	1,583
Total equity and liabilities		**22,579**	21,400

Consolidated statement of changes in equity (unaudited)

For the year ended 31 December 2020

	Called-up share capital £'million	Share premium £'million	Retained losses £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2020	**–**	**1,964**	**(392)**	**(3)**	**14**	**1,583**
Loss for the year	**–**	**–**	**(302)**	**–**	**–**	**(302)**
Other comprehensive income (net of tax) relating to investment securities designated at FVOCI	**–**	**–**	**–**	**6**	**–**	**6**
Total comprehensive loss	**–**	**–**	**(302)**	**6**	**–**	**(296)**
Net share option movements	**–**	**–**	**–**	**–**	**2**	**2**
Balance as at 31 December 2020	**–**	**1,964**	**(694)**	**3**	**16**	**1,289**
Balance as at 1 January 2019	–	1,605	(209)	(3)	10	1,403
Loss for the year	–	–	(183)	–	–	(183)
Other comprehensive income (net of tax) relating to investment securities designated at FVOCI	–	–	–	–	–	–
Total comprehensive loss	–	–	(183)	–	–	(183)
Shares issued	–	375	–	–	–	375
Cost of shares issued	–	(16)	–	–	–	(16)
Net share option movements	–	–	–	–	4	4
Balance as at 31 December 2019	–	1,964	(392)	(3)	14	1,583
Notes	12	12				

Consolidated cash flow statement (unaudited)

For the year ended 31 December 2020

	Notes	**Year ended 31 December 2020 £'million**	Year ended 31 December 2019 £'million
Reconciliation of loss before tax to net cash flows from operating activities:			
Loss before tax		**(311)**	(131)
Adjustments for:			
Impairment and write-offs of property, plant, equipment and intangible assets	7, 8	**41**	78
Interest on lease liabilities	10	**19**	18
Depreciation and amortisation	7, 8	**74**	76
Share option charge		**2**	4
Grant income recognised in the income statement		**(24)**	(16)
Amounts provided for (net of releases)		**8**	12
Gain on sale of assets		(73)	(2)
Accrued interest on and amortisation of investment securities		**3**	(8)
Changes in operating assets and liabilities		**-**	
Changes in loans and advances to customers		**2,591**	(445)
Changes in deposits from customers		**1,595**	(1,184)
Changes in other operating assets		**(2,820)**	(26)
Changes in other operating liabilities		**(64)**	(31)
Net cash inflows/(outflows) from operating activities		**1,041**	(1,655)
Cash flows from investing activities			
Sales and redemptions of investment securities		615	2,193
Purchase of investment securities		**(1,460)**	(618)
Purchase of property, plant and equipment	7	**(29)**	(120)
Purchase and development of intangible assets	8	**(81)**	(79)
Acquisition of subsidiary (net of cash acquired)		**(1)**	–
Net cash (outflows)/inflows from investing activities		**(956)**	1,376
Cash flows from financing activities			
Shares issued	12	**–**	375
Cost of shares issued	12	**–**	(16)
Debt issued		**–**	350
Cost of debt issued		**–**	(8)
Grant received	11	**–**	120
Grant repaid		**(50)**	–
Repayment of capital element of leases	10	**(31)**	(25)
Net cash (outflows)/inflows from financing activities		**(81)**	796
Net increase in cash and cash equivalents		**4**	517
Cash and cash equivalents at start of year		**2,989**	2,472
Cash and cash equivalents at end of year		**2,993**	2,989

Loss before tax includes:		
Interest received	**407**	493
Interest paid	**176**	174

Notes to the financial statements (unaudited)

1. Basis of preparation and significant accounting policies

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, the IFRS Interpretations Committee (IFRS IC) and the Companies Act 2006 applicable to companies reporting under IFRS. They were authorised by the Board for issue on 24 February 2021.

The financial statements are prepared on a going concern basis, the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future.

Changes in accounting policy and disclosures

The accounting policies and methods of computation are consistent with those applied and disclosed in the Group's 2019 Annual Report and Accounts, other than where specifically disclosed within these notes.

2. Net interest income

Interest income

	2020 £'million	2019 £'million
Cash and balances held with the Bank of England	**6.1**	17.0
Loans and advances to customers	**393.3**	435.0
Investment securities held at amortised cost	**24.8**	40.6
Investment securities held at FVOCI	**2.1**	3.6
Total interest income	**426.3**	496.2

Interest expense

	2020 £'million	2019 £'million
Deposits from customers	**99.1**	112.4
Deposits from central banks	**8.7**	28.5
Lease liabilities (note 9)	**18.7**	17.7
Debt securities	**47.8**	22.1
Repurchase agreements	**2.3**	7.4
Total interest expense	**176.6**	188.1

3. Taxation

Tax expense

The components of the tax credit/(expense) for the year are:

	2020 £'million	2019 £'million
Current tax		
Current tax	**(0.1)**	3.5
Adjustment in respect of prior years	**(0.5)**	(0.3)
Total current tax (expense)/credit	**(0.6)**	3.2
Deferred tax		
Origination and reversal of temporary differences	**3.6**	(52.0)
Effect of changes in tax rates	**2.1**	(2.8)
Adjustment in respect of prior years	**4.6**	(0.2)
Total deferred tax credit/(expense)	**10.3**	(55.0)
Total tax credit/(expense)	**9.7**	(51.8)

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

A reconciliation between the tax expense and the accounting loss multiplied by the UK corporation tax rate is as follows:

	2020 £'million	**Effective tax rate %**	2019 £'million	Effective tax rate %
Accounting loss before tax	**(311.4)**		(130.8)	
Tax expense at statutory tax rate of 19% (2019: 19%)	**59.2**	**19.0%**	24.9	19.0%
Tax effects of:				
Non-deductible expenses - depreciation on non-qualifying fixed assets	**(2.4)**	**(0.8%)**	(3.0)	(2.3%)
Non-deductible expenses - property impairment	**(3.2)**	**(1.0%)**	(1.1)	(0.9%)
Non-deductible expenses - remediation	**(6.6)**	**(2.1%)**	(4.4)	(3.3%)
Non-deductible expenses - other	**(0.7)**	**(0.2%)**	(0.7)	(0.5%)
Impact of intangible asset impairment on R&D deferred tax liability	**0.2**	**0.1%**	1.8	1.4%
Share based payments	**(0.2)**	**(0.1%)**	(1.9)	(1.5%)
Adjustment in respect of prior years	**4.1**	**1.3%**	(0.5)	(0.3%)
Current year losses for which no deferred tax asset has been recognised	**(42.8)**	**(13.7%)**	(11.4)	(8.7%)
Derecognition of tax losses arising in prior years	**–**	**–**	(52.7)	(40.2%)
Effect of changes in tax rates	**2.1**	**0.7%**	(2.8)	(2.2%)
Tax credit/(expense) reported in the consolidated income statement	**9.7**	**3.2%**	(51.8)	(39.5%)

Deferred tax
A deferred tax asset is 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.

	Unused tax losses £'million	**Investment securities and impairments £'million**	**Share-based payments £'million**	**Property, plant and equipment £'million**	**Intangible assets £'million**	**Total £'million**
2020						
Deferred tax assets	**12**	**3**	**–**	**–**	**–**	**15**
Deferred tax liabilities	**–**	**(1)**	**–**	**(16)**	**(10)**	**(27)**
Deferred tax liabilities (net)	**12**	**2**	**–**	**(16)**	**(10)**	**(12)**
At 1 January 2020	**–**	**4**	**–**	**(15)**	**(4)**	**(15)**
Income statement	**12**	**(1)**	**–**	**(1)**	**–**	**10**
Other comprehensive income	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Acquisition	**–**	**–**	**–**	**–**	**(6)**	**(6)**
At 31 December 2020	**12**	**2**	**–**	**(16)**	**(10)**	**(12)**

	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
2019						
Deferred tax assets	–	6	–	–	–	6
Deferred tax liabilities	–	(2)	–	(15)	(4)	(21)
Deferred tax liabilities (net)	–	4	–	(15)	(4)	(15)
At 1 January 2019	53	5	1	(11)	(7)	41
Income statement	(53)	(1)	(1)	(4)	3	(56)
At 31 December 2019	–	4	–	(15)	(4)	(15)

4. Financial instruments

The Group's financial instruments primarily comprise customer deposits, loans and advances to customers, cash held at banks and investment securities, all of which arise as a result of normal operations. Information on loans and advances to customers can be found in note 5, and on investment securities in note 6.

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

The financial instruments the Group holds are simple in nature and no significant or material judgments have been made relating to the classification of financial instruments under IFRS 9.

5. Loans and advances to customers

	31 December 2020		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Consumer lending	**204**	**(25)**	**179**
Retail mortgages	**6,892**	**(26)**	**6,866**
Commercial lending	**5,148**	**(103)**	**5,045**
Total loans and advances to customers	**12,244**	**(154)**	**12,090**

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

Further information on the movements in gross carrying amounts and ECL can be found in note 13. An analysis of the gross loans and advances by product category is set out below:

	31 December 2020 £'million	31 December 2019 £'million
Overdrafts	**73**	77
Credit cards	**10**	11
Term loans	**121**	145
Total consumer lending	**204**	233
Residential owner occupied	**5,051**	8,493
Retail buy-to-let	**1,841**	1,937
Total retail mortgages	**6,892**	10,430
Total retail lending	**7,096**	10,663
Professional buy-to-let	**1,117**	1,219
Bounce back loans	**1,353**	–
Coronavirus business interruption loans	**114**	–
Other term loans	**2,138**	2,327
Total commercial term lending	**4,722**	3,546
Overdrafts and revolving credit facilities	**149**	202
Credit cards	**3**	3
Asset and invoice finance	**274**	301
Total commercial lending	**5,148**	4,052
Gross loans and advances to customers	**12,244**	14,715

6. Investment securities

	31 December 2020 £'million	31 December 2019 £'million
Fair value through other comprehensive income	**773**	411
Amortised cost	**2,640**	2,154
Total investment securities	**3,413**	2,565

Fair value through other comprehensive income

	31 December 2020 £'million	31 December 2019 £'million
Sovereign bonds	**386**	283
Residential mortgage backed securities	**50**	–
Covered bonds	**337**	128
Total investment securities held at fair value through other comprehensive income	**773**	411

Amortised cost

	31 December 2020 £'million	31 December 2019 £'million
Sovereign bonds	**495**	61
Residential mortgage backed securities	**1,624**	1,752
Covered bonds	**521**	341
Total investment securities held at amortised cost	**2,640**	2,154

7. Property, plant and equipment

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right of use assets relating to leased stores and offices £'million	Total £'million
Cost							
1 January 2020	**18**	**314**	**262**	**26**	**10**	**332**	**962**
Additions	**–**	**6**	**18**	**3**	**2**	**4**	**33**
Recognised in business combinations (note 17)	**–**	**1**	**–**	**–**	**1**	**3**	**5**
Disposals	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Write-offs	**–**	**(11)**	**–**	**(4)**	**(2)**	**–**	**(17)**
Transfers	**–**	**(18)**	**18**	**–**	**–**	**–**	**–**
31 December 2020	**18**	**292**	**298**	**25**	**11**	**330**	**974**
Accumulated depreciation							
1 January 2020	**10**	**49**	**14**	**12**	**5**	**16**	**106**
Charge for the year	**–**	**11**	**5**	**5**	**4**	**16**	**41**
Recognised in business combinations (note 17)	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Impairments	**2**	**9**	**–**	**1**	**–**	**16**	**28**
Disposals	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Write-offs	**–**	**(2)**	**–**	**(3)**	**(2)**	**–**	**(7)**
Transfers	**–**	**(2)**	**2**	**–**	**–**	**–**	**–**
31 December 2020	**12**	**66**	**21**	**15**	**7**	**47**	**168**
Net book value	**6**	**226**	**277**	**10**	**4**	**283**	**806**

	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right of use assets relating to leased stores and offices £'million	Total £'million
Cost							
1 January 2019	10	275	199	33	39	313	869
Additions	–	51	62	5	2	26	146
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 January 2019	3	39	9	18	33	–	102
Charge for the year	–	11	4	6	3	16	40
Impairments	7	–	–	–	–	–	7
Write-offs	–	–	–	(12)	(31)	–	(43)
Transfers	–	(1)	1	–	–	–	–
31 December 2019	10	49	14	12	5	16	106
Net book value	8	265	248	14	5	316	856

Impairment
During 2020 following the decision to vacate its offices at Old Bailey, London the Group tested the related assets for impairment and recognised an impairment loss.

Additionally due to the decline in the commercial property market an impairment indicator was identified in relation to the Group's investment property. The Group's investment property consists of shops and offices which are located within the same buildings as some of its stores, where it has acquired the freehold interest. An impairment loss of £2 million was recognised against these assets. At 31 December 2020 the Group's investment property had a fair value of £6 million (31 December 2019: £7 million). The fair value has been provided by a qualified independent valuer.

Impairment indicators were also identified in respect of other items of property, plant and equipment. The assets, which included the Group's stores, were tested for impairment. The recoverable amount of the cash generating units to which these assets were allocated was found to be in excess of their carrying amount and as such no impairment was recognised.

Write-offs
The write-offs in the year consist primarily of fit out costs of office space that have been, or is planned, be stripped out either as a result of these spaces being refitted to allow future flexible working. Additionally write-offs includes a number of fixtures, fittings and equipment and IT hardware with a nil book value which are no longer being used as well costs relating to work undertaken on future store sites, which the Group has now decided not to proceed with

Transfers
Transfers represent costs associated with the improvements made to previously leased stores which have been purchased. These stores were purchased where there was a strong commercial rationale for doing so.

8. Intangible assets

	Goodwill £'million	Brand £'million	Software £'million	Total £'million
Cost				
1 January 2020	**4**	**–**	**224**	**228**
Additions	**–**	**–**	**81**	**81**
Recognised in business combinations (note 17)	**6**	**2**	**32**	**40**
Write-offs	**–**	**–**	**(10)**	**(10)**
Deferred grant (note 11)	**–**	**–**	**1**	**1**
31 December 2020	**10**	**2**	**328**	**340**
Amortisation				
1 January 2020	**–**	**–**	**60**	**60**
Charge for the year	**–**	**–**	**33**	**33**
Write-offs	**–**	**–**	**(7)**	**(7)**
31 December 2020	**–**	**–**	**86**	**86**
Net book value	**10**	**2**	**242**	**254**

	Goodwill £'million	Customer contracts £'million	Software £'million	Total £'million
Cost				
1 January 2019	4	1	249	254
Additions	–	–	79	79
Write-offs	–	(1)	(100)	(101)
Deferred grant (note 10)	–	–	(4)	(4)
31 December 2019	4	–	224	228
Amortisation				
1 January 2019	–	1	56	57
Charge for the year	–	–	36	36
Write-offs	–	(1)	(32)	(33)
31 December 2019	–	–	60	60
Net book value	4	–	164	168

Write-offs
The write-offs in the year consisted primarily of software and applications that are no longer being used and are no longer providing any further economic benefits.

Goodwill
Goodwill is assessed for any impairment on an annual basis.

For the purpose of impairment testing goodwill is allocated to the following cash generating units:

	31 December 2020 £'million
Asset and invoice finance business	**4**
Retail bank	**6**

Total goodwill	**10**

No impairment losses were recognised in the year ended 31 December 2020 (2019: nil).

9. Assets classified as held for sale

On 18 December 2020 the Group agreed to sell a portfolio of £3.1 billion of loans to NatWest. The portfolio of mortgages sold was subject to a 10% carve out, which related to a group of specifically identified loans on which NatWest would undertake further due diligence prior to completion.

In the period between the sale agreement and completion, NatWest had the ability to exclude loans from the 10% carve out, subject to pre-set criteria. Due to the ability for loans to be excluded, loans specified within the carve out did not meet the threshold to be derecognised at year end, however were deemed by Management to meet the definition of comprising a disposal group held for sale under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The disposal group was held at its carrying amount of £295 million as at 31 December 2020 and as such the gain relating to the carve out is not included within 2020 income statement.

The sale of these loans was accounted for in 2021 at which point a gain of £8.2 million was recognised (£8.0 million, net of costs). Further detail are provided in note 19.

10. Leases

Lease liabilities

	2020 £'million	2019 £'million
1 January	**341**	328
Additions and modifications	**4**	23
Recognised in business combinations (note 16)	**3**	–
Disposals	**(9)**	(3)
Lease payments made	**(31)**	(25)
Interest on lease liabilities	**19**	18
31 December	**327**	341

Right of use assets
All disclosures relating to right of use assets can be found in note 7.

Low value and short leases
During the year ended 31 December 2020 £0.2 million (year ended 31 December 2019: £0.4 million) was recognised in the income statement with respect to assets of low value of a lease less 12 months.

Future income due under non-cancellable operating leases
The Group leases out surplus space in some of its properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of any VAT.

	31 December 2020 £'million	31 December 2019 £'million
Within one year	**1**	1
Due in one to five years	**4**	3
Due in more than five years	**5**	7
Total	**10**	11

11. Deferred grants

	2020	2019

	£'million	£'million
1 January	**50**	–
Grants received	**–**	120
Released to the income statement	**(23)**	(16)
Offset against capital expenditure (see note 8)	**1**	(4)
Element of grant awaiting repayment	**–**	(50)
31 December	**28**	50

As at the 31 December 2020 no provision has been made for the return of any further funds on the basis the Group is on track to deliver our commitments agreed with BCR.

12. Called-up share capital

The Group has a single class of shares. As at 31 December 2020 172.4 million ordinary shares of 0.0001p (31 December 2019: 172.4 million) were authorised and in issue.

Called-up ordinary share capital, issued and fully paid
The called-up share capital reserve is used to record the nominal share capital. At the 31 December 2020 the Group's called up share capital was £172.42 (31 December 2019: £172.42)

	2020 £'million	2019 £'million
1 January	**–**	–
Issued	**–**	–
31 December	**–**	–

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

	2020 £'million	2019 £'million
1 January	**1,964**	1,605
Issued	**–**	375
Costs of shares issued	**–**	(16)
31 December	**1,964**	1,964

13. Expected credit losses

Credit risk exposures

Retail mortgages

	31 December 2020 £' million		
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
Up to date	**5,911**	**802**	**47**
1 to 29 days past due	**–**	**18**	**8**
30 to 89 days past due	**–**	**43**	**13**

90+ days past due	**–**	**–**	**50**
Gross carrying amount	**5,911**	**863**	**118**

	31 December 2019 £' million		
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
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

Consumer lending

	31 December 2020 £' million		
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**
Up to date	**149**	**38**	**–**
1 to 29 days past due	**–**	**3**	**–**
30 to 89 days past due	**–**	**2**	**–**
90+ days past due	**–**	**–**	**12**
Gross carrying amount	**149**	**43**	**12**

	31 December 2019 £' million		
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
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

Commercial lending

	31 December 2020 £' million		
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**
Up to date	**4,115**	**863**	**96**
1 to 29 days past due	**–**	**21**	**2**
30 to 89 days past due	**–**	**22**	**11**

90+ days past due	–	–	18
Gross carrying amount	**4,115**	**906**	**127**

	31 December 2019 £' million		
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL
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

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of the Group's loans and advances during the period. Significant changes in the gross carrying amount which contributed to changes in the loss allowance are explained below. Other movements consists of changes to model assumptions and forward looking information.

Retail mortgages

	Gross carrying amount				Loss allowance				Net carrying amount			
£'million	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
1 January 2020	9,874	502	54	10,430	-	(3)	(5)	(8)	9,874	499	49	10,422
Transfers to/(from) stage 1[1]	109	(106)	(3)	-	(1)	1	-	-	108	(105)	(3)	-
Transfers to/(from) stage 2	(559)	560	(1)	-	-	-	-	-	(559)	560	(1)	-
Transfers to/(from) stage 3	(55)	(22)	77	-	-	1	(1)	-	(55)	(21)	76	-
Net remeasurement due to transfers[2]	-	-	-	-	1	(8)	(1)	(8)	1	(8)	(1)	(8)
New lending[3]	522	48	1	571	(3)	(3)	-	(6)	519	45	1	565
Repayments, additional drawdowns and interest accrued	(122)	(11)	-	(133)	-	-	-	-	(122)	(11)	-	(133)
Transfer to held for sale[4]	(289)	(7)	-	(296)	1	-	-	1	(288)	(7)	-	(295)
Derecognitions[5]	(3,569)	(101)	(10)	(3,680)	3	1	1	5	(3,566)	(100)	(9)	(3,675)
Changes to model assumptions[6]	-	-	-	-	(6)	(6)	2	(10)	(6)	(6)	2	(10)
31 December 2020	5,911	863	118	6,892	(5)	(17)	(4)	(26)	5,906	846	114	6,866

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

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**	Stage 1	Stage 2	Stage 3	POCI	**Total**
1 January 2019	9,245	336	39	5	9,625	–	(5)	(4)	(2)	(11)	9,245	331	35	3	9,614
Transfers to/(from) stage 1	169	(162)	(7)	–	–	(1)	1	–	–	–	168	(161)	(7)	–	–

Transfers to/(from) stage 2	(369)	370	(1)	–	–	–	–	–	–	–	(369)	370	(1)	–	–
Transfers to/(from) stage 3	(22)	(16)	38	–	–	–	–	–	–	–	(22)	(16)	38	–	–
Net remeasurement due to transfers	–	–	–	–	–	1	(1)	(2)	–	(2)	1	(1)	(2)	–	(2)
New lending	2,122	77	–	–	2,199	–	–	–	–	–	2,122	77	–	–	2,199
Repayments, additional drawdowns and interest accrued	(244)	(9)	(3)	–	(256)	–	–	–	–	–	(244)	(9)	(3)	–	(256)
Derecognitions	(1,027)	(94)	(12)	(5)	(1,138)	–	2	2	2	6	(1,027)	(92)	(10)	(3)	(1,132)
Changes to model assumptions	–	–	–	–	–	–	–	(1)	–	(1)	–	–	(1)	–	(1)
31 December 2019	9,874	502	54	–	10,430	–	(3)	(5)	–	(8)	9,874	499	49	–	10,422

Consumer lending

	Gross carrying amount				Loss allowance				Net carrying amount			
£'million	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
1 January 2020	223	-	10	233	(3)	(1)	(9)	(13)	220	(1)	1	220
Transfers to/(from) stage 1	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to/(from) stage 2	(62)	62	-	-	1	(1)	-	-	(61)	61	-	-
Transfers to/(from) stage 3	(3)	(1)	4	-	-	-	-	-	(3)	(1)	4	-
Net remeasurement due to transfers	-	-	-	-	-	(7)	(3)	(10)	-	(7)	(3)	(10)
New lending	55	2	-	57	(2)	-	-	(2)	53	2	-	55
Repayments, additional drawdowns and interest accrued	(14)	(20)	(1)	(35)	-	-	-	-	(14)	(20)	(1)	(35)
Derecognitions	(50)	-	(1)	(51)	-	-	1	1	(50)	-	-	(50)
Changes to model assumptions	-	-	-	-	(2)	-	1	(1)	(2)	-	1	(1)
31 December 2020	149	43	12	204	(6)	(9)	(10)	(25)	143	34	2	179

	Gross carrying amount				Loss allowance				Net carrying amount			
£'million	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
1 January 2019	275	8	5	288	(3)	(3)	(3)	(9)	272	5	2	279
Transfers to/(from) stage 1	5	(5)	–	–	–	–	–	–	5	(5)	–	–
Transfers to/(from) stage 2	(1)	1	–	–	–	–	–	–	(1)	1	–	–
Transfers to/(from) stage 3	(3)	(3)	6	–	–	2	(2)	–	(3)	(1)	4	–
Net remeasurement due to transfers	–	–	–	–	–	–	(4)	(4)	–	–	(4)	(4)
New lending	39	–	–	39	–	–	–	–	39	–	–	39
Repayments, additional drawdowns and interest accrued	(37)	–	(1)	(38)	–	–	–	–	(37)	–	(1)	(38)
Derecognitions	(55)	(1)	–	(56)	–	–	–	–	(55)	(1)	–	(56)
Changes to model assumptions	–	–	–	–	–	–	–	–	–	–	–	–
31 December 2019	223	–	10	233	(3)	(1)	(9)	(13)	220	(1)	1	220

Commercial lending

£'million	Gross carrying amount				Loss allowance				Net carrying amount			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
1 January 2020	3,929	72	51	4,052	(6)	(1)	(6)	(13)	3,923	71	45	4,039
Transfers to/(from) stage 1	13	(11)	(2)	-	-	-	-	-	13	(11)	(2)	-
Transfers to/(from) stage 2	(678)	679	(1)	-	-	-	-	-	(678)	679	(1)	-
Transfers to/(from) stage 3	(84)	(20)	104	-	-	1	(1)	-	(84)	(19)	103	-
Net remeasurement due to transfers	-	-	-	-	-	(28)	(30)	(58)	-	(28)	(30)	(58)
New lending	1,562	199	9	1,770	(6)	(13)	(3)	(22)	1,556	186	6	1,748
Repayments, additional drawdowns and interest accrued	(201)	1	(9)	(209)	-	-	-	-	(201)	1	(9)	(209)
Derecognitions	(426)	(14)	(25)	(465)	1	1	2	4	(425)	(13)	(23)	(461)
Changes to model assumptions	-	-	-	-	(8)	(3)	(3)	(14)	(8)	(3)	(3)	(14)
31 December 2020	4,115	906	127	5,148	(19)	(43)	(41)	(103)	4,096	863	86	5,045

£'million	Gross carrying amount				Loss allowance				Net carrying amount			
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**
1 January 2019	4,265	77	14	4,356	(6)	(3)	(5)	(14)	4,259	74	9	4,342
Transfers to/(from) stage 1	43	(43)	–	–	(1)	1	–	–	42	(42)	–	–
Transfers to/(from) stage 2	(64)	64	–	–	–	–	–	–	(64)	64	–	–
Transfers to/(from) stage 3	(17)	(9)	26	–	–	1	(1)	–	(17)	(8)	25	–
Net remeasurement due to transfers	–	–	–	–	1	(1)	(2)	(2)	1	(1)	(2)	(2)
New lending	513	2	15	530	(1)	–	(2)	(3)	512	2	13	527
Repayments, additional drawdowns and interest accrued	(203)	(3)	6	(200)	–	–	–	–	(203)	(3)	6	(200)
Derecognitions	(608)	(16)	(10)	(634)	–	–	3	3	(608)	(16)	(7)	(631)
Changes to model assumptions	–	–	–	–	1	1	1	3	1	1	1	3
31 December 2019	3,929	72	51	4,052	(6)	(1)	(6)	(13)	3,923	71	45	4,039

Credit risk concentration

Residential mortgage lending by DTV banding

	31 December 2020 £'million			31 December 2019 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
DTV ratio						
Less than 50%	**1,855**	**502**	**2,357**	2,647	464	3,111
51–60%	**842**	**390**	**1,232**	1,383	393	1,776
61–70%	**836**	**533**	**1,369**	1,422	505	1,927
71–80%	**1,084**	**407**	**1,491**	1,813	554	2,367

81–90%	**359**	**4**	**363**	1,201	13	1,214
91–100%	**74**	**–**	**74**	23	–	23
More than 100%	**1**	**5**	**6**	4	8	12
Total retail mortgage lending	**5,051**	**1,841**	**6,892**	8,493	1,937	10,430

Residential mortgage lending by repayment type

	31 December 2020 £'million			31 December 2019 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Repayment						
Interest	**2,337**	**1,751**	**4,088**	2,573	1,834	4,407
Capital and interest	**2,714**	**90**	**2,804**	5,920	103	6,023
Total retail mortgage lending	**5,051**	**1,841**	**6,892**	8,493	1,937	10,430

Residential mortgage lending by geographic exposure

	31 December 2020 £'million			31 December 2019 £'million		
	Retail owner occupied	**Retail buy-to-let**	**Total retail mortgages**	Retail owner occupied	Retail buy-to-let	Total retail mortgages
Region						
Greater London	**2,213**	**1,147**	**3,360**	3,424	1,197	4,621
South east	**1,157**	**309**	**1,466**	2,094	337	2,431
South west	**433**	**91**	**524**	738	97	835
East of England	**298**	**73**	**371**	570	76	646
North west	**265**	**63**	**328**	482	66	548
West Midlands	**179**	**58**	**237**	340	62	402
Yorkshire and the Humber	**139**	**37**	**176**	275	37	312
East Midlands	**131**	**25**	**156**	243	26	269
Wales	**102**	**21**	**123**	169	21	190
North east	**62**	**10**	**72**	93	11	104
Scotland	**72**	**7**	**79**	65	7	72
Total retail mortgage lending	**5,051**	**1,841**	**6,892**	8,493	1,937	10,430

Commercial term lending (exc. BBLS) by DTV banding

	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	**Other term loans (inc. CBILS)**	**Total commercial term loans**	Professional buy-to-let	Other term loans	Total commercial term loans
DTV ratio						
Less than 50%	**353**	**876**	**1,229**	363	911	1,274
51–60%	**261**	**546**	**807**	283	535	818
61–70%	**351**	**255**	**606**	404	343	747
71–80%	**133**	**100**	**233**	135	86	221
81–90%	**9**	**51**	**60**	10	31	41
91–100%	**6**	**13**	**19**	12	37	49

More than 100%	**4**	**411**	**415**	12	384	396
Total commercial term loans	**1,117**	**2,252**	**3,369**	1,219	2,327	3,546

Commercial term lending (exc. BBLS) by repayment type

	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	**Other term loans (inc. CBILS)**	**Total commercial term loans**	Professional buy-to-let	Other term loans	Total commercial term loans
Repayment						
Interest	**1,058**	**281**	**1,339**	1,155	328	1,483
Capital and interest	**59**	**1,971**	**2,030**	64	1,999	2,063
Total commercial term loans	**1,117**	**2,252**	**3,369**	1,219	2,327	3,546

Commercial term lending (exc. BBLS) by geographic exposure

	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	**Other term loans (inc. CBILS)**	**Total commercial term loans**	Professional buy-to-let	Other term loans	Total commercial term loans
Region						
Greater London	**780**	**1,358**	**2,138**	850	1,414	2,264
South east	**205**	**399**	**604**	224	424	648
South west	**31**	**156**	**187**	52	156	208
East of England	**48**	**67**	**115**	35	104	139
North west	**20**	**146**	**166**	21	115	136
West Midlands	**10**	**66**	**76**	11	49	60
Yorkshire and the Humber	**3**	**13**	**16**	11	26	37
East Midlands	**11**	**18**	**29**	5	12	17
Wales	**5**	**10**	**15**	4	10	14
North east	**3**	**18**	**21**	4	9	13
Northern Ireland	**–**	**1**	**1**	1	5	6
Scotland	**1**	**–**	**1**	1	3	4
Total commercial term loans	**1,117**	**2,252**	**3,369**	1,219	2,327	3,546

Commercial term lending (exc. BBLS) by industry exposure

	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	**Other term loans (inc. CBILS)**	**Total commercial term loans**	Professional buy-to-let	Other term loans	Total commercial term loans
Industry sector						
Real estate (rent, buy and sell)	**1,117**	**1,032**	**2,148**	1,219	1,155	2,374
Hospitality	**–**	**376**	**376**	–	308	308
Health & social work	**–**	**248**	**248**	–	263	263
Legal, Accountancy & Consultancy	**–**	**208**	**208**	–	236	236
Retail	**–**	**107**	**107**	–	100	100

Real estate (development)	–	**60**	**60**	–	62	62
Recreation, cultural and sport	–	**53**	**53**	–	51	51
Construction	–	**36**	**36**	–	35	35
Education	–	**30**	**30**	–	30	30
Real estate (management of)	–	**10**	**10**	–	11	11
Investment and unit trusts	–	**9**	**9**	–	8	8
Other	–	**83**	**83**	–	68	68
Total commercial term loans	**1,117**	**2,252**	**3,368**	1,219	2,327	3,546

Non-performing loans and cost of risk

Non-performing loans

	31 December 2020		31 December 2019	
	NPLs £'million	**NPL ratio %**	NPLs £'million	NPL ratio %
Retail mortgages	**118**	**1.70%**	25	0.24%
Consumer lending	**13**	**6.13%**	10	4.30%
Commercial lending (including asset and invoice finance)	**127**	**2.48%**	42	1.12%
Total	**258**	**2.10%**	77	0.53%

Cost of risk

	Year ended 31 December 2020 %	Year ended 31 December 2019 %
Retail mortgages	**0.19%**	-
Consumer lending	**5.97%**	1.92%
Commercial lending (including asset and invoice finance)	**1.99%**	0.11%
Average cost of risk	**0.86%**	0.08%

14. Loss per share

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

	2020	2019
Loss attributable to ordinary equity holders of Metro Bank (£'million)	**(301.7)**	(182.6)
Weighted average number of ordinary shares in issue – basic ('000)	**172,420**	147,420
Basic loss per share (pence)	**(175.0)**	(123.9)

Diluted earnings per share has been calculated by dividing the earnings 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 the Group made a loss during the years to 31 December 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 earnings per share.

	2020	2019
Loss attributable to ordinary equity holders of Metro Bank (£'million)	**(301.7)**	(182.6)
Weighted average number of ordinary shares in issue – diluted ('000)	**172,420**	147,420
Diluted loss per share (pence)	**(175.0)**	(123.9)

15. 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
31 December 2020					
Assets					
Loans and advances to customers	**12,090**	**–**	**–**	**11,892**	**11,892**
Investment securities held at FVOCI	**773**	**723**	**50**	**–**	**773**
Investment securities held at amortised costs	**2,640**	**1,021**	**1,567**	**66**	**2,654**
Financial assets held at FVTPL	**30**	**–**	**–**	**30**	**30**
Liabilities					
Deposits from customers	**16,072**	**–**	**–**	**16,147**	**16,147**
Deposits from central banks	**3,808**	**–**	**–**	**3,808**	**3,808**
Debt securities	**600**	**483**	**–**	**–**	**483**
Financial liabilities held at FVTPL	**30**	**–**	**–**	**30**	**30**
Derivative financial liabilities	**8**	**–**	**8**	**–**	**8**
Repurchase agreements	**196**	**–**	**–**	**196**	**196**
31 December 2019					
Assets					
Loans and advances to customers	14,681	–	–	14,652	14,652
Investment securities held at FVOCI	411	411	–	–	411
Investment securities held at amortised costs	2,154	508	1,647	–	2,155
Liabilities					
Deposits from customers	14,447	–	–	14,448	14,448
Deposits from central bank	3,801	–	–	3,801	3,801
Debt securities	591	602	–	–	602
Derivative financial liabilities	8	–	8	–	8
Repurchase agreements	250	–	–	250	250

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).

Financial assets and liabilities held at fair value through profit and loss

The financial assets and liabilities held at fair value through profit and loss relate to the provision fund operated by RateSetter for the benefit of its peer-to-peer investors. The provision fund assets are measured based on the present value of future income receivable into the fund.

At 31 December 2020 the total assets and liabilities of the provision fund were equal due to it having fewer assets compared to its expected future liabilities (which are measured based on the lifetime expected losses of the loans the fund is providing protection against) and as such the provision fund liabilities are capped at the value of its total assets.

On 2 February 2020 the Group announced our intention to purchase the RateSetter back book (see note 18 for further details).

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.

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

16. Legal and regulatory matters
As part of the normal course of business the Group is 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
The Group is currently subject to enforcement investigations by both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (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 the Group's assessment and reporting of its risk-weighted assets. The Group is 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. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact 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 the Group's share price. The Group is 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. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

Financial Crime
In 2017 and 2019 initial disclosures were made to the United State's Office of Foreign Assets Control (OFAC) in relation to Cuba and Iran. The Group continues a review in respect of these matters, together with a review of its sanctions screening and transaction monitoring systems and controls, with the support of external advisers. The Group is continue to engage and fully co-operate with its regulators in relation to these matters. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

17. Business combinations

Accounting policy
The Group accounts for business combinations using the acquisition method when control is transferred. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay

contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Any goodwill that arises is tested annually for impairment.

Transaction costs are expensed as incurred.

On 14 September 2020 the Group acquired 100% of Retail Money Market LTD, a peer-to-peer platform specialising in unsecured lending and trading under the RateSetter brand. As a peer-to-peer platform, RateSetter connects investors and borrowers and therefore does not hold deposits or loans on its balance sheet. The acquisition formed part of delivering the Group's strategy to increase its unsecured lending. As part of the acquisition the Group started the process of winding down the peer-to-peer business, with no new investors being accepted. In February 2021, the Group announced the acquisition of the peer-to-peer lending portfolio from investors who had invested through the RateSetter platform. Since acquisition the Group has resumed lending under the RateSetter brand with all lending being funded by ourselves.

The purchase consideration was £12 million cash, consisting of £2.5 million that was paid upon completion with £0.5 million of deferred and £9 million of contingent consideration.

The deferred consideration is payable one year from the acquisition date and the contingent consideration is payable three years from the acquisition date based on the certain lending targets being achieved through the RateSetter platform.

The fair value of the consideration has been determined to be £11 million.

The assets and liabilities recognised as a result of the acquisition are:

	Fair value at 14 September 2020 £'million
Cash	**2**
Financial assets held at FVTPL	**29**
Property, plant and equipment	**4**
Intangible assets	**34**
Prepayments and accrued income	**1**
Other assets	**2**
Total assets	**72**
Debt securities	**(21)**
Provisions	**(3)**
Deferred tax liability	**(6)**
Financial liabilities held at FVTPL	**(29)**
Other liabilities	**(8)**
Total liabilities	**(67)**
Net assets	**5**
Goodwill arising on consolidation	**6**
Total consideration	**11**

Of the assets and liabilities above the financial assets and liabilities held at FVTPL relate to the RateSetter provision fund operated by RateSetter for the benefit of its peer-to-peer investors.

The liabilities of the provision fund are capped at the value of its total assets and at the acquisition date were equal due to the fund having fewer assets than the lifetime expected losses anticipated on the peer-to-peer lending.

The goodwill arising on the transaction is attributable to the workforce and organisational capability acquired. The Group will reconsider the valuation of the consideration and the provisional goodwill figures up to the end of the applicable measurement period to 14 September 2021. If changes identified represent additional information about facts and circumstances that existed as at the acquisition date, adjustments will be made to the original acquisition accounting.

18. Related parties

Key management personnel

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

Key management compensation

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

	2020 £'million	2019 £'million
Short-term benefits	**5.3**	5.8
Post-employment benefits	**0.1**	-
Share-based payment costs	**0.7**	1.7
Total compensation for key management personnel	**6.1**	7.5

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

Banking transactions with key management personnel

The Group provides banking services to Directors and other key management personnel and persons connected to them. Loan transactions during the year and the balances outstanding at 31 December were as follows:

	2020 £'million	2019 £'million
Loans outstanding at 1 January	**0.7**	3.8
Loans relating to persons and companies newly considered related parties	**1.8**	–
Loans relating to persons and companies no longer considered related parties	**(0.6)**	(3.1)
Loans issued during the year	**–**	0.2
Loan repayments during the year	**–**	(0.2)
Loans outstanding as at 31 December	**1.9**	0.7
Interest expense on loans payable to the Group (£'000)	**34**	90

There were three (31 December 2019: five) loans outstanding at 31 December 2020 totalling £1.8 million (31 December 2019: £0.7 million). Of these, two are residential mortgages secured on property and one is an asset finance loan; all loans were provided on our standard commercial terms.

In addition to the loans detailed above, the Group has issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel. Credit card balances outstanding at 31 December were as follows:

	2020 £'000	2019 £'000
Credit cards outstanding as at 31 December	**22**	16

Deposit balances outstanding at 31 December were as follows

	2020 £'million	2019 £'million
Deposits held at 1 January	**3.3**	4.5
Deposits relating to persons and companies newly considered related parties	**0.2**	2.1
Deposits relating to persons and companies no longer considered related parties	**(0.3)**	(1.8)
Net amounts withdrawn	**(1.1)**	(1.5)
Deposits outstanding as at 31 December	**2.1**	3.3

Other transactions with related parties
During the period, architecture, design and branding services were provided to the Group 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 until17 December 2019 when he stepped down.

He retains an honorary role as Chairman Emeritus. By virtue of his previous position within the Group, 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, the Group entered into a short agreement with InterArch to support the transition until the end of June 2020. This process has now fully completed.

The following transactions were carried out with InterArch during the year:

	2020 £'000	2019 £'000
Architectural design services	**388**	4,885
Creative and brand services	**333**	428
Total purchase of services with entities connected to key management personnel	**721**	5,313
Amounts outstanding as at 31 December owed by Metro Bank	**–**	82

19. Post balance sheet events

Completion of sale of residential mortgage portfolio
On 2 February 2021 the Group completed the sale of the residential mortgage portfolio to NatWest including the £295 million assets that were held for sale as at 31 December 2020. A further gain on sale of £8.2 million (£8.0 million, net of costs) was recognised in 2021 in relation to the transaction.

Acquisition of RateSetter back book
On 2 February 2021 the Group announced the acquisition of a portfolio of primarily unsecured consumer loans from peer-to-peer investors who have invested through the RateSetter platform for a cash consideration of up to £384 million. The exact amount is expected to be less as the Portfolio will continue to amortise between announcement and expected completion in April 2021, following a two month notice period for retail investors.

No adjustment has been made to the financial statements in respect of either of these transactions.

Underlying to statutory results reconciliation

£'million	Statutory basis	Listing Share Awards	Business acquisition costs	Impairment and write-off of property, plant, equipment and intangible assets	Net BCR costs	Transformation costs	Gain on mortgage portfolio sale (net of costs)	Remediation costs	Underlying basis
Year ended 31 December 2020									
Net interest income	**249.7**	–	–	–	0.6	–	–	–	**250.3**
Net fee and commission income	**59.9**	–	–	–	–	–	–	–	**59.9**
Net gains on sale of financial assets	**73.3**	–	–	–	–	–	(69.0)	–	**4.3**
Other income	**49.7**	–	–	–	(23.3)	–	–	–	**26.4**
Total income	**432.6**	–	–	–	(22.7)	–	(69.0)	–	**340.9**
General operating expenses	**(502.3)**	(0.2)	5.4	–	22.7	16.7	5.3	40.8	**(411.6)**
Depreciation and amortisation	**(74.4)**	–	–	–	–	–	–	–	**(74.4)**
Impairment and write-offs of PPE and intangible assets	**(40.6)**	–	–	40.6	–	–	–	–	**–**
Total operating expenses	**(617.3)**	(0.2)	5.4	40.6	22.7	16.7	5.3	40.8	**(486.0)**
Expected credit loss expense	**(126.7)**	–	–	–	–	–	–	–	**(126.7)**
Loss before tax	**(311.4)**	(0.2)	5.4	40.6	0.0	16.7	(63.7)	40.8	**(271.8)**

£'million	Statutory basis	Listing Share Awards	Business acquisition costs	Impairment and write-off of property, plant, equipment and intangible assets	Net BCR costs	Transformation costs	Gain on mortgage portfolio sale (net of costs)	Remediation costs	Underlying basis
Year ended 31 December 2019									
Net interest income	**308.1**	–	–	–	–	–	–	–	**308.1**
Net fee and commission income	**61.0**	–	–	–	–	–	–	–	**61.0**
Net gains on sale of financial assets	**1.6**	–	–	–	–	–	–	–	**1.6**
Other income	**44.9**	–	–	–	(15.5)	–	–	–	**29.4**
Total income	**415.9**	–	–	–	(15.5)	–	–	–	**400.1**
General operating expenses	**(380.6)**	0.6	–	–	18.1	11.5	–	26.8	**(323.7)**
Depreciation and amortisation	**(76.4)**	–	–	–	–	–	–	–	**(76.4)**
Impairment and write-offs of PPE and intangible assets	**(77.7)**	–	–	77.7	–	–	–	–	**–**
Total operating expenses	**(534.7)**	0.6	–	77.7	18.1	11.5	–	26.8	**(400.1)**
Expected credit loss expense	**(11.7)**	–	–	–	–	–	–	–	**(11.7)**
Loss before tax	**(130.8)**	0.6	–	77.7	2.6	11.5	–	26.8	**(11.7)**

Key capital disclosures

Key Metrics

The table below summarises our key regulatory metrics as at 31 December 2020 and 31 December 2019.

	31 December 2020 £'million	31 December 2019 £'million
Available capital		
CET1 capital	**1,192**	1,427
Tier 1 capital	**1,192**	1,427
Total capital	**1,441**	1,676
Risk weighted assets (RWAs)		
Total risk weighted assets	**7,957**	9,147
Risk-based capital ratios as % of RWAs		
CET1 ratio	**15.0%**	15.6%
Tier 1 ratio	**15.0%**	15.6%
Total capital ratio	**18.1%**	18.3%
Additional CET1 buffer requirements as % of RWAs		
Capital conservation buffer requirement	**2.5%**	2.5%
Countercyclical buffer requirement	**0.00%**	0.99%
Total of bank CET1 specific buffer requirements	**2.50%**	3.49%
Leverage ratio		
Leverage ratio	**5.62%**	6.64%
Liquidity coverage ratio		
Liquidity coverage ratio (LCR)	**187%**	197%

Leverage Ratio

The table below shows the bank's Tier 1 Capital and Total Leverage Exposure that are used to derive the Leverage Ratio. The leverage ratio is the ratio of Tier 1 Capital to Total Leverage exposure.

	31 December 2020 £'million	31 December 2019 £'million
Common equity tier 1 capital	**1,192**	1,427
Additional tier 1 capital	**-**	-
Tier 1 capital	**1,192**	1,427
CRD IV Leverage exposure	**21,211**	21,506
Leverage ratio	**5.62%**	6.64%

Our leverage ratio is 5.62% which is in excess of the Basel Committee's minimum capital requirement of 3.0% and our strategic target of maintaining a UK leverage ratio of greater than 4.0%.

Liquidity coverage ratio

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

	31 December 2020 £'million	31 December 2019 £'million
Total HQLA	**3,762**	3,356
Total net cash outflow	**2,011**	1,708
Liquidity coverage ratio (LCR)	**187%**	197%

Our LCR was 187% at 31 December 2020 which exceeds the Basel Committee's minimum of 100%.

Overview of RWAs and capital requirements

The table below sets out the risk weighted assets and Pillar 1 capital requirements for Metro Bank. The bank has applied the standardised approach to measure credit risk and the basic indicator approach to measure operational risk.

	31 December 2020 £'million	31 December 2019 £'million	Pillar 1 capital required 31 December 2020

			£'million
Credit risk (excluding counterparty credit risk (CCR))	**7,251**	8,591	579
Of which the standardised approach	**7,251**	8,591	579
CCR	**7**	5	1
Of which mark to market	**5**	3	1
Of which CVA	**2**	1	-
Market risk	**14**	5	1
Operational risk	**686**	546	55
Of which basic indicator approach	**686**	546	55
Amounts below the thresholds for deduction (subject to 250% risk weight)	**-**	-	-
Total	**7,957**	9,147	636

Credit risk exposures by exposure class 2020

Metro Bank's Pillar 1 capital requirement for Credit Risk is set out in the table below.

Exposures subject to the standardised approach	**Exposure Value £'million**	**RWA £'million**	**Capital Required £'million**
Central governments or central banks	**5,131**	**-**	**-**
Institutions	**2,767**	**553**	**44**
Corporates	**521**	**406**	**32**
Retail	**572**	**376**	**30**
Secured by mortgages on immovable property	**9,895**	**4,338**	**347**
Covered bonds	**860**	**86**	**7**
Claims on institutions and corporates with a short-term credit assessment	**-**	**-**	**-**
Securitisation position	**1,611**	**240**	**19**
Exposure at default	**247**	**248**	**20**
Items associated with particularly high risk	**14**	**21**	**2**
Other exposures	**1,045**	**987**	**79**
Total	**22,659**	**7,251**	**580**

Credit risk exposures by exposure class 2019

Exposures subject to the standardised approach	Exposure Value £'million	RWA £'million	Capital Required £'million
Central governments or central banks	3,200	-	-
Institutions	212	42	3
Corporates	764	683	55
Retail	569	381	30
Secured by mortgages on immovable property	13,565	6,039	483
Covered bonds	469	47	4
Claims on institutions and corporates with a short-term credit assessment	-	-	-
Securitisation position	1,580	316	25
Exposure at default	92	95	8
Items associated with particularly high risk	18	27	2
Other exposures	1000	961	77
Total	21,469	8,591	687

Capital Resources

The table below summarises the composition of regulatory capital.

	31 December 2020 £'million	31 December 2019 £'million
Share capital and premium	**1,964**	1,964
Retained earnings	**(392)**	(210)
Loss for the year	**(302)**	(183)
FVOCI reserve	**3**	(2)
Share option reserve	**16**	14
Intangible assets	**(254)**	(168)
Other regulatory adjustments	**157**	11
CET 1 capital	**1,192**	1,427
Tier 1 capital	**1,192**	1,427

Tier 2 capital	**249**	249
Total capital resources	**1,441**	1,676

The Bank's capital adequacy was in excess of the minimum required by the regulators at all times.