METRO BANK

Annual Report & Accounts 2020

What's inside

MORE INFORMATION
metrobankonline.co.uk

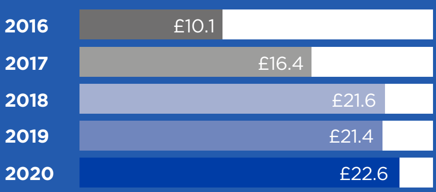
At Metro Bank we aspire to disrupt retail banking by building a bank that puts customers at the heart of what we do.

This is helping us achieve our ambition to become the UK's best community bank – a bank that is deeply rooted within local communities, allowing us to serve customers brilliantly in person, digitally and over the phone.

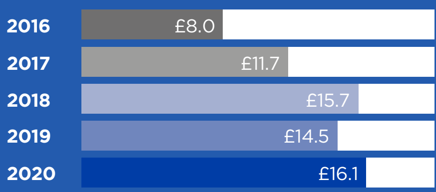
Summary of the year

Our results have been heavily impacted by the COVID-19 pandemic, notably an increase in expected credit losses arising from the worsening economic outlook, reduced net interest margin due to further base rate reductions and lower fee income as a result of lockdowns and government travel restrictions.

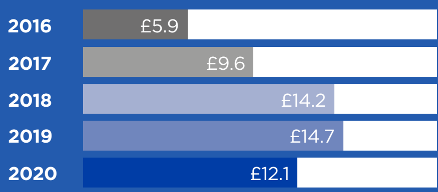
£22.6bn
Assets (£bn)



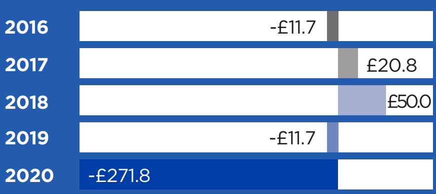
£16.1bn
Deposits (£bn)



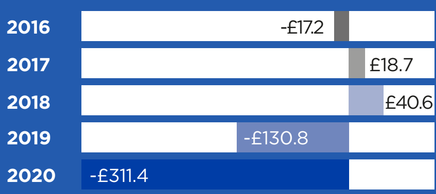
£12.1bn
Loans and advances (£bn)



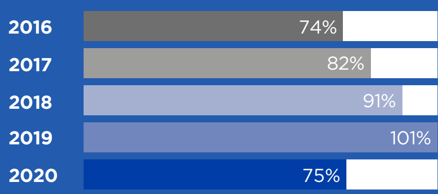
£(271.8)m
Underlying (loss)/profit before tax[1] (£m)



£(311.4)m
Statutory (loss)/profit before tax (£m)



75%
Loan to deposit ratio



Strategic

- Acquired RateSetter – accelerating our ability to grow unsecured lending
- Agreed sale of £3.1 billion mortgage portfolio to NatWest freeing up capital
- Appointed Daniel Frumkin as Chief Executive Officer (CEO)
- Appointed six new members of the Executive Committee
- Appointed Robert Sharpe as Chair and appointed four new Non-Executive Directors
- Delivered £1.5 billion in government support loans to small and medium sized businesses
- Vacated our central London offices at Old Bailey as part of our approach to managing costs
- Launched specialist mortgages

Operational

- Supported customers through the COVID-19 pandemic, keeping all stores open throughout
- Provided payment deferrals across 24% of our lending[2] (active deferrals 3% as at 31 December 2020)
- Opened six new stores – expanding into new markets including Sheffield and Liverpool
- Launched new digital capabilities and services including Business Account Online
- Celebrated our 10th birthday

1. Underlying loss before tax is an alternative performance measure. Further details, including a reconciliation to statutory loss before tax can be found on pages 233 to 235.
2. Based on proportion of lending by gross balance.

Who we are

Our purpose, values and strategy

Our ambition

- To become the UK's best community bank

ACHIEVED THROUGH

Our purpose

- To create FANS

DELIVERED VIA

Our business model

- Unique culture
- Integrated model
- Low-cost deposits
- Risk-adjusted returns

SUPPORTED BY

Our strategic priorities

- Cost control
- Revenue growth
- Infrastructure investment
- Balance sheet optimisation
- Internal and external communications

UNDERPINNED BY

Our values

- Attend to every detail
- Make every wrong right
- Ask if you're not sure – bump it up!
- Zest is contagious, share it!
- Exceed expectations
- Inspire colleagues to create FANS!
- Nurture colleagues so they grow
- Game-change because this is a revolution

Our business at a glance

We opened our doors in the summer of 2010 and were the first high street bank to open in the UK in over 100 years. In the 10 years since then, we've built a business that is providing meaningful competition against larger incumbents and offering a compelling alternative for customers across retail, private, small business (SME) and commercial banking.

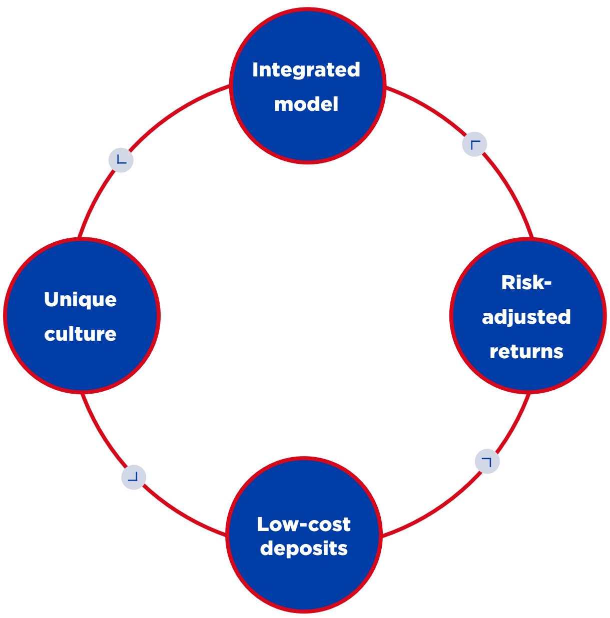
Our ambition

Our ambition is to become the UK's best community bank. Community banking means being embedded in the local communities that we serve, ensuring local decision-making, providing access to simple and straightforward retail, business banking and commercial services that best meet the needs of residents and businesses in the surrounding area.

Our purpose

We are achieving our ambition through delivering on our purpose which is to create FANS. FANS are customers which are created through delivering exceptional customer service and champion Metro Bank through actively recommending us to friends and family.

Summary business model



Our business model

We attract customers and create FANS by focusing on our business model. Our business model involves combining an integrated model of stores, telephony and digital with exceptional customer service.

Our network of 77 stores places us at the heart of the communities we serve, giving customers a face-to-face connection with our colleagues, while our telephone, mobile and online capabilities offer the convenience of banking when and where our customers choose. Our stores are open early 'til late, seven days a week[1] and as well as serving customers, host networking and community events. They have been ranked the best for store service in Great Britain by the Competition and Markets Authority (CMA) in their service quality survey six times in a row.

The combination of these components allows us to attract customers and create FANS, bringing low-cost deposits which we can then use to generate risk-adjusted returns.

We underpin our business model with strong capital and liquidity management and a robust approach to risk and governance.

Find out more about our business model on pages 12 to 13

Our strategic priorities

Our business model is supported by our strategic priorities, which we launched in 2020. By delivering on these strategic priorities it ensures the sustainability of our business model and moves us closer to achieving our ambition.

Find out more about our strategic priorities on pages 16 to 17

Our values

Our values underpin everything we do and are ingrained throughout our organisation helping us drive our customer-centric approach.

We serve 2.2 million customer accounts demonstrating that our business model continues to resonate with customers, even during these difficult times.

Find out more about our values on page 69

1. During 2020 we have had to operate reduced hours due to the COVID-19 pandemic.

Year in review

JANUARY
Launch of our first mainstream advertising campaign celebrating our people-people banking

FEBRUARY
Daniel Frumkin appointed as CEO

MAY
Launched specialist mortgages

JUNE
Opening of our 76th store in Cardiff (our fifth with a drive through) and our 77th store in Sheffield

JULY
Celebrated our 10th birthday

Bounce Back Loan Scheme (BBLS)

Enabled Direct Debit origination for business customers

AUGUST
Launch of refer a friend switching incentive

SEPTEMBER
Acquisition of RateSetter

Launch of Business Account Online for SME customers

OCTOBER
First Metro Bank lending delivered through RateSetter platform

NOVEMBER
Robert Sharpe appointed as Chair

DECEMBER
Announcement of £3.1 billion residential mortgage sale to NatWest

Chair's statement

ROBERT SHARPE
CHAIR

I am pleased to introduce Metro Bank's 2020 Annual Report following my appointment as Chair in November. I am delighted to have been chosen to chair a company which has remained steadfast in its commitment to deliver for customers, especially at a time when community banking has never been more important. I believe that through a combination of strong management and a credible strategy executed well, we can ensure the successful transformation and turnaround of Metro Bank, allowing us to continue to provide a force for good in UK banking.

CHALLENGING TIMES

Like most businesses, 2020 has presented us with challenging times. Embarking on a turnaround strategy during this period has been particularly testing. I am certainly not underestimating the task ahead but Metro Bank has many important strengths that give me confidence it will succeed. By far the most vital of these are our dedicated colleagues and management team. Since my appointment I have had the opportunity to meet many of them from around the business. I have been struck by their commitment to Metro Bank and the way they have adapted to support customers through the pandemic to continue to deliver exceptional customer service. I would like to take this opportunity to say thank you to all of them for supporting each other and delivering to our communities and our customers when they needed us most.

As well as meeting colleagues I have used my first few months in the role to undertake a robust examination of the Bank from the inside out. The strategy that our CEO, Daniel Frumkin, unveiled at the start of 2020, with five key areas of focus, provides the business with a very clear roadmap. It has been encouraging to see progress in each of those areas notwithstanding the impacts of COVID-19.

PROVIDING SUPPORT IN DIFFICULT TIMES

Throughout the crisis we have worked to support our customers. We have lent out nearly £1.5 billion of government support loans as well as granting payment deferrals across 24% of our lending portfolio, by value (with 3% of lending portfolio having payment deferrals at year-end).

Whilst continuing to serve our customers, we have prioritised the health of colleagues, ensuring our stores and offices were safe as well as supporting the mental wellbeing of colleagues who have been working remotely for an extended period. We adapted our sickness policy to ensure all colleagues were fully paid while taking the time needed to recover if they fell ill or needed to self-isolate. We also increased paid emergency leave to support parents and carers and continue to support flexible working arrangements.

RESULTS

Our results for the year clearly reflect the impacts of the pandemic, notably an increase in our expected loss expense, up £115.0 million to £126.7 million (2019: £11.7 million). The statutory loss before tax for the year of £311.4 million (2019: £130.8 million) also reflects the continued headwinds we face as well as the costs of turning around the business.

The loss for the year was lessened by a gain of £69.0 million (£63.7 million, net of costs) relating to the sale of a £3.1 billion residential mortgage portfolio to NatWest. A further gain of £8.2 million (£8.0 million, net of costs) was recognised in 2021. The sale was in line with the strategic priorities and means we have no immediate need to raise additional Minimum Requirement for own funds and Eligible Liabilities (MREL) qualifying debt as well as allowing us to free up capital to redeploy in other higher yielding business.

During the year the Bank started to utilise its regulatory capital, due to the losses incurred, but as a result of the mortgage portfolio sale ended the year above regulatory requirement with a CET1 ratio of 15.0% (2019: 15.6%) and a total capital ratio of 18.1% (2019: 18.3%).

My overarching priority, as well as that of the wider Board, is to ensure the Bank remains well capitalised and returns to sustainable profitability in the medium term. The sale of the mortgage portfolio is therefore an important step in achieving this.

CHANGES TO BOARD COMPOSITION

My appointment broadly completes a full refresh of the Board. Our independent Non-Executive Directors have the required expertise to lead Metro Bank through the next stage of its journey. As the Board evolves over the years ahead, it will be a focus of mine to ensure we continue to have the right mix of skills and experience.

I would like to thank my predecessor, Sir Michael Snyder, who was filling the role on an interim basis and who was instrumental in transforming the composition of the Board. I am delighted he will remain on the Board, resuming his previous role as Senior Independent Director.

REMUNERATION

Listening to shareholder feedback is one of the most important components of my role and one of the areas that we are regularly asked about is our approach to remuneration. It is for this reason that despite reviewing last year, we have decided once more to refresh our remuneration policy. The new policy, for which we will seek approval at our Annual General Meeting (AGM), is more in line with wider market practices and provides greater levels of transparency and incentive.

I appreciate that changing an organisation's approach to executive remuneration in the current climate is not an easy one, but I firmly believe it will better align the interests of management to those of shareholders and other stakeholders.

As part of our new remuneration approach, we have updated our key performance indicators (KPIs) to which remuneration is linked.

Improving the Bank's communications is one of the five central pillars of our strategy and part of this was a promise to review our KPIs. By ensuring that they are more closely linked to our strategic aims, it will create better visibility and accountability for both the executive management team and Board. We have worked to align the new KPIs to both our business model as well as key stakeholder outcomes to ensure we are focused on the right areas and behaviours.

LEGACY ISSUES

The Bank continues to feel the effects of legacy issues and is still subject to regulatory investigations. The associated remediation costs of this are a significant drag on financial performance. Closing out the investigations and ensuring the lessons are learnt to avoid any future issues remains of paramount importance to the Board.

THE FUTURE

Despite the current external challenges I believe that Metro Bank has turned a corner and is effectively tackling the headwinds we face whilst at the same time addressing and moving on from many of the issues from the past.

My key objective will be to ensure that Metro Bank focuses on delivering shareholder value by continuing to execute on our strategy and maintaining a strong capital position.

I am immensely grateful for the support both management and I have received from shareholders, as we look to reposition the business and deliver profitable growth.

Robert Sharpe
Chair
23 March 2021

Celebrating 10 years of bringing banking back to communities

We celebrated 10 years of bringing banking back to communities. Over the past decade colleagues across the Bank have:

- Hosted more than 11,000 networking events to help grow and support local businesses.
- Educated more than 200,000 children through Money Zone, our free financial education programme for schools and youth groups.
- Supported multiple charities nationwide.
- Helped kids make 600,000 crafts – from Easter bunny ears to Halloween pumpkins – at our family events.
- Volunteered 3,000 days to support local causes.
- Treated dogs to more than 35,000kg of treats in store.

For our 10th birthday we hosted a free online concert to celebrate with all our FANS, featuring Heather Small, the voice of M People, alongside Metro Bank colleagues – our very own 'M People-people'.

Chief Executive Officer's statement

DANIEL FRUMKIN
CHIEF EXECUTIVE OFFICER

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 open and been available on the phone 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. These consist of:

- Cost initiatives
- Revenue initiatives
- Infrastructure
- Balance sheet optimisation
- Internal and external communications

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 macroeconomic 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 that the impact on our customers will become clearer over the next 12 to 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 assets 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 12 times the value of consumer lending that Metro Bank has delivered organically in any year since we opened our doors in 2010.

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.

Chief Executive Officer's statement continued

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 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 the second half of the year compared with the first half.

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 the Bank and I 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 sixth 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
23 March 2021

Providing support through COVID-19

Support our customers
During the pandemic we have continued to deliver on our ambition to become the UK's best community bank. This involved keeping all of our stores open throughout the year. We did this whilst also ensuring our key-worker colleagues had all they need to work in a safe and protected environment.

We have provided tailored customer support to those that need it including offering payment deferrals across our portfolios and waived overdraft interest for personal customers temporarily. We gained accreditation to issue government backed support loans and have already supported thousands of small and medium sized businesses with nearly £1.5 billion of lending.

Allowing our colleagues to support our communities
Each year we give colleagues a Day to AMAZE, in which they can volunteer for a local cause instead of working. In light of the pandemic we extended this to five days in 2020 to support our communities when they needed it most.

In 2020 we opened our 77th store in Sheffield's city centre, with the local team using their Days to AMAZE to go the extra mile – quite literally. Store colleagues took part in the 'Tour de South Yorkshire'. By completing 114 miles by cycling, walking and running, our colleagues raised over £1,000 for Brain Tumour Research and support, Yorkshire's Brain Tumour Charity.

Our approach

We take...

Inputs in the form of

AWARD WINNING CUSTOMER SERVICE
We seek to provide an exceptional level of service through our people-people approach to banking. We work to make our customers FANS who share their positive experiences with their friends and families – generating strong brand awareness and affinity in the markets we operate.

INTEGRATED DELIVERY
We focus on combining the best of physical and digital. Through a network of 77 stores, digitally and on the phone we serve our 2.2. million customer accounts.

OUR VALUES
Our AMAZEING values are at the heart of everything we do. By having our values embedded within the organisation it makes sure we put our customers at the centre of our decision making.

OUR STRATEGIC PRIORITIES
In 2020 we launched our strategic priorities to help turnaround our business. These priorities are designed to strengthen our model and ensure its sustainability for the long term.

See pages 16 to 17 for more information

...underpinned by...

a framework of

RISK MANAGEMENT
Effective risk management underpins everything we do and is one of the core foundations on which our approach is built.

See pages 25 to 53 for more information

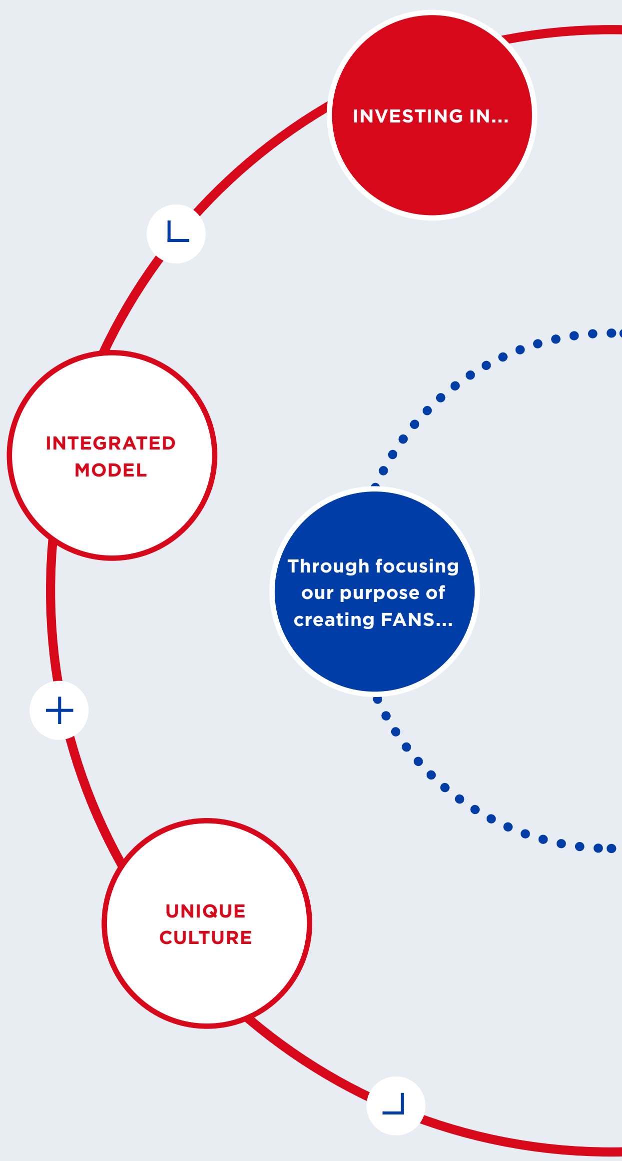
GOVERNANCE
The other key foundation on which our business model is built is ensuring we continually improve our approach to governance. Ensuring we maintain a robust governance framework is important in allowing all stakeholders to have confidence that we are making decisions in the right way.

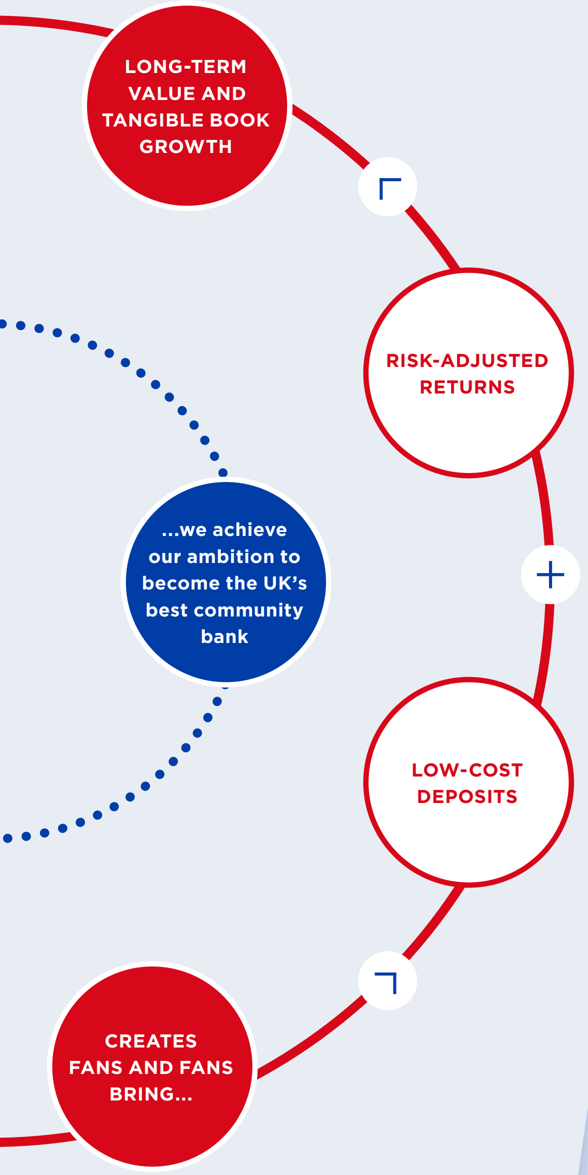
See pages 76 to 151 for more information

...and apply...

Our business model

See pages 12 to 13 for more information on the components of our business model





...to deliver

Outcomes in the form of

STAKEHOLDER OUTCOMES

FANS
Whether it is helping achieve major lifetime milestones such as buying a first new home or just looking after day-to-day spending and saving we help customers manage their money.

Colleagues
We create fulfilling careers where colleagues can progress and excel.

Investors
We aim to reward investors with tangible book growth and a sustainable return.

Communities
As a community bank we want to be an active member of society. Whether it is through hosting network events and helping small businesses thrive or volunteering to support local causes we place ourselves at the heart of the communities we serve.

Regulators
Our regulators work to create and maintain a stable, competitive and fair banking system in which customers can trust. We work closely with our regulators to help in this shared aim.

Suppliers
As we grow we generate value for companies throughout our supply chain. We work to support and deepen our relationships with our suppliers helping them to grow.

See page pages 56 to 63 for more information

FINANCIAL RESULTS

We make money from the difference on the amount of interest we charge on our lending less the interest we pay to customers for their deposits. In addition we earn income from fees we charge for additional services. We then manage our operating costs, including credit losses, within this income to generate profits and tangible book growth.

See pages 21 to 24 for more information

Business model

	PROGRESS IN 2020	PRIORITIES
Integrated model **Our integrated model aims to combine delivery through physical and digital channels.**	• Launched new digital services including Direct Debit Origination. • Onboarded new business accounts including attracting new customers from RBS via the incentivised switching. • Opened of six new stores. • Purchased RateSetter to accelerate unsecured lending capabilities. **Impacts of COVID-19** • Temporarily reduced store opening hours. • Temporarily paused business account openings due to unprecedented demand.	• Cautious approach to further store openings. • Expand product offering to meet more customer needs. • Launch of further digital initiatives including in-app invoicing, enhanced overdrafts, improved foreign exchange (FX) capabilities and insurance products.
Unique culture **Our colleagues deliver superior service and are at the heart of our people-people banking approach.**	• Created over 150 new roles and hired 12 apprentices. • Worked on building our people-people banking approach to banking. **Impacts of COVID-19** • Changing ways that management engage with colleagues and how we interact with customers, due to social distancing. This has included the increased use of digital channels for communication.	• Embed new working arrangements that reinforce our culture as the COVID-19 pandemic eases. • Continue to increase and champion diversity across all levels.
Low-cost deposits **We seek to attract low-cost deposits through our service-led community banking model with specific emphasis on our core retail and SME franchise.**	• Continued move towards core SME and personal current accounts. • Rolling off of high fixed term deposits. **Impacts of COVID-19** • Fall in fees income due to lower activity volumes.	• Continued growth in current account relationships including business accounts. • Deepening of customer relationships to enable greater fee growth. • Remain disciplined on deposit pricing.
Risk-adjusted returns **We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.**	• Acquisition of RateSetter platform. • Sale of £3.1 billion of residential mortgages. • Launched specialist mortgage products. **Impacts of COVID-19** • Significant increase in expected credit losses. • Reduction in base rate leading to lower yields, particularly in low loan to value (LTV) mortgages. • Participation in BBLS, CBILS and CLBILS loan schemes, delivering nearly £1.5 billion of relevant lending. • Launched 90% LTV product when others in market withdrew.	• Integration of RateSetter and scaling up of unsecured lending. • Management of lending within capital limit. • Continued push into specialist mortgages.

MARKET RISKS AND OPPORTUNITIES	REMUNERATION AND RISK	KPIS
Risks • Strong competition especially from incumbents and new digital only neo-banks. • Uncertainty over future state of the high street and the impact on our stores. **Opportunities** • Depressed commercial property market allows an opportunity to reduce store costs. • Increased use of customers using digital channels widens opportunities to interact with customers.	**Remuneration** **C.** Customers **Risk** **2.** Operational risk	**Number of accounts** **2020:** 2.2 million **2019:** 2.0 million **Customer satisfaction** **2020:** 86 (new to Bank) 45 (existing) **2019:** 89 (new to Bank) 47 (existing)
Risks • Competitive market for talent, especially in specialist and senior roles could hamper ability to attract talent. **Opportunities** • Remote working provides great opportunity to expand the pool of available talent that can work for us as well as helping reduce costs.	**Remuneration** **D.** People **Risk** **2.** Operational risk **7.** Conduct risk	**Colleague engagement** **2020:** 73% **2019:** 74% **Senior leadership diversity** **2020:** 11% (BAME) 38% (female) **2019:** 8% (BAME) 36% (female)
Risks • Continued competitive landscape. • Potential for further base rate falls (including negative interest rates). **Opportunities** • Shift in customer preference to lower cost instant access accounts. • Low interest environment for deposits focuses differentiating factor between providers to service rather than price.	**Remuneration** **A.** Financial **Risk** **3.** Liquidity and funding risk **4.** Market risk **5.** Financial crime **6.** Regulatory risk	**Cost of deposits** **2020:** 0.65% **2019:** 0.78%
Risks • Continued competitive landscape. • Potential for further base rate falls (including negative interest rates). • Growth in fraud risk, especially those targeted at government-backed lending programmes. • End of stamp duty holiday. **Opportunities** • Growth in consumer lending as economy bounces back. • Return in customer volumes as lockdowns are eased.	**Remuneration** **A.** Financial **B.** Risk **Risk** **1.** Credit risk **4.** Market risk **5.** Financial crime **6.** Regulatory risk **8.** Model risk **9.** Capital risk	**Cost of risk** **2020:** 0.86% **2019:** 0.08% **Loan to deposit ratio** **2020:** 75% **2019:** 101% **CET1 ratio** **2020:** 15.0% **2019:** 15.6%

Market risks & opportunities: pages 18 to 20

Risks: pages 28 to 29
Remuneration: page 116

KPIs: pages 14 to 15

Key performance indicators

Our KPIs are the things we monitor to check we are on track with the delivery of our strategy as well as assess how our business model is performing.

Link to business model

Components our business model

Our business model consists of:

- Integrated model
- Unique culture
- Low cost deposits
- Risk adjusted returns

Our business model is set out on pages 12 to 13. This includes showing how our KPIs link to the above components.

Output of our business model

Our business model is to generate long-term value and create tangible book growth. This is measured through:

- Total shareholder return
- Return on tangible equity

Link to new remuneration approach

We have updated our approach to remuneration and this has included updating our scorecard measures (effective from 1 January 2021) and introducing a long term incentive plan (LTIP) for Management.

Scorecard measures are aligned to the **components our business model**. In addition to the KPIs disclosed the scorecard also includes the use of qualitative measures.

LTIP measures are linked to the **output of our business model.**

● Scorecard Measure (from 2021)
● LTIP Measure

See pages 135 to 147 for more information

Alternative performance measures

Where a financial KPI is an alternative performance measure a reconciliation to the nearest statutory measure can be found on pages 233 to 235.

● Alternative performance measures

Non-financial

Customer satisfaction ●

	New account openings	Continuing relationships
2020	86	45
2019	89	47

How we define it

Net promoter score for new account openings and continuing customer relationships.

Why it is important

Our purpose is to create FANS and as such ensuring strong ongoing levels of customer satisfaction is important in measuring this.

Customer accounts

2020	2.2m
2019	2.0m

How we define it

Number of active customer accounts.

Why it is important

Growing our customer accounts is key to our franchise and validate that our approach is working and that our proposition resonates with customers.

Colleague engagement ●

2020	73%
2019	74%[1]

How we define it

The result is taken from our annual voice of the colleague survey.

Why it is important

Attracting and retaining talent is vital to delivering superior service and preserving our culture and therefore we want to ensure colleagues enjoy working for Metro Bank.

1. We have changed how we measure colleague engagement and as such the comparative figure differs from the 92% figure disclosed last year.

Diversity ●

	% Female	% Black, Asian and minority ethnic (BAME)
2020	38%	11%
2019	36%	8%

How we define it

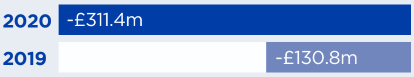
Proportion of female/BAME colleagues amongst our senior leadership (the ExCo and their direct reports).

Why it is important

Ensuring diversity amongst our senior management ensures we are representative of the communities we serve and our colleagues as a whole. This means we are more likely to make decisions that are beneficial to all our stakeholders and help us deliver on our strategy.

Financial

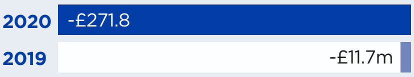
Statutory loss before tax



How we define it
Our earnings before tax as defined by IFRS.

Why it is important
Achieving sustainable profitability is the key financial measure to demonstrate we are creating long-term value which is the output of our business model.

Underlying loss before tax



How we define it
Our statutory earnings adjusted for certain items that distort year-on-year comparisons.

Why it is important
It provides a better and more relevant understanding of the underlying trends in the business.

CET1 ratio

How we define it
Our common equity tier 1 capital expressed as a percentage of RWAs.

Why it is important
This is the regulatory core capital we need to hold.

Cost of deposits

How we define it
Interest expense on customer deposits divided by the average deposits from customers for the year.

Why it is important
Cost of deposits is a key component of profitability. As customers are more willing to trade interest for a better service offering on deposits as compared to lending it is much more within management's ability to influence the costs of deposits.

Cost of risk

How we define it
Expected credit loss expense divided by average gross loans for the year.

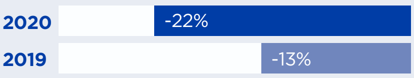
Why it is important
We seek to minimise our cost of risk and optimise this in relation to the lending yield received.

Statutory cost:income ratio

How we define it
Total costs (excluding expected credit loss expense) expressed as proportion of total income.

Why it is important
Achieving tangible book growth involves achieving profitability and therefore creating positive operating jaws is vital to this. Statutory cost:income ratio is a useful metric in measuring progress in this regard.

Return on tangible equity



How we define it
Earnings for the year divided by average tangible shareholders' equity (total equity less intangible assets).

Why it is important
This is the strategic output of our business model and how we judge success.

Loan to deposit ratio

How we define it
Loans and advances to customers expressed as a percentage of total deposits.

Why it is important
As we seek to be a deposit funded bank, ensuring we maintain an appropriate loan to deposit is a key measure in managing this.

Total shareholder return

How we define it
Total capital gains and dividends returned to investors over a defined period over a three-year rolling period.

Why it is important
We want to ensure shareholders are rewarded for their continued investment in us.

Strategic priorities

	DETAILS
Costs **Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint.**	• Fixed costs are a significant portion of our cost base; greater operational leverage will be provided by containing cost growth. • A range of initiatives are in place to limit cost growth. – Back-office location optimisation; increased remote working; and modernising contact centre technology. – Digitising/automating services; and reducing organisational layers. – Future store expansion subject to review.
Revenue **Meeting more customer needs and development of new capabilities.**	• Leading customer service proposition focused on deepening relationships and attracting new customers thereby driving revenue and margin growth. • Current product offering will be enhanced and broadened, while investing in our colleagues and technology to enhance accessibility for customers. • Leveraging existing store network for growth through further embedding ourself as a community bank.
Infrastructure **Investment in integrated channels and core infrastructure.**	• Continued investment in the Bank's leading customer proposition with the aim of bringing the physical and digital world together, making life easier for our customers and colleagues. • Underpinned by further investment in technology, finance and risk infrastructure.
Balance sheet optimisation **Enhanced focus on risk-adjusted returns and growing tangible book value.**	• Optimise balance sheet and asset mix whilst focusing on risk adjusted return on capital. • Seeking a better yielding asset book and improved returns by rebalancing lending mix towards areas such as specialist mortgages, SMEs and retail unsecured loans.
Internal and external communications **Improve our approach to engagement.**	• Focus on providing colleagues, shareholders and other stakeholders with a consistent message as we deliver on our ambition to become the UK's best community bank. • Ensure colleagues have a clear understanding of the transformation plan and their role within this. • Re-evaluating guidance, KPIs, tone and frequency of reporting.

PROGRESS IN 2020	IMPACTS OF COVID-19	PRIORITIES IN 2021
• 'Run the bank' cost growth of 1% on a like for like basis. • Accelerated property strategy: exited a Central London property. • Procurement transformation and IT outsourcing transformed. • E-forms and process automation across the Bank. • Purchase of three store freeholds.	• Increased costs of ensuring our locations are COVID-19 secure and a colleague 'thank you' fund for frontline teams. • Set-up costs incurred to support home working. • Temporarily elevated expected credit losses.	• Customer service transformation. • Continued development of a strategic collections capability for the bank including meeting BBLS requirements. • Continued focus on cost discipline, review of cost performance and discretionary spend.
• New products launched enhancing both retail and business customer propositions. • Unsecured consumer lending originating through the RateSetter platform. • Specialist mortgage products launch including higher LTV lending. • Announced acquisition of RateSetter back book of unsecured consumer loans. • Six new stores opened.	• Re-prioritised initiatives to enhance and broaden existing product offering. • Launch of BBLS, CBILS and CLBILS bringing additional revenue. • Fee income and foreign exchange revenue impacted by lower transaction volumes.	• New products including SME unsecured lending, retail credit cards as well as enhanced overdrafts and FX capabilities. • Expansion of RateSetter unsecured lending into store. • Furthering range of specialist mortgage products. • SME proposition for general insurance.
• 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.	• Majority of office-based colleagues working remotely. • Resource allocated to deliver government schemes. • Brought forward customer support capability investment.	• Product delivery through digital channels. • Delivery of regulatory requirements and enhancements to regulatory reporting. • IT and Operational resilience programmes.
• £3.1bn 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 comprised >80% of all applications in Q4.	• Capital light SME growth through BBLS, CBILS and CLBILS. • Capital relief measures applied, including: – IFRS 9 transitional agreement. – SME supporting factor changes. • Access to TFSME.	• Remain dynamic and opportunistic to seek capital efficiencies. • Accelerate unsecured lending and specialist mortgages to drive improved yields and reduce the lag effect on NIM. • Complete RateSetter integration. • Purchase RateSetter back book.
• Colleagues engaged across the business. • Implemented a change of approach to quarterly reporting. • Launched our people-people banking marketing campaign to raise awareness of our award-winning service, this included tailored versions for our Sheffield and Cardiff store openings.	• Increased colleague and customer communication through the COVID-19 pandemic. • Increased colleague health and wellbeing support with the launch of our Wellbeing Hub. • Greater use of digital tools to engage with stakeholders.	• Implement new ways of working to support our future hybrid plans. • Continue to deliver progress updates on our transformation strategy to all stakeholders. • Focus on communicating new product and service offerings to deepen customer relationships.

External market review

Economic outlook

The COVID-19 pandemic led to contraction across broad sectors of the economy, unprecedented in its speed and scale of impact. During the first half of the year the UK's gross domestic product (GDP) declined by more than 20% reflecting the impact of the first national lockdown implemented to reduce transmission of the virus. An easing of restrictions during the summer months led to some recovery, although the rate of improvement slowed in the third quarter as stricter measures were reintroduced in response to the second wave of infection. By the year end, GDP was more than 10% below a year earlier.

The economic impact of the lockdown was in part mitigated through the implementation of a range of government measures designed to protect consumers and businesses. Banks, including ourselves, were an important factor in this effort, extending payment holidays and other support measures to borrowers, whilst rapidly channelling government-backed BBLS, CBILS and CLBILS to businesses.

A government-backed furlough scheme, that protected the jobs of over nine million people at its peak, limited the effects on unemployment in 2020.

Property transactions were largely curtailed during the spring national lockdown as the market initially struggled to operate in the absence of in-person viewings and valuations. However, as lenders adapted by implementing remote valuation tools, momentum returned to the market in early summer. The combination of pent-up demand at the end of the lockdown together with the introduction of a stamp duty holiday for transactions up to £500,000, helped drive the number of transactions in November to their highest level for 10 years. House prices in December were over 7% above the start of the year.

An acceleration in economic recovery is anticipated in the second quarter of 2021, as the widespread deployment of vaccines is expected to allow social restrictions to be lifted. The furlough scheme is due to end in September 2021 and, in the absence of other measures, there is speculation that this could lead to a further rise in unemployment. The phasing out of the stamp duty holiday from June 2021 combined with a potentially softer labour market may lead to a period of lower property transactions and the threat of weaker prices.

Given the exceptional nature of the pandemic, uncertainty remains around the shape and timing of the recovery.

Our response

We have increased the size of our customer support function to ensure that we can continue to provide our personal and business customers with the support they need as the impacts of the pandemic work through the economy. We provided payment deferrals on 24% of our lending portfolio, with deferrals in place on 3% of our total lending at 31 December 2020.

In response to the government-backed support schemes we have worked to deliver these at pace, knowing how critical these are to many small and medium-sized business. At the same time we have worked to minimise the level of fraud on these schemes including joining the industry-wide initiatives to help protect both ourselves and the taxpayer against loss.

Credit risk modelling and measurement of Expected Credit Losses remains a key focus for management and the Board, supported by robust, independent macroeconomic forecasts.

Competition

As part of its package of measures to support the economy, in March the Bank of England (BoE) reduced the base rate by 0.65% to 0.1%. In response, rates on fixed term deposit and instant access accounts repriced markedly downwards across the market. Included in this shift were recent online-only entrants that had been driving competition, and the government-backed National Savings and Investments that has traditionally taken a significant market share.

In the current account market competition remains high particularly from the new digital-only operator as well as from established players offering switching incentives to attract new customers.

At the outset of 2020, it had been widely anticipated that maturing of the Term Funding Scheme (TFS) would drive beneficiaries of the scheme to seek funds from the deposit market and therefore drive competition and pricing higher, however the introduction of TFSME in March 2020 provided a new, low cost, alternative source of funding.

The lower rate environment has reduced the differential between instant access and fixed rate deposit accounts, which when combined with customers' caution in the context of an uncertain economic outlook, has seen change in customer preference towards instant access and the retention of higher current account balances.

Pricing in the mortgage market in the first quarter continued to reflect the highly competitive environment of the previous year, driven by the continued effects of ring-fencing on the larger banks. High levels of activity in the residential mortgage market in the second half of 2020 were spurred on by the stamp duty holiday and pent-up demand during the first lockdown. The scarcity of operational capacity pushed mortgage providers to increase pricing to dampen demand, widening spreads to levels not seen in the market in recent years. However, with the stamp duty holiday due to be phased out from June 2021, it's uncertain how long the elevated transaction volumes and higher mortgage pricing environment will continue.

Our response

In response to these competitive pressures we have pulled back from mainstream mortgage lending and instead have targeted lending towards higher yielding segments of the market, including testing a range of specialist mortgages.

This included offering 90% LTV mortgages when all other mainstream lenders withdrew from this segment of the market.

In September we also completed the acquisition of the RateSetter platform and have since added consumer lending journeys to our app and website. In February 2021 we announced the purchase of its back book, accelerating our entry into the consumer credit market.

We reduced the rates on our fixed term deposit accounts, positioning our rates competitively with other high street banks, but below the online only providers.

In August we also launched our own 'Refer a Friend' switching incentive scheme offering £50 each to both the new customer and the existing customer who referred them.

Regulation

As part of the package of measures put in place to support consumers during the pandemic, the Financial Conduct Authority (FCA) guided lenders to offer mortgage and consumer credit customers relief in the form of payment deferrals of up to a maximum of six months, ending at the latest by 31 July 2021. The FCA also paused home repossessions by lenders until 1 April 2021.

In response to the pandemic the BoE continues to assess the appropriateness of implementing negative interest rates as a transmission mechanism for monetary policy. In October 2020 the BoE undertook a sector-wide exercise to gather information to understand firms' operational readiness and challenges with potential implementation, particularly in terms of technology capabilities. In February 2021 the BoE gave banks and building societies six months to prepare for these.

Concerns regarding the potential risks to banks and the wider financial system related to climate change remain high on the regulatory agenda, with firms encouraged to consider climate risk as part of their strategy and risk management frameworks. The Prudential Regulation Authority (PRA) have indicated that firms should have fully embedded their approaches to managing climate-related financial risks by the end of 2021.

Our response

Alongside the UK Government's COVID-19 support measures and the other regulatory initiatives outlined above, the wider regulatory landscape continues to evolve.

We continue to monitor closely and prepare for further initiatives including the potential for negative rates and the impacts of climate change, to ensure that we remain well placed to identify impacts to our business model and our ability to continue to support our customers effectively.

Capital regime and funding

Regulators acted rapidly in the early stages of the pandemic, adjusting capital requirements to ensure the economy was unconstrained by a lack of access to finance. The measures 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.

Further relief has been provided through the European Banking Authority's changes to the capital treatment of software, although the PRA has recommended that banks do not factor this in when making capital decisions and is planning to consult on it in due course.

In March the BoE launched the Term Funding Scheme with additional incentives for SMEs (TFSME) to support lending to the economy. The scheme offers four-year funding at base rate. TFSME is available to Banks up to the value of 10% of their lending with additional funding available for banks that increase lending to SMEs.

UK financial institutions, including ourselves, with total assets greater than £15 billion are subject to the most stringent MREL requirements defined under the 'bail-in' stabilisation power within the European Union's Banking Recovery and Resolution Directive (BRRD). The BoE adopted a transitional period, with an interim requirement from 1 January 2020 equal to 18% of risk-weighted assets (RWAs) plus regulatory buffers. End-state requirements are effective from 1 January 2023 and for 'bail-in' banks are equal to twice its Pillar 1 and Pillar 2A requirement, plus regulatory buffers. Furthermore, UK resolution entities subject to a bail-in strategy are required to have MREL resources subordinated to operating liabilities using structural subordination, the timing of which coincides with the end-state MREL

External market review continued

requirements. During summer 2021 the BoE will issue a consultation paper regarding the MREL regime with potential for change including transition periods, thresholds, calibration and qualifying instruments.

Our response
In December we sold a £3.1 billion residential mortgage portfolio; the transaction increased our capital headroom, whilst also enabling a shift in our asset mix towards higher yielding segments of the market. The transaction removed the need to issue additional MREL qualifying debt in the near term.

Alongside other small and mid-sized banks, we hold proportionately more capital within Pillar 1 compared to the larger incumbent banks. We continue to advance our advanced internal ratings based approach to calculating credit risk (AIRB) application to reduce risk density and increase our competitiveness.

Pillar 3
Pillar 3 reporting requirements requires us to publish a set of disclosures which allow market participants to assess our capital, risk exposures and risk assessment process.

Our Pillar 3 disclosures, which are unaudited, can be found on our website www.metrobankonline.co.uk/investor-relations/

Consumer behaviour
COVID-19 has forced a significant alteration in consumer behaviour. It is currently unclear which of these will lead to a permanent shift and which will return to the status quo.

During the early weeks of the first lockdown we saw considerable reduction in customer activity with safety deposit box visits down c.80%, ATM and counter transactions falling by c.70%, and card transactions around 40% lower. Activity levels began trending upwards as the lockdown was eased from mid-May and fell back during the autumn and Christmas lockdowns, although not down to the levels observed in the spring. Other UK banks have reported similar trends, together with exceptionally high digital activity and sign-ups. While we have seen elevated digital activity since the beginning of March, our customers already have high digital and online engagement, for example with mobile banking set-up in-store at the time of account opening, therefore we have not seen such a pronounced increase in sign-up. The reduction in consumer activity has also resulted in higher levels of savings and increases in retail deposit balances have been observed across the sector.

The increase in use of digital channels is not unique to banking and 2020 has seen an acceleration of online shopping putting pressure on many high streets. This in turn has led to decline in the value of commercial retail space.

Social distancing requirements limited the number of customers permitted inside banks and it became a feature of high streets throughout the country to see queues of customers forming on the pavement. This highlighted the value customers place on having face-to-face contact, and our store network remains a key part of our proposition to customers and communities.

Most competitors paused their permanent store closure programmes for a number of months as part of their response to COVID-19, however these plans recommenced by the end of the year, impacting their customers by compelling them to travel further for face-to-face services.

Our response
Provided support to our communities throughout the pandemic by ensuring customers continued access to manage their finances, in store, via telephone or online.

All of our stores remained open throughout the pandemic, although with reduced hours, whilst other high street banks allowed some of their branches to close during the height of the lockdown. We provided extra support to elderly and vulnerable customers, including introducing protected hours within our AMAZE direct call centres.

We have taken the opportunity to purchase the freeholds of some of our stores with longer leases, providing greater flexibility over these sites.

We are 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.

Financial review

DAVID ARDEN
CHIEF FINANCIAL OFFICER

	2020 £m	2019 £m	Change %
Underlying 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%)
Underlying 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 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.

	Reconciliation £m
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)

For more information on our alternative performance measures see pages 233 to 235

Income

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 reconciliation	Reconciliation
2019 full year net interest margin	1.51%
Treasury assets (including disposals)	(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%

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 £m	2019 £m	Change %
Depreciation and amortisation	**74.4**	76.4	(3%)
Total operating expense	**617.3**	534.7	15%
Total underlying operating expense	**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 macroeconomic 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 macroeconomic scenarios which have primarily increased the probability of default. Observed losses still remain relatively low, however they 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

	2020 £bn	2019 £bn	Change %
Retail customer (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%

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.

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

	2020 £bn	2019 £bn	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%	

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, CBILS and CLBILS which totalled £1.5 billion at the year end.

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	2020	2019
Employees' NICs	**25.1%**	23.6%
PAYE	**65.5%**	62.1%
Net VAT	**9.1%**	14.3%
Other	**0.4%**	0.0%
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.

Financial review continued

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%	

A reconciliation between our statutory balance sheet and our RWAs can be found on page 232

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.

	Reconciliation
Total capital plus MREL ratio at 1 January 2020	22.1%
Annual operational risk adjustment	(0.4)%
Movement in lending (excluding portfolio sale)	1.8%
Mortgage portfolio sale	2.0%
Intangible assets (including RateSetter)	(1.1)%
EBA software add back	0.8%
SME supporting factor	0.9%
Expected credit losses	(1.6)%
IFRS 9 add-back	1.0%
Loss for the year (excluding ECL and mortgage 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%

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.

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 need to raise additional capital in the near-term, 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
23 March 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 addresses potential risk issues as they arise.

Risk appetite, policies and procedures

In line with our business model, outlined on pages 12 to 13 we strive to generate long term tangible book growth as well as sustainable growth for all our stakeholders. Risk appetite is defined as the level and types of risk we are willing to take within the boundaries of our risk capacity, to achieve these objectives. We achieve this by developing Risk Appetite Statements which articulate our risk appetite to stakeholders and provide a view on the risk-taking activities with which the Board is comfortable, guiding decision-makers in their strategic and business decisions. Summaries of our Risk Appetite Statements are included within the relevant principals risks on pages 30 to 51.

Our Risk Appetite Statements convey the balance required between risk-taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting us from excessive exposure. The Risk Appetite Statements include qualitative and quantitative limits which inform strategies, targets, policies, procedures and other controls that collectively ensure we remain within the Board's approved risk appetite. Information on performance against relevant Risk Appetite Statement settings, breaches and trends is reported to the Executive Risk Committee, Risk Oversight Committee and Board regularly.

In addition to our Risk Appetite Statements we have developed a Risk Policy Framework as a key component of our risk management. The Risk Policy Framework provides structure and governance for the consistent and effective management of policies we develop in order to manage our risk appetite. These policies define the minimum control requirements that must be observed across the Bank to manage material sources of risk within risk appetite.

Risk governance and oversight

We have a structured risk governance framework which strengthens our approach to risk management as well evaluating new risks. This allows us to manage the changing regulatory environment in an efficient and effective manner.

Effective operation of a 'three lines of defence' model is integral to our approach to risk management and is based on the overriding principle that risk capability must be embedded within the first line of defence teams to be effective. Responsibility for risk management resides at all levels within the Bank and is supported by Board and Executive-level committees. The table on page 27 sets out how responsibility for risk management is allocated and how that responsibility is discharged.

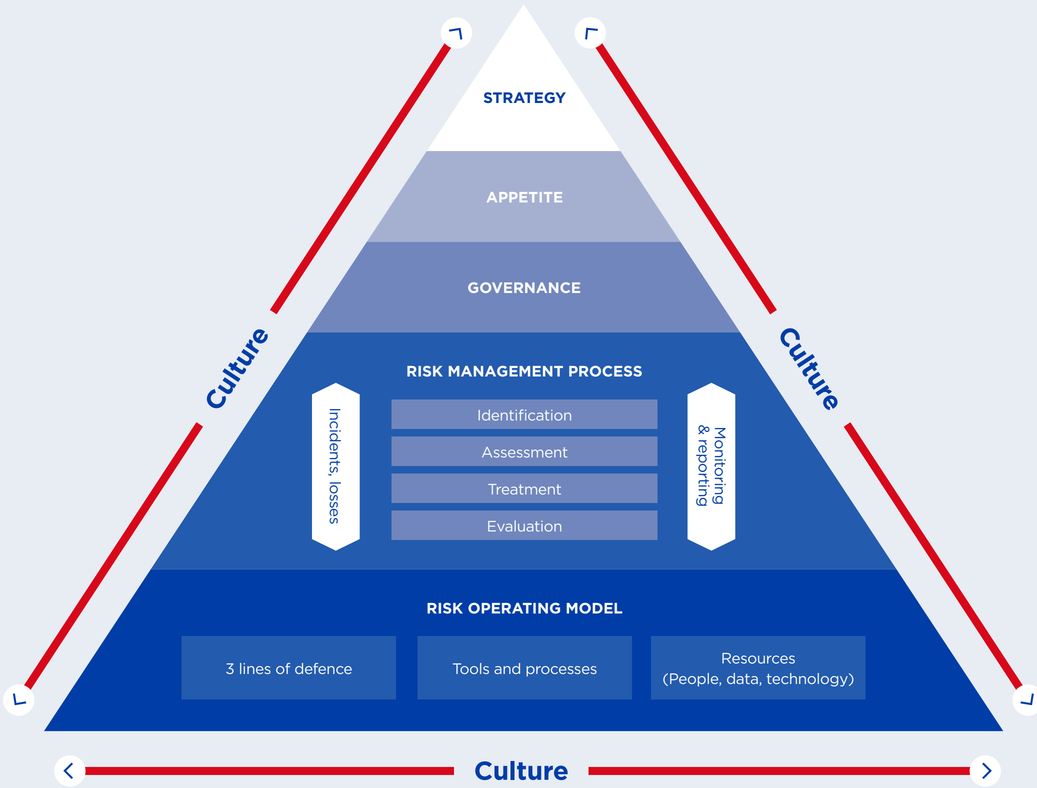
Risk culture

A critical supporting factor of the risk management framework is our culture, which supports risk awareness by encouraging every colleague to think about the relationship between their role and our purpose of creating FANS and growing safely and sustainably. This culture begins with our Executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation.

Personal accountability is at the heart of our risk culture. This is enabled through the Senior Managers and Certification Regime framework, which supports colleagues to make risk-informed decisions. Risk management is also included in every colleague's objectives each year and is embedded within our scorecard, against which performance is measured. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they maintain and develop the required levels of competence. This supports colleagues in making decisions and judgements with risk in mind.

We know that a culture that truly focuses on creating FANS by exceeding customers' expectations will reduce the risk of customer harm and deliver consistently good outcomes. We continually seek to enhance and further embed our risk management framework to ensure effective risk ownership and management within risk appetite, supporting appropriate customer outcomes, and the delivery of our strategic plan. We promote an environment of effective challenge in which decision-making processes stimulate a range of views. During the year, we have implemented several initiatives that have further strengthened and embedded the risk management framework within the business, increasing commitment to and understanding of risk management across all colleagues.

Risk Appetite



Changes in principal risks and risk profile

In line with the UK Corporate Governance Code requirements, we have performed a robust assessment of the principal and emerging risks we face, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. In deciding on the classification of principal risks, we considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur. The principal risk categories remain similar to those outlined in the Annual Report and Accounts 2019, with changes relating to the identification of capital risk as a principal risk and the recognition of climate risk as a cross-cutting risk, which manifests through the existing principal risk framework.

An overview of the principal risks and how they have changed over the year are set out on pages 28 to 29. While further information on all of the principal risks can be found on pages 30 to 51 of the Risk report.

During the year, we have been working hard to support our customers and minimise the impact of COVID-19 for businesses and households across the UK, maintaining our customer service operations and store distribution with minimal interruption. We have also participated in the various UK Government-backed loan schemes for businesses, in addition to offering payment holidays to mortgage, personal and business customers.

Our response to the pandemic demonstrates the robustness of our approach to risk management and mitigation as we continue to successfully manage these events. Like many businesses, COVID-19 has, however, increased our risk profile. The measures introduced to support the economy create new operational, conduct and financial risks for the Bank. These risks are being managed and will be monitored over time.

BOARD
SETS RISK APPETITE AND STRATEGY

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

RISK OVERSIGHT COMMITTEE
OVERSEES RISK GOVERNANCE AND MANAGEMENT

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

EXECUTIVE-LEVEL COMMITTEES
OVERSEE THE RISK MANAGEMENT FRAMEWORK

Executive Risk Committee
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk policies for approval by the Board or Risk Oversight Committee.
- Reviews and endorses risk frameworks and tools.
- Oversees the quality and composition of the credit risk portfolio, and recommends strategies to adjust the portfolio.

Model Oversight Committee
- Oversees model governance and model risk monitoring.
- Approves all material models.

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

Credit Approval Committee
- Approves higher value lending requests, policy exceptions.

1ST LINE OF DEFENCE: CHIEF EXECUTIVE OFFICER, EXECUTIVES AND THEIR TEAMS
OWN AND MANAGE RISK

- Own and manage risk on a day-to-day basis.
- Design, implement and maintain effective controls.
- Align strategy with, and monitor exposure against, risk appetite.
- Ensure adequate resources, tools and training in place.
- Promote and maintain an appropriate risk culture.

2ND LINE OF DEFENCE: CHIEF RISK OFFICER AND THE RISK FUNCTION
DESIGN AND MAINTAIN THE RISK MANAGEMENT FRAMEWORK

- Design and maintain the risk management framework.
- Establish and review risk policies and standards.
- Facilitate the development of risk appetite, tools and training.
- Ensure that key risks are identified, assessed and managed.
- Provide oversight, review and challenge to the first line.
- Report to Executive Management and the Board.

3RD LINE OF DEFENCE: AUDIT COMMITTEE AND INTERNAL AUDIT FUNCTION
PROVIDE ASSURANCE THAT THE RISK MANAGEMENT FRAMEWORK IS OPERATING EFFECTIVELY

- Assess the adequacy/effectiveness of the control environment.
- Independently verify that the risk management framework is operating effectively.
- Conduct reviews of risk management controls/procedures.

Risk report continued

The table below summarises the changes in our principal risks since 2019 and the key risk implications of the pandemic.

PRINCIPAL RISK	RISK MOVEMENT IN 2020	IMPACT OF COVID-19
1. Credit risk The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.	↑ 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.
2. 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.	↑ 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.
3. 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).	↓ 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. This effect has been observed across the industry and is anticipated will be temporary in nature.
4. 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.	↔ 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.
5. 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.	↓ 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.

PRINCIPAL RISK	RISK MOVEMENT IN 2020	IMPACT OF COVID-19
6. 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.	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.
7. 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.	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.
8. 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.	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.
9. 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 bondholders, the bond market, and customers) and key stakeholders in the pursuit of our business strategy.	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.

Further information on our principal risks are set out on pages 30 to 51.

1. Credit risk

Definition
Credit risk is the risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.

Change since 2019: Increased

Appetite
We have a moderate appetite for credit risk. As part of our strategic priorities we are rebalancing our lending mix, increasing the proportion of unsecured lending which will lead to an increased level of credit risk. Our tolerance for credit loss has been set within our ability to meet our capital requirements but also reflects the increased level of risks associated with COVID-19. Our metrics, and how we monitor them, will allow for informed decisions and meaningful risk management action to take place to ensure our capital and other resources are adequate in order to achieve our long-term strategic objectives.

Mitigation
Lending and collateral
Our foremost exposure to credit risk is through the loans, limits and advances we make available to our customers. We primarily mitigate credit risk through holding collateral against our residential mortgage and commercial term loan portfolios. Collateral is usually held in the form of real estate, guarantees, debentures and other liens that we can call upon in the event of the borrower defaulting. At 31 December 2020, 84% (31 December 2019: 95%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average debt-to-value of 56% (2019: 59%) and 56% (2019: 60%) respectively.

Our exposure to loans of greater than 100% debt to value (or where no real estate collateral is present) remains low at less than 1% of retail mortgage lending (31 December 2019: less than 1%) and 12% of commercial term lending (31 December 2019: 11%). In the retail mortgage lending portfolio, these loans have principally been part of portfolios we have acquired. For commercial term lending, additional forms of collateral (such as debentures or unsupported guarantees giving recourse to our customers) are excluded from these debt-to-value figures, so the true credit risk exposure on these loans is lower and is underwritten on the strength of all types of collateral.

Table 1: Retail mortgage lending by DTV

	31 December 2020 £'million			31 December 2019 £'million		
Audited	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

Table 2: Commercial term lending by DTV (excluding BBLS)

	31 December 2020 £'million			31 December 2019 £'million		
Audited	Professional buy-to-let	Other term loans	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

We have developed an automated credit approval process for consumer lending and retail mortgages utilising credit scorecards, affordability calculators and policy rules. This is supported by a team of skilled manual underwriters for more complex decisions, who operate within agreed delegated lending authorities, and a clear Credit Policy and Lending Standards.

All commercial lending is individually reviewed. This is undertaken by Relationship Managers and a specialist team of commercial underwriters, reviewing these proposals in accordance with agreed delegated lending authorities. It is underpinned by a commercial lending policy supported by sector specific standards and guidelines.

Undrawn commitments

At 31 December 2020, we had undrawn loan facilities of £769 million (2019: £726 million). This includes commitments of £351 million (2019: £296 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure. We mitigate credit risk in respect of these undrawn balances by regular customer monitoring to allow undrawn limits to be removed if we observe credit quality deterioration. We also have exposure to Invoice Finance assets (£36 million drawn on limits of £138 million) where the amount drawn is capped both by the discounted value of available invoices and a set relationship cap. Similarly, we have a small exposure to Commercial Real Estate Development Finance, where a limit to draw down is agreed in principle and funds are released in stages, throughout the development and following satisfactory surveyor reports. In commercial lending, undrawn commitments are regularly reviewed to ensure relationship caps remain appropriate. This has been particularly evident during 2020 as we continue to support customers through COVID-19.

Interest-only lending

We have exposure to refinance risk. This is the risk from loans to customers who are subject to a bullet or balloon payment at contractual maturity but who find themselves unable to refinance or otherwise make this payment. At 31 December 2020, this risk arises principally in the mortgage book where the exposure to interest-only loans stands at £4.1 billion (31 December 2019: £4.4 billion). There is further exposure to refinance risk in the Commercial Book of £1.3 billion (31 December 2019: £1.5 billion) from interest-only loans and a portion of amortising term loans.

All borrowers of interest-only lending are assessed as being able to refinance the lending at the end of the term or have an appropriate repayment plan in place. These loans are also appropriately collateralised (see lending and collateral section on page 30), ensuring we have a first charge in the event of default by the borrower. The reduction in owner occupied mortgages is as a result of the £3.1 billion retail mortgage sale, agreed in December 2020.

Risk report continued

1. Credit risk continued

Table 3: Retail mortgage lending by repayment type

Audited	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

Table 4: Commercial term lending (excluding BBLS)

Audited	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	Other term loans	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

Sector exposure

We manage the level of credit risk concentration based on individual borrowing entities and sector. Our credit risk appetite includes limits for high risk sectors and/or high levels of concentration.

Within commercial lending we set credit risk policy and lending standards for key sectors. We have specialist sector lending teams including in healthcare, hospitality, and property.

Over 2020, we have observed that some sectors have been more severely impacted by COVID-19 lockdowns. Hospitality has experienced a more significant reduction in income than other sectors, and as a consequence we are seeing higher levels of COVID-19 support required by these customers.

Table 5: Commercial term lending by sector exposure (excluding BBLS)

Audited	31 December 2020 £'million			31 December 2019 £'million		
	Professional buy-to-let	Other term loans	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**	**2,149**	1,219	1,155	2,374
Hospitality	**–**	**376**	**376**	–	308	308
Health and social work	**–**	**248**	**248**	–	263	263
Legal, accountancy and 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**	**3,369**	1,219	2,327	3,546

Geographic exposure

We also manage our lending exposure by region. Our current residential mortgage and commercial term lending is concentrated within London and the South East, which is broadly representative of our current customer base and store footprint. We are expanding our footprint over time to reduce geographical concentration of lending. All of our current loans' exposures are secured on UK-based collateral. A geographic analysis of the location of retail mortgage collateral and commercial term loan (excluding BBLS) collateral is set out below:

Table 6: Retail mortgages by geographic exposure

	31 December 2020 £'million			31 December 2019 £'million		
Audited	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

Table 7: Commercial term loans by geographic exposure (excluding BBLS)

	31 December 2020 £'million			31 December 2019 £'million		
Audited	Professional buy-to-let	Other term loans	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
Scotland	**1**	**–**	**1**	1	3	4
Northern Ireland	**–**	**1**	**1**	1	5	6
Total commercial term loans	**1,117**	**2,252**	**3,369**	1,219	2,327	3,546

1. Credit risk continued

Investment securities

As well as our loans and advances, the other main area where we are exposed to credit risk is within our Treasury portfolio. At 31 December 2020 we held £3.4 billion (31 December 2019: £2.6 billion) of investment securities, which are used for balance sheet and liquidity management purposes, of which £3.4 billion (31 December 2019: £2.4 billion) is eligible as collateral at the BoE.

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

Table 8: Investment securities by credit rating

	31 December 2020 £'million			31 December 2019 £'million		
Audited	Investment securities held at amortised cost	Investment securities held at FVOCI	Total	Investment securities held at amortised cost	Investment securities held at FVOCI	Total
Credit rating						
AAA	**2,184**	**385**	**2,569**	1,943	156	2,099
AA- to AA+	**456**	**388**	**844**	144	255	399
A- to A+	**–**	**–**	**–**	67	–	67
Lower than A-	**–**	**–**	**–**	–	–	–
Total	**2,640**	**773**	**3,413**	2,154	411	2,565

We have a robust securities investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2020, 75% of our investment securities were rated as AAA (31 December 2019: 82%) with a further 25% (31 December 2019: 16%) rated AA- or higher.

Additionally, we hold £3.0 billion (31 December 2019: £3.0 billion) in cash balances, which is either held by ourselves or at the BoE, where there is minimal credit exposure.

Oversight

Credit risk is overseen by the Chief Risk Officer (supported by the Chief Credit Officer), Executive Risk Committee and Risk Oversight Committee.

The Credit Risk function reports to the Chief Risk Officer and is led by the Chief Credit Officer. It is responsible for:

- Recommending and overseeing credit risk appetite limits.
- Maintaining credit risk policies and standards.
- Overseeing credit risk strategies in accordance with policies and risk appetite.
- Providing an independent review of individual commercial credit proposals and renewals of loan facilities.
- Monitoring credit risk performance and reporting to the Executive Risk Committee and Risk of Committee.
- Developing and monitoring credit risk models.
- Ensuring appropriate IFRS 9 credit provisions.
- Developing and overseeing of retail collections and recoveries strategies.
- Managing commercial collections and recoveries strategy and activities.

In addition, our Treasury Risk team, which is led by the Director of Prudential Risk and reports to the Chief Risk Officer, supports the development and implementation of applicable policies and procedures and monitors the credit risk aspects of the Treasury portfolio.

Measurement

Economic weightings

We measure credit quality for impairment purposes under IFRS 9. We have taken a cautious approach to assessing our impairment provisions in order to set aside appropriate portfolio provision coverage for the anticipated economic deterioration and increase in credit losses that is expected over the coming period.

Our IFRS9 models utilise a blend of several economic scenarios provided by Moody's Analytics. The weightings of these scenarios reflect the UK economic outlook arising from COVID-19 and Brexit. The macroeconomic assumptions applied can be found on page 208. Our credit risk models are subject to internal model governance including independent validation. We undertake annual model reviews and have regular model performance monitoring in place.

The impairment provisions recognised during the year reflect our best estimate of the level of provisions required for future credit losses as calibrated under our conservative weighted economic assumptions and following the application of expert credit risk judgement overlays.

Use of Post Model Adjustments and Post Model Overlays

To supplement the models, we also applied expert credit risk judgement through post model adjustments and post model overlays.

Post Model Adjustments refer to increases/decreases in ECL to address known model limitations, either in model methodology or model inputs. These rely on analysis of model inputs and parameters to determine the change required to improve model accuracy. These may be applied at an aggregated level, however they will usually be applied at account level.

Post Model Overlays reflect management judgement. These rely more heavily on expert judgement and will usually be applied at an aggregated level. For example, where recent changes in market and economic conditions have not yet been captured in the macroeconomic factor inputs to models (e.g. industry specific stress event).

The appropriateness of post model adjustments and post model overlays is subject to rigorous review and challenge, including review by the Audit Committee (see page 94).

Further details on our use of post model adjustments and post model overlays can be found on page 210.

Regulatory measurement

As of 31 December 2020, all exposures are measured under the standardised approach for credit risk for regulatory capital. We are parallel-running the AIRB rating system for residential mortgages and have rolled out use of commercial rating and slotting models during 2020.

Monitoring

We monitor credit risk performance through a suite of reports covering performance against risk appetite limits and key credit risk metrics, including: new business flow; portfolio quality; early warning indicators; arrears and recovery performance; sector and geographical concentration; and exceptions to lending policy. Reports are provided to ERC, the ROC and the Board on a monthly basis. Credit risk performance is supported by portfolio reviews and deep dives on material portfolios and key credit risk themes.

Early Warning and Non-performing loans

In line with IFRS 9, we allocate all loans into Stages 1, 2 and 3 to reflect likelihood of loss.

- Stage 1 includes those loans where the credit risk has not increased significantly since the loan was originally agreed.
- Stage 2 includes those loans where the credit risk has increased significantly, but which are not impaired.
- Stage 3 includes loans which are non-performing.

The risk of loss increases through these stages. Under IFRS 9, the potential for a loan to default is calculated on a 12-month horizon at Stage 1, and a lifetime horizon at Stages 2 and 3.

1. Credit risk continued

COVID-19 has been a significant factor in customers' ability to make payments. We have worked with customers to assist with how best to manage repayments, and have provided payment deferral options as an option, in line with regulatory guidance. This customer support package has kept arrears lower, and is expected to make return to repayment easier for most customers – a trend we have seen as customers have begun to roll off payment holidays.

We expect to see increasing numbers of customers experiencing financial difficulties, as restrictions continue to impact trading, liquidity is used up, and repayments start to fall due on government support loans. Commercial customers are managed through early warning categorisation where there are early signs of financial difficulty. The overriding objective is to identify, at an early stage, those customers for whom we believe repayment difficulties may develop, thereby allowing timely engagement and appropriate corrective action to be taken. Early Warning categorisation supports IFRS 9 Stage Allocation.

In Retail, we monitor for early signs of financial difficulty to enable appropriate customer support.

COVID-19 has also materially impacted the volume of lending in Early Warning categories over 2020. The main sector exposures within Early Warning categories reflect the key commercial term lending industry sectors: Real Estate; Hospitality; Recreation, Cultural and Sport are particularly affected. The majority of customers in Early Warning categories have received COVID-19 support including payment holidays or government backed loans, and we anticipate an increase in the number of customers requiring further COVID support.

Non-performing loans

Non-performing loans are loans that have more than three instalments unpaid (90+ days past due) or where the debtor is assessed as unlikely to pay our credit obligations in full without recourse to legal action to recover the debts in full, regardless of the existence of any past-due amount or of the number of days past due. All non-performing loans are included within Stage 3.

Where a debtor is facing difficulties meeting financial commitments, Metro Bank is able to offer forbearance. Forbearance is a concession either through a change to the terms and conditions of the loan, or a refinance of the loan. To be forborne, the customer is in or is about to face financial difficulties. Loans which have been renegotiated within existing credit policy where the customer is not in financial difficulties are not forborne. All forborne loans are included within Stage 3. Customers who have sought COVID support in the form of payment deferrals or temporary conversion to interest only payments are not considered forborne, by virtue of having sought that support. However, this may be a contributing factor for an account to be allocated in Stage 2.

Commercial loans in Stage 3 are individually assessed with consideration for the collateral provided against the loan. Provisions are reported and overseen through Impairment Committee to Executive Risk Committee.

COVID

COVID-19 has and will continue to materially impact the volume of lending classified as Stage 2 and Stage 3. In anticipation of this, a number of model adjustments have been put in place to reflect those losses, the full extent of which has yet to materialise.

Table 9: Non-performing loans

	31 December 2020		31 December 2019	
Group	Non-performing loans £'million	Non-performing loan ratio	Non-performing loans £'million	Non-performing loan ratio
Retail-residential mortgages	**118**	**1.70%**	25	0.24%
Retail-consumer and other	**13**	**6.13%**	10	4.30%
Commercial (including asset and invoice finance)	**127**	**2.48%**	42	1.12%
Total	**258**	**2.10%**	77	0.53%

The deterioration of the non-performing loan ratio from 31 December 2019 to 31 December 2020 for all portfolios is primarily driven by customers who have received temporary COVID-19 support measures and now require further forbearance support which has been classified as unlikeliness to pay criteria in the definition of default.

Cost of risk

Cost of risk is credit impairment charges expressed as a percentage of average gross lending. The increase has been primarily driven by COVID-19. There has been a significant deterioration in macroeconomic scenarios as well as increases in arrears and forbearance. This has driven an overall increase in the ECL expense.

Table 10: Cost of risk

Group	2020	2019
Retail-residential mortgages	**0.19%**	0.00%
Retail-consumer and other	**5.97%**	1.92%
Commercial (including asset and invoice finance)	**1.99%**	0.11%
Average cost of risk	**0.86%**	0.08%

Regulatory and Government support schemes

We have remained focused on supporting customers through COVID-19 and have participated in the various Government support schemes. Payment deferrals and temporary payment conversion to interest-only for loans, interest-free overdrafts, and extensions of credit have all been made available.

We have provided BBLS to our customers with loans of between £2,000 and £50,000. These are available for up to 10 years, with no repayments due in the first year, at a fixed rate. Changes made as part of the 'Pay as you Grow' scheme allow customers to apply for an interest only payment period of six months (up to a maximum of three periods) with an additional payment deferral period, for both capital and interest, also up to six months. These loans are 100% guaranteed by the government.

CBILS allows for loans of over £50,000 to a maximum of £5 million. These have been made available at variable rates of lending with no arrangement fees and 0% interest for the first 12 months. The Government has guaranteed 80% of the loss and pays the fees as well as the interest for the first 12 months. The maximum term of these loans is six years.

CLBILS provides loans of over £50,000, up to a maximum of £200 million. These have also been made available at a variable rate of lending, with terms ranging between three months and three years. The government guarantees 80% of any loss on these loans.

At 31 December 2020 we have £1.35 billion of loans for BBLS, £114 million (with a further £19 million approved) in CBILS and £27 million (with further £3 million approved) in CLBILS. Whilst these loans are guaranteed by the government, costs to collect are expected, and the risks associated from these loans is being closely monitored and reassessed where necessary, particularly as new government guidance is made available.

Table 11: COVID-19 Government Backed Loans

Group	Number of Customers	Drawn Balance £'million	Average Loan Amount £'000
BBLS	**36,139**	**1,353**	**37**
CBILS	**277**	**114**	**411**
CLBILS	**3**	**27**	**9,122**
Total	**36,419**	**1,494**	**41**

1. Credit risk continued

COVID-19 support measures

COVID-19 support measures including payment deferrals and temporary payment conversions to interest only have been made available as part of our commitment to support our customers through COVID-19.

Less than 1% of mortgage customers currently have part or full payment deferrals. 22% of all mortgage customers have been granted deferrals in 2020 and 1% of customers remain. Of those customers who took a payment deferral, 90% have returned to full contractual payments with only 6% moving into arrears or requiring additional support.

7% of commercial customers currently have COVID-19 support measures in place, predominantly capital and interest payment holidays. 75% of commercial customers who have previously been granted COVID-19 support have now returned to full contractual terms.

Of our retail unsecured customers, 1% of customers have currently been granted payment deferral; 8% have taken a payment deferral over 2020 with 85% of those returning to contractual payments. Of those that have returned, 33% have moved into arrears or require additional support.

Table 12: COVID-19 support

	Granted to Date		31 December 2020	
Group	Total Balances £'million	% of Total Balances	Total Balances £'million	% of Total Balances
Retail Mortgages	1,540	22%	68	1%
Commercial Lending	1,011	29%	251	7%
Retail Unsecured	13	8%	2	1%
Total	**2,564**	**24%**	**321**	**3%**

2. Operational risk

Definition

Operational risk is the risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our FANS.

Change since 2019:
Increased

Appetite

We maintain a low appetite for Operational Risk. We aim to minimise incidents and losses arising from operational risk issues by maintaining a resilient infrastructure, including robust systems, employing and training the right colleagues, minimising the impact of external events and having a framework in place to ensure that operational risks are captured, monitored and mitigated.

Mitigation

Policies

We have detailed policies, procedures and controls in place that are designed to mitigate operational risks both through minimising impacts suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

Cyber and information security
Our Chief Information Security Officer (CISO) is responsible for ensuring robust cyber and information security. We continuously invest in our cyber and information security infrastructure in order to improve services, protect customer data and minimise the risk of disruption. We also take pre-emptive actions to safeguard the end-to-end resilience of critical processes. We continue to enhance the control environment, recognising the changing cyber landscape and the increased focus on digital capabilities and reliance on home working, as well as the changing risk profile of the business.

Operational resilience
Operational resilience is demonstrated in the mitigation of risks that impact our people, technology, third parties, and premises. By identifying critical end-to-end processes, focus can be given to those processes and the controls in place, including management of the technology upon which they rely, to minimise disruption. The need for strong operational resilience is inherent in the provision of services to customers. As customer expectations and use of services evolves we will need to maintain focus on the resilience of services. COVID-19 highlights the ongoing exposure to external risks and threats that can be unpredictable in nature and widespread in impact. Our response to COVID-19 to date has ensured that critical services have continued in the safest manner possible for both customers and colleagues. The ongoing nature of the pandemic will continue to present risks to our resilience and these are monitored continually.

Culture and training
As we evolve, we aim to do so safely through continued investment in training our colleagues. This enables them to deliver the right outcomes to our FANS, whilst maintaining a safe, reliable and resilient banking operation.

Measurement
Material operational risk events are identified, reviewed and escalated in line with criteria set out in the Risk Management Framework. Root cause analysis is undertaken and action plans are implemented. Losses may result from both internal and external events, and are categorised using risk categories aligned to Basel II. We also measure operational risk using a number of quantitative metrics. These KRIs are defined, reported against and escalated to the Business Risk Committees, Executive Risk Committee and Risk Oversight Committee.

We also develop and maintain a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given extreme circumstances. Scenarios cover all material operational risks including execution of change, failures to core processes or contagion risk from a third party. Scenarios are owned by senior management custodians with review and challenge provided by the Risk function, Executive Risk Committee and Risk Oversight Committee, as part of the ICAAP process.

Monitoring
We have built detection capabilities to monitor and alert us about system attacks and we use incident management procedures and playbooks to respond to attacks accordingly.

We continuously develop and embed our approach to the management of operational risks, with the aim of maintaining robust operational processes, systems and controls, including conducting Risk and Control Self-Assessments across the Bank.

Operational risk is overseen by the CRO, Business Risk Committees, Executive Risk Committee and Risk Oversight Committee.

3. Liquidity and funding risk

Definition
Liquidity Risk is the risk that we fail to meets our short-term obligations as they fall due. Funding Risk is the risk that we cannot fund assets that are difficult to monetise at short notice (i.e. illiquid assets) with funding that is behaviourally or contractually long term (i.e. stable funding).

Change since 2019: Decreased

Appetite
We have a moderate appetite for Liquidity Risk and Funding Risk. We shall be able to survive a combined name-specific and market-wide liquidity stress event for at least three months, at a level of severity determined by our internal stress test, utilising our Liquidity Pool. Equally, we shall maintain a prudent funding profile by using stable funding to fund illiquid assets, without reliance on wholesale funding markets, whilst ensuring that funding is not inappropriately concentrated by customer, sector, or term, as identified during our liquidity stress testing.

Mitigation

Deposit-funded approach
We aim to attract deposits that are diverse and are low cost, which are less sensitive to competition within the deposit market. At 31 December 2020, 44.3% of our deposits came from commercial customers (31 December 2019: 40%) with the remaining 56% (31 December 2019: 60%) coming from retail customers. Additionally, 39% of deposits at year end (31 December 2019: 29%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products. In 2020 our cost of deposits was 0.65% (2019: 0.78%).

Our deposit base during the year and at year end remains stable and resilient throughout the pandemic, with retail deposits forming a higher portion of our balance sheet than commercial deposits.

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

Our liquidity portfolio consists of cash and balances at the BoE as well as high-quality liquid assets (HQLAs) that are available to monetise in the event of stress.

The tables on page 41 set out the maturity structure of our financial assets and liabilities by their earliest possible contractual maturity date; this differs from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis, these are repayable on demand or at short notice; however, in reality, they are static in nature and provide long-term stable funding for our operations and liquidity. Equally, our loans and advances to customers – specifically mortgages – are lent on longer contractual terms; however, are often redeemed or remortgaged earlier.

The total balances depicted in the analysis do not reconcile with the carrying amounts as disclosed in the Consolidated Balance Sheet. This is because the maturity analysis incorporates all the expected future cash flows (including interest), on an undiscounted basis.

Recovery planning
The Recovery Plan details a series of indicators that would tend to suggest a stress event may be in train. It assigns responsibilities and actions to key individuals, specifies timeframes, and establishes the Recovery Committee chaired by the CFO, which sits as required in the event of a liquidity stress.

Term Funding Scheme repayments

Term Funding Scheme (TFS) closed to further drawdowns in February 2018. Our drawdowns of £3,801 million will mature in 2020, 2021 and 2022 in the amounts of £543 million, £2,778 million and £480 million respectively. In March 2020, the Bank of England announced a revised TFS with additional incentives for SMEs. In December 2020, TFSME drawdowns were undertaken for £550 million with an expected maturity of 2024. We intend to continue to utilise the TFSME scheme in 2021 while our existing TFS drawings will be repaid using a combination of excess liquidity and by utilising TFSME.

Table 13: Contractual maturity

Audited	Carrying value	Repayable on demand £'million	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
31 December 2020									
Cash and balances with the Bank of England	**2,993**	**2,993**	**–**	**–**	**–**	**–**	**–**	**–**	**2,993**
Loans and advances to customers	**12,385**	**–**	**332**	**281**	**634**	**4,551**	**11,424**	**284**	**17,506**
Investment securities	**3,413**	**–**	**87**	**233**	**221**	**2,768**	**140**	**59**	**3,508**
Other assets	**3,788**	**–**	**2,568**	**–**	**–**	**–**	**–**	**1,220**	**3,788**
Total assets	**22,579**	**2,993**	**2,987**	**514**	**855**	**7,319**	**11,564**	**1,563**	**27,795**
Deposits from customers	**(16,072)**	**(12,550)**	**(641)**	**(864)**	**(1,233)**	**(702)**	**–**	**(119)**	**(16,109)**
Deposits from central banks	**(3,808)**	**–**	**(692)**	**(588)**	**(1,500)**	**(1,033)**	**–**	**–**	**(3,813)**
Debt securities	**(600)**	**–**	**–**	**(23)**	**(24)**	**(719)**	**–**	**–**	**(766)**
Repurchase agreements	**(196)**	**–**	**–**	**–**	**(49)**	**(155)**	**–**	**–**	**(204)**
Lease Liabilities	**(327)**	**–**	**(7)**	**(7)**	**(15)**	**(115)**	**(273)**	**–**	**(417)**
Other liabilities	**(287)**	**–**	**–**	**–**	**–**	**–**	**–**	**(287)**	**(287)**
Total liabilities	**(21,290)**	**(12,550)**	**(1,340)**	**(1,482)**	**(2,821)**	**(2,724)**	**(273)**	**(406)**	**(21,596)**
Equity	**(1,289)**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,289)**	**(1,289)**
Total Equity and liabilities	**(22,579)**	**(12,550)**	**(1,340)**	**(1,482)**	**(2,821)**	**(2,724)**	**(273)**	**(1,695)**	**(22,885)**
Derivative cashflows		**–**	**(3)**		**(3)**	**(2)**	**–**	**–**	
Cumulative liquidity gap		**(9,557)**	**(7,913)**	**(8,882)**	**(10,851)**	**(6,258)**	**5,033**		

Audited	Carrying value	Repayable on demand £'million	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
31 December 2019									
Cash and balances with the Bank of England	2,989	2,989	–	–	–	–	–	–	2,989
Loans and advances to customers	14,681	–	349	317	584	4,191	16,893	395	22,729
Investment securities	2,565	–	209	229	74	1,924	215	60	2,711
Other assets	1,165	–	–	–	–	–	–	1,165	1,165
Total assets	21,400	2,989	558	546	658	6,115	17,108	1,620	29,594
Deposits from customers	(14,477)	(9,720)	(601)	(1,102)	(1,838)	(1,178)	–	(115)	(14,554)
Deposits from central banks	(3,801)	–	(6)	(7)	(556)	(3,274)	–	–	(3,843)
Debt securities	(591)	–	–	(23)	(23)	(766)	–	–	(812)
Repurchase agreements	(250)	–	(54)	–	–	(204)	–	–	(258)
Lease Liabilities	(341)	–	(7)	(7)	(14)	(119)	(329)	–	(476)
Other liabilities	(357)	–	–	–	–	–	–	(357)	(357)
Total liabilities		(9,720)	(668)	(1,139)	(2,431)	(5,541)	(329)	(472)	(20,300)
Equity	(1,583)	–	–	–	–	–	–	(1,583)	(1,583)
Total Equity and liabilities	(21,400)	(9,720)	(668)	(1,139)	(2,431)	(5,541)	(329)	(2,055)	(21,883)
Derivative cashflows		–	(2)		(2)	(9)	–	–	
Cumulative liquidity gap		(6,731)	(6,843)	(7,437)	(9,212)	(8,647)	8,132		

3. Liquidity and funding risk continued

Measurement

Our asset and liability management system is used to capture all positions across the Bank and evaluate their liquidity. We calculate our LCR and performs stress testing of our liquidity daily. Forward-looking short-range forecasts are produced at least monthly. Early warning indicators are set out in the Recovery Plan. Colleagues monitor these on a regular basis and bump-up any triggers. A cost of funds model is used to help colleagues account for liquidity, capital and interest rate risk in pricing.

We perform an ILAAP every year for the identification, measurement, management and monitoring of liquidity, having due regard for the PRA Rulebook section 'Internal Liquidity Adequacy Assessment'. The Treasury team seeks ILAAP input from a range of teams including Finance, Risk, and Products, before taking the ILAAP through a robust governance process.

The conclusions of the ILAAP are reviewed and approved by the Board, assisting in: identification of our material liquidity risks; deciding the management of material liquidity risks; and determining the Board's risk appetite.

For liquidity risk, we assess against internal and external requirements. The chief external requirement is the LCR, and a series of internal requirements are set and maintained through our ILAAP.

Monitoring

The Treasury function has responsibility for our compliance with liquidity policy and strategy. We have a dedicated Treasury Risk team who monitor our liquidity and funding risk including ensuring compliance with the policies we have development. The Regulatory Reporting team also monitors compliance with LCR.

The Asset & Liability Committee is responsible for liquidity and funding risk. Liquidity and funding cannot be considered in isolation, and we have regard to liquidity risk, profitability and capital optimisation when considering funding sources. Our LCR has remained strong throughout the year, ending 2020 at 187% (2019: 197%).

4. Market risk

Definition

Market risk is the risk of loss arising from movements in market prices. It is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates.

Change since 2019:
No change

Appetite

We have a moderate appetite for Market Risk, and do not have a trading book. Market Risk arises naturally as a result of taking deposits from customers and lending to customers. Market Risk is closely monitored and managed to ensure the level of risk remains within appetite, with key metrics reported to senior management and the Board.

Mitigation

Interest rate risk

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

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

We have hedge accounting solutions in place to reduce the volatility in the income statement arising from these hedging activities.

Foreign exchange exposure

We have very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies we operate and less than 5% of our assets and liabilities are in currencies other than pounds sterling. We do not have any operations outside the United Kingdom. We offer currency accounts and foreign exchange facilities to facilitate basic customer requirements only.

Measurement

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

- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities and then evaluating the change in value arising from a change in the yield curve. Our risk appetite scenario is based on a parallel rate movement of 2% to all interest rates, but we evaluate based on a series of other parallel and non-parallel rate changes. The scenarios are designed to replicate severe but plausible economic events and to have regard to risks that would not be evident through the use of parallel shocks alone.
- Interest income sensitivity: the impact on 12-month future income arising from various interest rate shifts. Our risk appetite scenarios are based on parallel rate movements of 2% and of divergences of up to 1.15% between BoE base rate and LIBOR against a constant balance sheet. We also evaluate a series of other parallel, non-parallel and non-instantaneous rate changes.
- Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.

The frequency of calculating and reporting each measure varies from daily to quarterly, appropriate to each risk type.

We use an integrated ALM system, which consolidates all our positions and enables the measurement and management of interest rate repricing profiles for the entire Bank. The model takes into account behavioural assumptions as specified in our Market Risk Policy. Material assumptions can be updated more frequently at the request of business areas, in response to changing market conditions or customer behaviours. The model also takes into account future contracted or expected growth in lending and deposits.

We measure and monitor our exposures to foreign exchange risk daily and do not maintain net exposures overnight in any currency other than pounds sterling, above 5% of our total assets and liabilities.

Monitoring

Interest rate risk

Interest rate risk measures have limits set against them through the Market Risk Policy, and these are monitored on a regular basis by the Treasury Risk team. Measures close to the limits are escalated to Treasury in order to ensure prompt action and limit excesses are escalated to the Asset & Liability Committee. A digest of interest rate risk measures and details of any excesses are presented monthly at the Asset & Liability Committee.

Internal Asset & Liability Committee Limits are set for the economic value of equity and net interest income based on the worse of a +200bps or -200bps instantaneous symmetrical parallel shock to interest rates. The economic value of equity and net interest income limits are monitored daily by risk. Performance against limits is reported monthly to the Asset & Liability Committee (with exceptions communicated by email) and more regularly to senior management, as well as being noted by the ROC and the Board.

Furthermore, limits are set for a set of asymmetrical movements between LIBOR and the BoE base rate. Our Treasury Risk function runs a series of other interest rate risk simulations on a monthly basis to ensure that the Asset & Liability Committee is kept updated of any other risks not captured by the policy measures.

We enter into hedging arrangements when the natural hedging in our book is insufficient to enable us to remain within our limits. All derivatives are entered into macro or micro fair value hedge accounting arrangements in order to minimise volatility in the profit and loss account.

The tables on page 44 set out the interest rate risk repricing gaps of our balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods, after applying expected non-contractual and out-of-course early repayments in line with the Market Risk Policy. During 2020 we have updated the tables to better reflect our behavioural assumptions on deposits and equity as well as to provide increased granularity. The comparative tables for 2019 have also been updated to reflect these changes.

Risk report continued

4. Market risk continued

Table 14: Repricing analysis

31 December 2020	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances with the Bank of England	**2,913**	**–**	**–**	**–**	**–**	**80**	**2,993**
Loans and advances to customers[1]	**4,665**	**538**	**1,083**	**5,924**	**175**	**–**	**12,385**
Investment securities	**2,343**	**65**	**–**	**910**	**95**	**–**	**3,413**
Other assets	**2,568**	**–**	**–**	**–**	**–**	**1,220**	**3,788**
Total assets	**12,489**	**603**	**1,083**	**6,834**	**270**	**1,300**	**22,579**
Deposits from customers	**(8,761)**	**(1,091)**	**(1,657)**	**(4,563)**	**–**	**–**	**(16,072)**
Deposits from central banks and repurchase agreements	**(3,808)**	**–**	**(47)**	**(149)**	**–**	**–**	**(4,004)**
Debt securities	**–**	**–**	**–**	**(600)**	**–**	**–**	**(600)**
Other liabilities[2]	**–**	**–**	**–**	**–**	**–**	**(614)**	**(614)**
Equity	**(886)**	**(40)**	**(79)**	**(284)**	**–**	**–**	**(1,289)**
Total equity and liabilities	**(13,455)**	**(1,131)**	**(1,783)**	**(5,596)**	**–**	**(614)**	**(22,579)**
Interest rate derivatives	**389**	**(125)**	**–**	**(264)**	**–**	**–**	
Interest rate sensitivity gap	**(577)**	**(653)**	**(700)**	**974**	**270**	**686**	**–**
Cumulative gap	**(577)**	**(1,230)**	**(1,930)**	**(956)**	**(686)**	**–**	**–**

31 December 2019	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances with the Bank of England	2,989	–	–	–	–	–	2,989
Loans and advances to customers	4,565	639	1,506	7,962	9	–	14,681
Investment securities	2,068	–	3	472	22	–	2,565
Other assets	–	–	–	–	–	1,165	1,165
Total assets	9,622	639	1,509	8,434	31	1,165	21,400
Deposits from customers	(6,462)	(1,212)	(2,066)	(4,737)	–	–	(14,477)
Deposits from central banks and repurchase agreements	(3,855)	–	–	(196)	–	–	(4,051)
Debt securities	–	–	–	(591)	–	–	(591)
Other liabilities[2]	–	–	–	–	–	(698)	(698)
Equity	(634)	(50)	(100)	(799)	–	–	(1,583)
Total equity and liabilities	(10,951)	(1,262)	(2,166)	(6,323)	–	(698)	(21,400)
Interest rate derivatives	964	(90)	(245)	(628)		–	
Interest rate sensitivity gap	(365)	(713)	(902)	1,483	30	467	–
Cumulative gap	(365)	(1,078)	(1,980)	(497)	(467)	–	–

1. Loans and advances to customers at 31 December 2020 includes the £295 million of loans and advances classified as held for sale.
2. Other liabilities includes lease liabilities which are shown as non-interest bearing category. Whilst interest expense is recognised on these liabilities within the income statement this interest is not paid like other financial liabilities. The maturities of the lease liabilities shown on the balance sheet are set out below:

Lease liability maturity profile

Audited	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	Total £'million
31 December 2020	(7)	(7)	(15)	(102)	(196)	(327)
31 December 2019	(7)	(7)	(14)	(101)	(212)	(341)

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

The table below shows the sensitivity arising from the standard scenario of a +200bps and -200bps parallel interest rate shock upon projected net interest income for a one-year forecasting period.

Table 15: Interest rate sensitivity

Sensitivity of projected net interest income to parallel interest rate shock for a one-year forecasting period	200bps increase £'million	200bps decrease (not floored at zero) £'million
31 December 2020	19.8	(20.1)
31 December 2019	8.1	(8.2)

5. Financial crime risk

Definition

Financial crime risk is the risk of financial loss or reputational damage due to regulatory fines, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime.

Change since 2019: Decreased

Appetite

We have no appetite for establishing or maintaining customer relationships or executing transactions that facilitate financial crime and have no appetite for sanctions breaches. Relationships with customers where it is felt that the financial crime risks are too great to manage effectively will be ended and continual investment is made in our expertise, partnerships and systems to improve our management of risk in this area. We will not tolerate any deliberate breach of financial crime laws and regulations that apply to our business and the transactions we undertake.

Mitigation

Investment in our systems and controls

We continue to conduct horizon scanning activity to identify emerging trends and typologies as well as to identify and prepare for new legislation and regulation. This includes participating in key industry forums (or associations) such as those hosted by UK Finance. As required, we will update our control framework to ensure emerging risks are identified and mitigated. We updated all our Financial Crime policies and standards in 2020 to ensure alignment with regulatory obligations.

Our Financial Crime Improvement Programme, which was mobilised in 2019, continued to deliver enhancements to our business-wide financial crime systems and controls throughout 2020. This programme will continue to deliver a Bank-wide framework to ensure Financial Crime controls are designed in line with regulatory requirements and build new capability to manage financial crime risk into 2021.

Resourcing and training

Resourcing continues to be a significant focus for the Bank to ensure the Financial Crime Framework is implemented effectively. Headcount has increased across all lines of defence and we have recruited additional specialist resource in 2020 to support operational teams in the first line of defence and to bolster second line Financial Crime Policy, Advisory and Assurance functions. We continue to invest in our colleagues' development to improve their capabilities through industry-recognised financial crime qualifications. All colleagues receive financial crime training, which is updated to reflect new requirements, ensuring our colleagues are able to meet their personal regulatory obligations and assist us in achieving our risk appetite and financial crime obligations.

5. Financial crime risk continued

Sanctions compliance

We continue to review our sanctions compliance framework with the support of external advisers, following our notifications to regulators on the sanctions matters discovered in 2017 and 2019.

The Financial Crime Improvement Programme has delivered multiple enhancements to our sanctions compliance capabilities in 2020 and will continue to do so throughout 2021.

Anti-money laundering and combating terrorist financing prevention

We comply with all relevant UK Anti-Money Laundering and Combating Terrorist Financing legislation. The Financial Crime Improvement Programme continues to deliver enhancements to our customer due diligence capabilities, transaction monitoring, customer and payment screening capabilities. The programme ensures we continue to effectively prevent, detect and treat potential out-of-appetite financial crime activities.

Anti-bribery and corruption and anti-tax evasion compliance

We comply with the UK Bribery Act 2010 and have zero tolerance for undertaking and/or facilitating bribery and/or corruption and will always avoid giving or receiving improper financial or other benefits in our business operations. We also comply with the Criminal Finances Act 2017 and have a zero tolerance approach to any facilitation of tax evasion. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

Fraud prevention

We have continued to invest in fraud prevention tools and further capability in 2020. This, in addition to historic investment, has resulted in significant savings by preventing attempted frauds against our customers and the Bank itself.

During the pandemic, we have seen fraudsters continue to target customers through authorised and unauthorised payment fraud attempts. Alongside this we have also seen an increase in the use of social engineering techniques to attempt to obtain customers' personal and security details, using reasons related to COVID-19 and scams topical to the pandemic, including pets, vaccines and personal protective equipment. We have continued to share fraud prevention trends and best practice via our various communication channels to help our customers protect against such attacks.

We have supported our customers during these difficult times by providing government-funded schemes and we have implemented fraud capabilities to limit attempted fraud against these schemes. We have worked closely with the British Business Bank, other banks, network operators and law enforcement to identify and reduce the fraud risk in relation to BBLS applications.

In 2021, we will continue to work closely with stakeholders to help prevent and protect our customers from fraud.

Measurement

The Financial Crime Risk team own our control framework with accountability for execution owned by our colleagues across the first line. The Risk team defines our risk appetite and recommends this to the Board for approval. In order to monitor the effectiveness of our control framework and the alignment with our risk appetite, KPIs are defined, reported against and escalated through to the ROC. We report monthly on our Bank-wide account opening pass rates, fraud volumes and associated operational losses through this process.

Monitoring

Our policy framework also sets out key requirements which must be complied with consistently to manage our various risks.

We have risk-based audit and assurance plans to monitor the effectiveness of our controls. Dedicated and skilled resources are in place to complete these reviews, with findings and recommendations tracked through our financial crime governance structure.

We maintain policies and compliance standards, aligned to our legal and regulatory obligations, which also articulate our risk appetite.

Each year we complete a financial crime risk assessment to ensure that our financial crime control framework is commensurate and robust to manage our inherent business risks across each financial crime area.

We participate in external industry forums, including being an active member of the Cyber Defence Alliance and liaise with government bodies such as UK Finance, the Home Office, HMRC, the Financial Conduct Authority and law enforcement to support our identification of new and evolving risks.

6. Regulatory and compliance risk

Definition

Regulatory and compliance risk is 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 nor meeting regulatory deadlines; or obstructing the regulator.

Change since 2019:
No change

Appetite

We have no appetite for actions that result in breaches of regulation or for inaction to address systemic process and control failures leading to material non-compliance. Notwithstanding the complexity and volume of the regulatory agenda, We ensure that all mandatory requirements are prioritised with sufficient resources to implement within required timescales in a customer-focused manner.

Mitigation

The following controls and procedures help to mitigate regulatory and compliance risk:

- A clearly defined compliance policy statement (with supporting policy standards) and Regulatory Appetite Statements signed off by the Board.
- Ongoing development, maintenance and reporting of risk appetite measures for regulatory and compliance risk to the Executive Risk Committee and the Board.
- Maintenance of proactive and coordinated engagement with our key regulators.
- Continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews.
- Consideration of regulatory requirements in the context of product and proposition development and associated appropriate governance.
- Oversight of key regulatory implementations, including PSD2.
- Oversight of regulatory and compliance risks and issues in relevant governance bodies.
- Ongoing review and tracking of known regulatory and compliance issues and remediation actions being taken.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Our Board, Risk Oversight Committee and Executive Committee (via the Executive Risk Committee) continue to monitor and oversee our focus on maintaining regulatory compliance. This includes periodic reporting on regulatory themes, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk measures and Board-approved policies and standards.

Measurement

Regulatory and compliance risks are measured against a defined set of Board-approved risk appetite metrics relating to regulatory breaches, and past due regulatory implementations and actions. Thresholds are set and form part of the Board-approved Risk Appetite Statement.

Monitoring

Regulatory and compliance risk is considered by all three lines of defence as part of their oversight and assurance activities. A risk assurance plan, approved by the Executive Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with laws and regulations.

7. Conduct risk

Change since 2019:
Increased

Definition
Conduct risk is 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 customers, reputational damage, regulatory investigations and/or legal action.

Appetite
We have no appetite for conduct risks that knowingly deliver inappropriate customer outcomes, which may lead to customer detriment. Where inappropriate outcomes are identified, these are remediated quickly to minimise risk and reduce harm to our customers.

Mitigation
Our simple, transparent and fairly-priced products and activities continue to help ensure that conduct risk is minimised. Our colleagues are fully-trained in all relevant products and services and these are delivered with exceptional levels of service to customers through all channels, with openness and transparency, supported by robust management controls and quality assurance measures. Our products are reviewed regularly to ensure they continue to meet customer needs and perform as expected. We are committed to ensuring communications are clear, fair and not misleading. We do not use sales incentives in stores, nor is there a perception amongst colleagues that they exist in any unofficial manner.

Make every wrong right
Our service-led business model gives us an inherent advantage over peers. We are committed to doing the right thing for our customers and to making any wrongs right. Where conduct risks are identified, resources and expertise are dedicated to swift remediation action to appropriately mitigate any issues, avoid recurrence and, if detriment has occurred, the scale of the harm is quantified to address this with impacted customers. This is possible because of our clear risk framework which includes defined first line ownership, review stages and challenge by the second line, and assurance from the third line.

In 2019, we made a provision of £12 million for customer remediation, which predominately related to non-compliance with certain requirements to provide SMS warning alerts to customers regarding overdraft charges. The error was subsequently corrected and the Competition and Markets Authority was informed. We pride ourselves on providing exceptional levels of service and we regret the impact on customers. All customers have now been contacted and the remediation project has been completed.

Measurement
We measure conduct risk through Risk Appetite Metrics which are centred around product governance, compliance monitoring, analysis of expressions of dissatisfaction, root cause analysis, 'Voice of the Customer' surveys and reporting through customer treatment forums. Key Risk Indicators are also defined, reported against and escalated to the Risk Oversight Committee. We view the effective management of conduct risk as being evidenced by low levels of poor customer outcomes and evidence of robust controls, meaning that the right internal processes are being followed to deliver these outcomes.

Monitoring
As well as monitoring the trends in the metrics outlined above, we analyse the root cause of complaints and any underlying trends, to identify opportunities to improve service provision while delivering consistently fair outcomes for customers.

8. Model risk

Change since 2019: Increased

Definition

Model risk can be defined as the potential loss that we may incur, as a consequence of decisions that could be principally based on the output of models, due to errors in the development, implementation or use of such models. Model risk can lead to financial loss, poor business and strategic decisions, and reputational damage. Model risk covers all models and is not limited to credit risk models.

Appetite

We have only a moderate appetite for risk due to errors in the development, implementation or use of models, which we mitigate via effective governance over the specification and design, implementation and running of our models and over model input data.

Mitigation

Governance

The main mitigant to model risk is the robust governance process we have established. This includes two dedicated model committees:

- Model Oversight Committee - which is the designated committee for the management of model risk.
- Model Governance Committee - which is the technical committee overseeing the model risk life cycle.

Material models are presented to the Model Oversight Committee for approval via the Model Governance Committee, ahead of implementation or model changes.

The Model Oversight Committee defines and approves standards relevant to model risk and recommends policies and model risk appetite to the Risk Oversight Committee for approval on an annual basis. The Model Governance Committee owns the minimum standards and target operating models to mitigate model risk. It also defines roles and responsibilities, with clear ownership and accountability.

The Model Governance function maintains a model inventory, which records key features of models including ownership and review schedules. The Model Governance function also tracks model risk and actions from both the Model Oversight Committee and Model Governance Committee.

Independent review

We have established an independent Model Validation team, which is part of our Prudential Risk function. This is managed by a team of experts, independent from model development. This team is responsible for reviewing model development submissions and maintains a model validation action log to track model risk remediation plans. Models are also subject to internal and external audit as well as regulatory reviews.

Measurement

We measure model risk using a set of model performance indicators which form part of our Key Risk Indicators are regularly reported and discussed at the Model Governance Committee, Model Oversight Committee, Risk Oversight Committee and Board. On a monthly basis, the Model Governance Committee reviews any material validation actions and tracks their closure.

Monitoring

A dedicated Model Monitoring team is responsible for assessing the ongoing performance of credit risk models against pre-specified tolerances approved by the Model Governance Committee as part of model monitoring standards.

Model performance is regularly monitored, and results are discussed both at the Model Governance Committee and Model Oversight Committee, where actions are agreed and tracked to completion. Non-credit risk models are also subject to monitoring according to metrics and a schedule agreed at Model Governance Committee, however, this monitoring is undertaken by the appropriate user areas rather than by the Model Monitoring team.

9. Capital risk

Change since 2019:
No change

Definition
Capital Risk is 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 bondholders, the bond market, and customers) and key stakeholders in the pursuit of our business strategy.

Appetite
We have a low appetite for Capital Risk and our aim is to maintain a surplus of capital resources above regulatory requirements.

Mitigation
We manage our capital risk via our Capital Adequacy Framework which includes policies, strategy, limit setting, continuous monitoring and stress testing. Our ICAAP is a key component of this framework and is used to analyse material risks and assess our strategy and objectives under various stress scenarios. Capital ratios continued to be maintained within Board risk appetite and regulatory requirements throughout 2020.

Sustainable profit growth
The main mitigation to capital risk is the sustainable generation of additional capital through the accumulation of profits. The Board and Executive Committee are focused on ensuring the successful delivery of the strategic plan to ensure the return to sustainable profitability.

Balance sheet optimisation
Another key mitigation that we can use to manage capital risk is the efficient deployment of our existing capital resources. One of our strategic priorities is improving our balance sheet optimisation to ensure we maximise our risk-adjusted returns whilst remaining above regulatory requirements. As part of this approach we executed a sale of a portfolio of residential mortgages in December 2020 which increased our MREL resources, through a combination of reducing our RWAs and the recognition of a gain on sale.

Raising of additional capital
As we grow we need to raise additional regulatory capital to support lending growth. The ability to raise additional capital, as well as the associated cost, is dependent upon market conditions and perceptions. The sale of the mortgage portfolio removed the need for us to raise additional capital in the near term.

Measurement
We measure our capital resources in line with regulatory requirements. In order to appropriately manage our capital resources, we produce regular reports on the current and forecasted level of capital for the Board and the Executive Leadership Team. This includes the undertaking of routine stress testing on an ongoing basis.

The key assumptions and risk drivers used to create the stress tests are regularly monitored and reported, and are used in determining how we will evolve our capital resources and ensure they are appropriate for growth.

The ICAAP is used to assess the adequacy and efficiency of our capital resources required to support our business model.

Monitoring

We consider both short-term forecasts and medium-term plans, and our overall agreed risk appetite.

We also develop appropriate strategies under market stress conditions to manage those risks to capital and consider both past events and customer behaviour to inform our analysis, and to validate our robustness. This process is used to ensure that we apply appropriate management buffers to regulatory capital requirements in line with risk appetite.

We manage and monitor capital in accordance with prudential rules issued by the PRA and FCA, in line with the EU Capital Requirements Directive, in addition to our own internal reporting measures. We are committed to maintaining a strong capital base under both existing and future regulatory requirements.

We are working to ensure we are compliant with the incoming CRD V / CRR 2 requirements, which were published in June 2019; and the recent PRA consultation CP17/20 (CRD V: Further Implementation) detailing the transitional changes in the UK regulatory framework required as a result of the exit from the European Union.

Table 16: Capital resources

Audited	31 December 2020 £'million	31 December 2019 £'million
Ordinary share capital	**–**	–
Share premium	**1,964**	1,964
Retained earnings	**(694)**	(392)
Other reserves	**19**	11
Intangible assets	**(254)**	(168)
Other regulatory adjustments	**157**	12
Total Tier 1 capital (CET1)	**1,192**	1,427
Debt securities (Tier 2)	**249**	249
Total Tier 2 capital	**249**	249
Total regulatory capital	**1,441**	1,676

Emerging risks

In addition to our principals, we monitor other potentially significant emerging risks.

We consider emerging risks to be evolving threats which cannot yet be quantified, with the potential to significantly impact the Bank's strategy, financial performance, operational resilience and/or reputation. The emerging risks are continually assessed and reviewed through a horizon scanning process, with escalation and reporting to the Board as necessary. The horizon scanning process fully considers all relevant internal and external factors and is designed to capture those risks which are present but have not yet fully crystallised, as well as those which are expected to crystallise in the future.

Macroeconomic environment

The full extent of the economic impacts from COVID-19 are yet to be seen. The duration and depth of the downturn is uncertain and risks to credit and margin performance are expected, with significant disruption to both supply and demand already occurring. Increasing levels of unemployment could impact customers' ability to repay their lending. The efficacy of monetary and fiscal policy, and the speed and ability with which the UK can return to 'normal' operating conditions, will determine the overall economic impact for the UK.

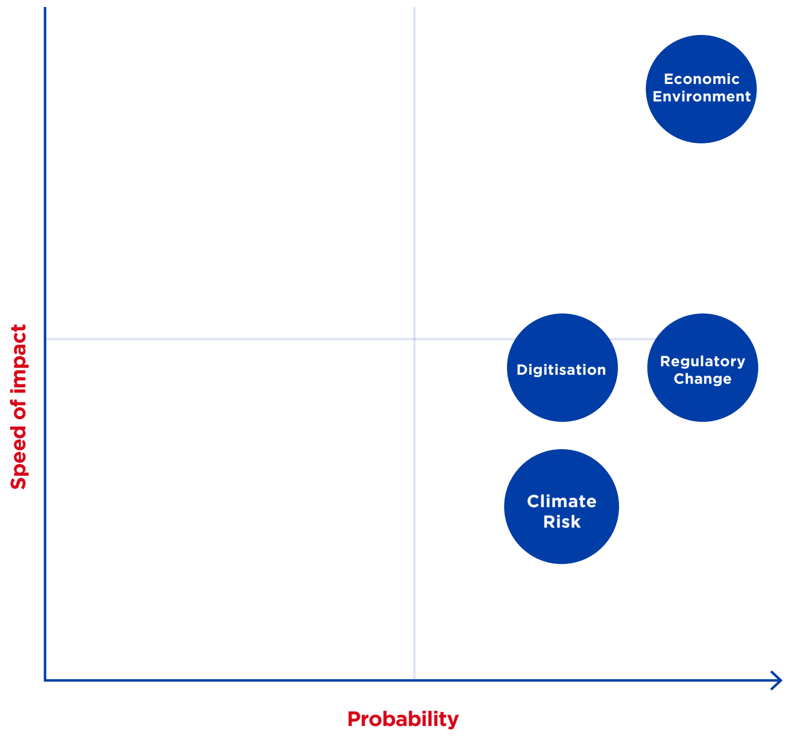
Mitigating actions

We continue to monitor economic and political developments in light of the ongoing uncertainty, considering potential consequences for our customers, products and operating model. We actively monitor our credit portfolios and undertake robust internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK.

Climate risk

There is significant uncertainty around the time horizon over which climate risks will materialise, as well as the exact way in which they will occur. Climate risk is classified as a cross-cutting risk type that manifests through other principal risks – primarily strategic risk, credit risk and operational risk. We are exposed to physical, transition and reputation risks arising from climate change.

Our mortgage portfolio represents a significant proportion of our customer lending. Increases in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk. In addition, tightening minimum energy efficiency standards for domestic buildings could impact the value of mortgaged properties or the ability of borrowers to service debt. We have low levels of lending to carbon-related assets, however, we may be exposed to future transition risks through the business portfolio.



Mitigating actions

The Chief Risk Officer has Senior Manager Responsibility for our approach to managing financial risks from climate change. We continue to consider climate change in our Risk Management Framework, in line with our plan to align to regulatory expectations. The Executive Risk Committee has responsibility for overseeing our exposures and approach to managing the financial risks from climate change. The Committee will receive regular updates on progress against the plan through the Bank Risk Report and special papers.

Analysis of current river and sea flood risk to properties within the mortgage portfolio has been undertaken as an initial step in assessing the physical risk to our lending. Scenario analysis work will be undertaken to consider the longer-term impacts, as well as the high degree of uncertainty. Transition risk within the mortgage portfolio will also be considered with an assessment of the energy efficiency of properties and we intend to use this information to support our customers to 'green' their homes. An assessment of sectors (and sub-sectors) that may have a higher likelihood of being impacted by transition risks from moving to a lower carbon environment has been performed, to increase understanding of the possible risks facing our customers, and support prioritisation of areas where further analysis is required. Building scenario analysis capability is a key component of work planned for 2021.

Regulatory change

The suite of government support measures introduced in reaction to the economic pressures created by COVID-19 are complex and nuanced. Any sudden or unexpected change to the rules and regulations governing the measures could create material market disruption, requiring large-scale prioritisation decisions in a fast-paced environment. Beyond COVID-19, there is continued evolution of the regulatory landscape and the requirement to respond to ongoing prudential and conduct driven initiatives.

Mitigating actions

We continue to monitor emerging regulatory initiatives to identify potential impacts on our business model and ensure we are well placed to respond with effective regulatory change management. We continue to work with regulators to ensure we meet all regulatory obligations, with identified implications of upcoming regulatory activity incorporated into the strategic planning cycle.

Digitisation

COVID-19 has accelerated the digitisation of the banking industry in the space of a few months and is likely to lead to rapid change over the coming years as the industry rapidly adapts to customers' evolving behaviours. This is spurring an acceleration of investment and delivery by both incumbent banks and neo-banks to provide enhanced digital propositions to customers in both the consumer and business markets.

Mitigating actions

The Bank's strategy had always been predicated on new and exciting digital propositions, with the implications of the pandemic both supporting that ambition, but also accelerating the timeframe for delivery. Our rapid response to the pandemic has demonstrated our ability to implement change and digital solutions swiftly. We are therefore continuously evaluating the timetable and investment profile of our strategy. We are continuing with our investment and digital development in the near term to position us for the future.

Viability statement

Assessment of principal risks

The Board is responsible for monitoring the nature and extent of the principal risks it faces as well as determining the level of appetite it is willing to take in order to achieve its strategic objectives. The principal risks the Group actively monitors and manages are described on pages 30 to 51 which includes the Group's appetite, measurement, monitoring and mitigation approach.

An analysis showing the impact that COVID-19 has had on these risks is outlined on pages 28 to 29.
In line with the requirements of the Corporate Governance Code (the 'Code'), the Directors have performed a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model and impact the Group's performance, capital or liquidity. The Group's business model is set out on pages 12 to 13 which also show how this links to the Group's principal risks.

Risk management and internal controls

As described in the Corporate governance report on pages 86 and 93 and the Risk report on pages 25 to 27, the Group's risk management and internal control systems are monitored at Board level. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

Assessment of prospects

The Directors have an obligation in accordance with provision 31 of the Code to confirm that they believe that the Group will be able to continue in operation, and to meet their liabilities as they fall due.

The Group's prospects are assessed primarily through its strategic planning process ('Long term plan'), the first year of which reflects the Group's 2021 budget. This process includes an annual review of the ongoing plan, led by the CEO and CFO through the Executive Committee and Board. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so considers whether the plan continues to take appropriate account of the external environment including the impacts of the COVID-19 pandemic as well as any regulatory changes. The latest updates to the long term plan (covering the period 2021 to 2025) were formally approved by the Board in February 2021.

The Group's business model and strategic priorities (see pages 16 to 17) are central to an understanding of its prospects. The nature of the Group's activities is long-term and the Group's business model has remained unchanged since it was founded 10 years ago. The Group's current strategy was launched at the start of 2020 and good progress has been made in delivering this, despite the COVID-19 pandemic. The Group's strategy is subject to the ongoing monitoring to ensure it remains appropriate.

The Group's strategy is based on a combination of balance sheet management, revenue growth and cost control. Alongside this the strategy focuses on infrastructure investment, with decisions on new investment being taken based on the long-term benefits they will provide. Although decisions are taken for the long term any investment has to align with the Group's appetite for risk as well as be able to demonstrate an appropriate payback period.

As part of its strategy the Group's current focus is particularly on shifting the lending mix with growth planned in both unsecured lending and specialist mortgage offerings. The growth of the unsecured lending will be supported by the acquisition of RateSetter in September 2020 which gave the Group the necessary technology and capability to expand into this area of the market. The Directors have reviewed the assumptions underpinning the lending growth, mix and yield as well as the change in appetite for risk contained within the long term plan and have determined they are acceptable in the context of the Group's overall risk profile.

Whilst the Group's long term plan covers a five year period to 31 December 2025, the Directors have assessed prospects and viability for the four years through to 31 December 2024. This is felt appropriate as this is the period over which forecasts have a greater level of certainty (although the fifth year still provides a robust planning tool against which strategic decisions can be made).

The assessment has included reviewing the plan against the Group's principal risks (as detailed on pages 30 to 51) to examine those matters that could prevent the group from delivering on its strategy. Of the Group's principal risks only three were felt could directly lead to the business not being able to continue in its current form if they were to occur (although a failure of the Group's other principal risks could lead to one of these events). These were:

- operational failure (operational risk);
- a lack of liquidity (liquidity and funding risk); and
- insufficient capital (capital risk).

Of these three risks, insufficient capital is where there is most uncertainty and where extra consideration was given by the Directors in their assessment. These key risks were also considered as part of the assessment of the Group's viability, as explained below.

One of the key assumptions in the long term plan is the Group's ability to raise qualifying debt over the forecast period to fund anticipated growth and to continue to meet regulatory requirements. This comprises of additional qualifying MREL debt, which will require changes to the organisational structure of the Group, as well as various regulatory approvals.

Assessment of viability

Although the Group's long term plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group by examining the sensitivity to 'severe but plausible' changes to the assumption. This has been undertaken via the creation of scenarios that reflect a downside (stressed) case by overlaying additional risks into the forecasts (primarily reflecting the aforementioned principal risks).

The main downside scenarios tested included:

- Increased costs of raising qualifying debt compared to those envisaged in the plan.
- A prolonged economic recovery from the COVID-19 pandemic.
- Delays in the delivery of key strategic initiatives which are assumed as part of the plan.

The results of this stress testing showed that the Group would be able to withstand the impact of these scenarios over the assessment period and would retain sufficient capital (over and above regulatory minima). In the most severe scenarios this would involve making reasonable adjustments to the Group's operating plans, although these were within what would typically be done in the normal course of business and therefore these mitigating actions did not of themselves constitute any additional risk.

In addition to the specific scenarios outlined above the Group undertakes routine stress testing on an ongoing basis for both management and regulatory purposes. This includes conducting reverse stress tests, whereby the Group looks at the factors and assumptions that would have to exist for it not to be viable. The results are then assessed to understand the likelihood of such events occurring and what mitigating actions could be taken if necessary. The results of the stress testing performed to date is in line with the assessment outlined above and has not given rise to any additional factors that would impact the Group's viability.

Viability statement

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four-year assessment period to 31 December 2024.

Going concern

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

Our stakeholders

Section 172 statement

The Board must act in accordance with the duties set out in the Companies Act 2006 (the 'Act'). Under section 172, the Board has a duty to promote the success of the Company for the benefit of its members as a whole. When making decisions, the Board ensures that it acts in the way it considers, in good faith, would most likely promote the Bank's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

(a) the likely consequences of any decision in the long term;
(b) the interests of the Company's colleagues;
(c) the need to foster the Company's business relationships with suppliers, customers and others;
(d) the impact of the Company's operations on the community and the environment,
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly between members of the Company.

This duty is at the heart of the Board's decision-making process. The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic in our decision-making. The Board's role when making strategic decisions is to ensure that it has the relevant management information to fully consider the potential impact on the relevant stakeholders of any given decisions they approve. This process is enhanced by the updated Board paper template introduced in early 2020 which is now an integral part of reporting to the Board.

The Board takes into consideration all its stakeholders when making decisions with a spotlight on the following stakeholder groups:

Our FANS	Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values.
Our Colleagues	As a growing business we need to attract new talent. We also want to ensure our existing colleagues are happy and engaged so that they provide excellent service to each and every customer.
Our Investors	We engage openly and transparently with our investors, who are helping us to grow and shape the Bank for the future.
Our Communities	We are proud to be an integral part of the communities we serve.
Our Regulators	Following our Regulators' Principles, Rules and Guidance helps us to put FANS at the heart of everything we do.
Our Suppliers	We pride ourselves on doing the right thing, and maintaining the highest values in everything we do, and this extends to the suppliers we work with.

Long-term decisions

The Board delegates day to day business to the ExCo, but oversees performance, strategy and approves significant business transactions. The Board approved a number of transactions during the year in line with the duties set out under S.172.

As part of our strategy to enhance returns, the Bank acquired Retail Money Market Ltd ('RateSetter'). The Board debated the long-term consequences of the decision and its impact on colleagues. The Board believes that the acquisition, over the medium to long term, will be accretive to our reputation and augment our ability to provide excellent service to our customers and meet their needs. The acquisition was in the best interests of our shareholders and supported the new turnaround strategy.

In December, we announced the sale of a portfolio of mortgages. The Board considered the sale to be in the best interest of the Bank in the long term, to provide the funds to increase lending in other areas in line with our strategy to deliver even better returns for our investors. This will allow the Bank to create more FANS through the new customers we will be able to welcome. The Board took the interests of existing customers into account and is confident that they will continue to receive the necessary level of service following the sale.

The COVID-19 outbreak has affected business practices, the economy and society as a whole. In April, seven Governance Forums were formed to oversee changes and propose any decisions regarding COVID-19. The Board had oversight of the related issues facing the Bank through regular updates from the COO. Our response to COVID-19 and actions taken to support our stakeholders is set out in the stakeholder engagement table on pages 59 to 63.

On 19 February 2020, Daniel Frumkin was appointed as permanent CEO, with immediate effect. Dan was appointed because he believed in prioritising excellent customer service, has a track record in retail banking and business transformation, and the necessary experience to deliver sustainable growth. All of which made him the ideal candidate to take the Bank into its second decade.

On 8 July 2020, the Bank also announced the appointment of Robert Sharpe as Chairperson. Robert has a wealth of Board and Executive-level experience in the retail banking sector. In taking the decision to appoint the new Chairperson, the Board considered who would be the best candidate to lead the delivery of our strategic objectives and was delighted to appoint Robert to the role on 1 November 2020. Robert's letter can be found on pages 04 to 05.

This year, the Board spent a considerable amount of time reviewing our strategy including the impact of the challenging conditions as a result of COVID-19. In defining the new strategy, the Board considered our stakeholders and how any transformation work would impact them. The Board is satisfied that the new strategy continues to enhance products and channels for our FANS and supports colleagues to enable them to deliver the highest levels of customer service every day. The Board is also confident that the new strategy will deliver acceptable outcomes for investors and suppliers and will ensure that we remain compliant with the relevant rules and regulations set out by our regulators in the long term. The CEO and CFO have had extensive engagement with the largest shareholders and bondholders following the announcement of our revised strategy in February.

During the year, the Board agreed to appoint three new Non-Executive Directors (NEDs), a new independent Chair, a new Company Secretary and oversaw the strengthening of the Executive Committee. The Board believes that the appointments will support our long-term strategic objectives as well as meet the expectations of investors and regulators. More information on the appointments can be found in the Corporate Governance Report from page 76.

Following the COVID-19 pandemic, the majority of colleagues formerly located in Old Bailey were remote working. Therefore, as part of our long-term strategy and further to the results from the wellbeing survey and colleagues' indication that they prefer to work remotely at least three days a week, the Board decided to exit the Old Bailey site. In making this decision the Board took into consideration the needs of all our stakeholders including colleagues and their working preferences.

Interests of the Company's employees

We understand that we can only create and keep FANS if we have the best colleagues to support them. The Board takes account of the Bank's colleagues in all decision-making and Sally Clark was appointed as a NED, responsible for workforce engagement from 19 May 2020 onwards. More information on Sally's work with colleagues can be found on pages 88 to 89. In addition, the Board monitors organisational culture on an ongoing basis by receiving regular updates from the Chief People Officer (CPO) to ensure continued oversight of culture, colleague wellbeing and the results of the Voice of the Colleague (VOC) Survey. Through the monthly business update, the Board receives information on, amongst other matters, stress related absence, attrition, gender and diversity statistics. This gives the Board the relevant oversight to fully consider the implications of decisions on colleagues.

The Board recognises the significant hard work our colleagues have put in to continue to deliver unparalleled levels of service to customers during the pandemic. The Board has also had oversight of how the Bank has been supporting colleagues through this time and in recognition of those colleagues who continued to go into our stores and centres during lockdowns, approved a 'Thank You Fund' to show the Bank's appreciation for all their hard work.

Maintaining a reputation for high standards of business conduct

When Directors join the Board they are provided with a detailed and bespoke induction, which includes a comprehensive introduction and training programme on Director duties and responsibilities. More information on Board training and development can be found on pages 82 and 84.

The Board discharges its duty to maintain a reputation for high standards of business conduct by having oversight for our policies and procedures. We have incorporated comprehensive systems, approved policies and procedures which promote good corporate governance and responsibility, as well as setting high standards of business conduct. The Board approved various policies and procedures during the year. More information on these policies can be found in the table on page 73. Information on the reporting on modern slavery can be found on page 67.

Our stakeholders continued

Suppliers, Customers, Community, the Environment and others

The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way.

The Board takes all stakeholders into account when making decisions and this view is embedded in our decision-making and culture. To enable the Board to fully consider stakeholder interests, they receive regular deep dives from management and its advisers. No two decisions are the same, and the interests of our stakeholders need to be carefully balanced with the needs of the Bank. As a regulated bank, we are committed to promoting integrity, transparency and engaging in a collaborative relationship with our regulators. In addition to this, the Board seeks to understand the interests and views of our stakeholders by engaging with them directly as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year can be found in the stakeholder engagement table on pages 59-63.

Our culture is what sets us apart from other banks and our AMAZEING behaviours (as set out on page 69) underpin this. These fundamental behaviours are embedded throughout the organisation and ensure that all of our colleagues do the right thing. The Board has oversight of these behaviours and monitors how they are being lived through results of the Voice of the Customer Survey, (VOC Survey) and reports of expressions of dissatisfaction from the Bank's customers.

Creating FANS is our purpose and at the core of our values and this is at the forefront of Board decision-making. During the year we were proud to be the only Bank to keep all of our stores open during the pandemic, to enable us to provide face-to-face support for our customers who were navigating their way through the pandemic. In making this decision, the Board had oversight of how colleagues could be kept safe through various adaptations to our stores and ways of working. More information relating to how we engaged with our FANS in 2020 can be found on page 64.

We are a proud member of the communities we serve and this will remain essential to our long-term plan. The Board took into account the needs of the communities we serve when having oversight of the opening of six new stores. In deciding where to build new stores we bear in mind where we can reach the most people, so that we continue to offer convenient banking at a time that suits our FANS. More information relating to our communities and how we engage with them can be found on page 64.

The Board recognises the potential for its decisions to have an impact on the environment and is committed to developing the Bank's disclosures in line with the Task Force on Climate Related Financial Disclosures' recommendations. More information on the environment and the Bank's activities in 2020 and plans for 2021 can be found on pages 67-69.

The Board values its investors who help shape us and allow us to grow. The Board is committed to frequent and transparent communication with its investors and creating value in the long term. More information on how we engage with our investors can be found on page 87.

Stakeholder engagement

FANS

WHY WE ENGAGE

Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values and it is important to our Board to understand what FANS want.

HOW WE ENGAGE

We encourage customer feedback and customers are regularly invited to complete a survey to let us know their thoughts. The 'Voice of the Customer' surveys are analysed and the data is provided to the Board to help them make decisions on how we can continue to create FANS.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

Our diverse range of FANS all have their own individual needs, but what binds them together is the desire for:

AMAZEING service: in the CMA's latest service quality survey (February 2021), we continue to deliver stand-out service. We are the highest-rated high street bank for overall service quality for personal and business customers, as well as the highest-rated bank for service in stores for personal and business customers.

A full range of banking services, whether in store, online or over the phone: our full service, high street banking proposition – with great digital and telephone banking alongside that – continues to really set us apart from the competition. That's why we were named Bank of the Year at the 2020 MoneyAge Awards and Banking Brand of the Year at the 2021 Moneynet Personal Finance Awards.

Added convenience and going the extra mile: we're open 362 days a year, 7 days a week, early until late. We'll print your new bank card in-store for you, so you can walk out with it in your pocket rather than waiting a week for it to turn up in the post.

HOW WE ARE RESPONDING

During 2020 we were pleased to announce the launch of several initiatives which focus on enhancing customer experience and convenience.

Initiatives included launching our Business Account Online (BAO) digital application journey, which enables new customers to open a business account on their mobile or online, 24 hours a day. It takes just 15 minutes from application, through to identification and verification checks and approval. This is the latest business banking innovation from Metro Bank as part of its commitment to the Capability and Innovation (C&I) Fund.

COVID-19 SPECIFIC CONSIDERATIONS

During the COVID-19 pandemic, we were the only Bank to keep all of our stores open and in June we opened two new stores safely in Sheffield and in Cardiff.

A COVID-19 related FAQ section on our public website was launched to support all of our customers.

As a community bank, we know that our business FANS sit at the heart of our local communities and this is a very challenging time for them. We have provided nearly £1.5 billion in government-backed loans to 36,000 businesses since the start of the COVID-19 pandemic, and will continue to do our utmost to support the UK's businesses during this challenging time.

Furthermore, the Board has overseen a number of other ways that we have been supporting both personal and business customers since early March 2020 – for example through capital repayment deferrals, interest roll ups, increasing overdrafts or waiving overdraft arrangement fees.

Stakeholder engagement continued

Colleagues

WHY WE ENGAGE

Our Board understands that our colleagues are what makes us unique. We believe in people-people banking and to live up to that ethos we ensure that we support and invest in our people. We put 100% into supporting our colleagues in reaching their full potential and through our culture encourage people to be themselves so that they can be at their very best for our customers.

HOW WE ENGAGE

This year, Sally Clark took on the role of Non-Executive Director, responsible for workforce engagement. Action taken following feedback from colleagues throughout 2020 can be found on pages 88–89.

We also engage through our colleague networks that serve to educate, celebrate and support the experiences of others. The networks include Mpride (LGBTQ+), Mbrace (our BAME network), Women on Work and Mparents. Membership is open to anyone who would like to learn, educate, celebrate or contribute to those communities. Throughout 2020, Directors were invited to speak at colleague network events. More information on our colleague networks can be found on page 69.

During 2020, the Bank continued to promote colleague communication to ensure colleagues feel informed and are best placed to help our customers. This is done through: 'VOC' surveys; a 'Voice of the Colleague Wellbeing' survey; 'Tea on Teams', where colleagues meet virtually to catch-up with Metro Bank senior leaders; Online Q&As with leadership (Yam Jams); and internal news.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

We work hard to understand how our colleagues feel about Metro Bank as an employer, as a place to work and as a provider of banking services and what matters most to them. Each year we run a 'VOC' engagement survey and results from the survey can be found on page 71 and are reported back to the Board. We also conducted a wellbeing survey which helped us to identify new ways to support everyone.

HOW WE ARE RESPONDING

Further to the results of the wellbeing survey, we continued to work on enhancing our holistic health and wellbeing offering. More information on this can be found on page 71. We have encouraged colleagues to take more time to complete Corporate Social Responsibility activities and support their local communities through additional paid leave as we understand that this is important to them. We know how vital it is to our colleagues that we invest in them and are proud of the career development opportunities we offer. More information on this can be found on page 72.

We understand that colleagues want access to the most up to date information about our business and have updated over 600 pages on Metropedia (our employee information site) and have grown our library to over 1,000 pages which are accessed over 40,000 times a month by our colleagues.

We encourage our colleagues' desire to learn and grow and have re-written over 500 hours of learning content for virtual delivery and created a library of over 900 learning items, which have been completed more than 134,000 times. We have also retrained 84 colleagues across the business to take calls in AMAZE Direct during lockdown to ensure business continuity and trained 130 new AMAZE Direct colleagues.

The 'Voice of the Colleague' engagement survey gave us valuable insight into colleagues' opinions on remuneration and where they felt we could do better. Taking this feedback into account, and in parallel with the Bank's turnaround plan communicated in early 2020, we have instigated a Bank-wide review of remuneration which will:

- Support the values and strategy of the Bank.
- Simplify remuneration where appropriate.
- Ensure a competitive level of pay versus other organisations.
- Align colleague financial interests with those of our shareholders.

COVID-19 SPECIFIC CONSIDERATIONS

Our first priority continues to be the health and safety of our colleagues and their families. Since early March, our colleagues have been working productively from home or from our offices and stores which have been adapted to meet social distancing requirements. We created a Coronavirus communication channel accessible for all our colleagues working from home, self-isolating or on voluntary leave to ensure they were supported during the lockdown. More information on how we have supported our colleagues can be found on page 71.

Investors

WHY WE ENGAGE

We engage openly and transparently with our investors, who are helping us to grow for the future.

In a year of uncertainty for banks and our society as a whole, it has been more important than ever to engage with our investors and to share our vision for the future and understand their concerns.

HOW WE ENGAGE

This year the Board engaged with investors at:

- The 2020 Annual General Meeting.
- Results meetings.
- Investor roadshows and conferences.
- Proxy adviser and institutional investors meetings.

We also engaged with investors on the impacts of COVID-19 and consulted our largest shareholders on Remuneration Policy changes.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

It is important that our stakeholders understand our strategy and to an extent the economic and regulatory environments that could impact the successful delivery of the plan.

Our investor base is currently focused on:

- Implementation of the strategic plan, progress made against it and the impact of COVID-19.
- Path to profitability; factors influencing timing and shape of the recovery.
- Acceleration of asset mix shift, RateSetter integration and other revenue initiatives.
- Timing and outcome of the BOE's planned MREL consultation and the effect on our future capital requirements and potential issuance. Progress on AIRB.
- Ability to maintain cost discipline; profile of 'Change to Bank' expenditure.
- Expected credit losses; payment deferrals granted; default trends and impact of government measures.

HOW WE ARE RESPONDING

We provide comprehensive updates to the market at half and full year, with condensed trading statements at Q1 and Q3. The results presentation and Q&A with management provides stakeholders with clear guidance on our capital planning priorities alongside strategic updates and financial results.

The Board recognises why investors value independence and diversity on Boards and this year was pleased to announce several new appointments. More information on the Board and appointments in 2020 can be found in the Corporate Governance report starting on page 76.

COVID-19 SPECIFIC CONSIDERATIONS

Detailed and specific updates on the impacts of COVID-19 are included in our quarterly disclosures, covering both financial and operational aspects.

We have continued to meet investors virtually, tailoring our engagement approach to maintain communication and relationships until physical meetings are appropriate.

Our stakeholders continued

Stakeholder engagement continued

Communities

WHY WE ENGAGE

We are proud to be an integral part of the communities we serve and are at the heart our ambition to be the UK's best community bank. Our communities bring Metro Bank to life, providing vital services to local people and businesses as well as employment opportunities for when we expand into new locations.

The people and businesses close to our stores are crucially important to us, as we deliver on our strategic objective to grow into the UK's best community bank.

HOW WE ENGAGE

During 2020 we continued to engage through:

- New store openings.
- Money Zone, our educational programme for kids.
- Networking and community events.
- Days to AMAZE volunteering.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

We know that having a safe and friendly environment for their banking needs is important to our communities. With us, you can bring in your whole family – kids and pets are always welcome in our stores.

Many of our colleagues volunteer for charities and local causes in the nearby area, providing valuable time and raising money for local people. We listen to the feedback of our local communities and use these insights to offer support that will genuinely help the people we serve.

HOW WE ARE RESPONDING

Throughout 2020 Metro Bank was able to support its communities by keeping every single store open and all of our AMAZE Direct contact centres. In fact this year, we successfully opened six new stores, in London, the Midlands, the North and Wales. Two of these stores (Sheffield and Cardiff) were opened safely during the pandemic.

For our FANS who are kids, despite being unable for much of the year to provide face-to-face learning, we were still able to safely take nearly 7,000 pupils from 132 different schools through our Money Zone programme.

While our networking events had to be delivered virtually, we were pleased to lend a helping hand with a range of 'take-away' craft activities for kids at Easter and Halloween, as well as a Back to School event in late August.

COVID-19 SPECIFIC CONSIDERATIONS

Colleagues from across Metro Bank have been supporting the NHS through various means, such as making scrubs, drinks, snacks and meals for NHS workers, as well as acting as a hub for NHS goods.

We also supported food donations and volunteered at foodbanks, and from Cambridge to Basingstoke to Liverpool and Wood Green (and many more places along the way) our colleagues have offered their time, made up food parcels, delivered meals and made sure those most in need in the communities we serve didn't go hungry.

We also helped the local causes that made a big difference to our FANS. Whether that's supporting new mothers in need by collecting essential goods, making deliveries to Colchester Zoo, running marathons to raise money for the local hospice in Solihull, or checking-in with elderly residents self-isolating, our colleagues have been proud to support those in need.

Regulators

WHY WE ENGAGE

We are subject to financial services regulations and approvals in the markets we operate in. Following these helps us to put FANS at the heart of everything we do.

Feedback from the FCA and PRA is regularly considered by the Board and helps inform decision-making by Directors.

HOW WE ENGAGE

We maintain open and constructive relationships with our regulators and our Directors have regular meetings with both the FCA and PRA. We aim to maintain our positive relationships with regulators through an approach of early and regular engagement, particular on areas of critical importance.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

Governance and accountability: We engage with our regulators to ensure regulatory compliance including key pieces of governance such as the Senior Managers and Certification Regime (SMCR). In order to do the right thing, we always seek to comply with all relevant regulations.

HOW WE ARE RESPONDING

Senior representatives from the PRA have attended our Board to engage with them on current regulatory topics and share views and insights. The FCA and PRA also receive copies of our Board papers. We have successfully appointed a new Chairman, new CEO and a new Chair of our Risk Oversight Committee during 2020.

We have engaged constructively with our regulators during 2020 with respect to key initiatives and will continue this engagement across upcoming changes to the regulatory landscape in 2021 and beyond.

COVID-19 SPECIFIC CONSIDERATIONS

Alongside our peers we have been fully engaged with regulators since the beginning of the pandemic.

We have welcomed their pragmatic approach to regulatory developments, supervision and requirements through the course of the pandemic which has allowed us to comprehensively support our FANS at their time of need.

Suppliers

WHY WE ENGAGE

Our supply chain helps us to deliver banking products and services to all of our customers and stakeholders.

HOW WE ENGAGE

We engage with our suppliers through contractual arrangements to ensure suppliers adhere to the Bank's requirements.

The Audit Committee reviews and approves the Bank's disclosure on supplier payment practices.

WHAT MATTERS MOST TO OUR STAKEHOLDERS

From such engagement suppliers have identified prompt payment by the Bank as critical.

HOW WE ARE RESPONDING

We are committed to paying our suppliers within clearly defined terms, and we have proper processes for dealing with any payment issues that may arise.

COVID-19 SPECIFIC CONSIDERATIONS

Our Audit Committee reviews the Bank's supplier payment practices and, as required by law, we publicly report this information on a bi-annual basis. For the last reporting period between January to June 2020 we had an average invoice payment turnaround of 31 days. We continue to review and improve our processes with the aim of ensuring all our suppliers are consistently paid within defined terms.

Environmental, social and governance review

As part of our ambition to become the UK's best community bank we seek to drive positive environmental and social change through the approach we take.

As set out on pages 10 to 11 our approach is to generate positive stakeholder outcomes. We do this by creating positive societal impacts, ensuring we offer significant value for all stakeholders as we grow.

Our stakeholders, and how we engage with them, are set out pages 59 to 63. Through this engagement we have developed our environmental, social and governance (ESG) priorities.

Our approach and priorities

Our approach to ESG priorities is simply about doing the right thing. As a young and growing bank we have the opportunity to fully incorporate these priorities into our business and ensure we build it in the right way. In doing so we are committed to being open and transparent about what we are doing and why.

Our AMAZEING values underpin everything we do and this is the same for ESG. Our values align to our belief that we should act with integrity in everything that we do.

Oversight of ESG is at Board and ExCo level, who approve the policies and procedures by which we operate. In addition, the Board is responsible for setting the Bank's strategic direction, which has a major impact on our ESG priorities and how we manage them.

Our priorities consist of the following:

- Our FANS and communities
- Our colleagues
- Data privacy and security
- Our planet
- Our suppliers

Our FANS and communities

As we have grown over the past 10 years, one thing has remained the same and that is our commitment to great customer service. Turning customers and the communities we serve into FANS remains our purpose and is therefore at the heart of everything we do.

As of February 2021, we are the highest-rated bank for service in stores for both personal and business customers, as well as the highest-rated high street bank for overall service quality for personal customers in the CMA's Service Quality Survey. In addition, we were proud to be crowned as Bank of the Year at the 2020 MoneyAge Awards and Banking Brand of the Year at the 2021 Moneynet Personal Finance Awards.

We recognise and value our diverse customer base. We support our vulnerable customers and we invest in our colleagues to make sure they give the best guidance and support.

Monitoring our customer service is prioritised through our Voice of the Customer survey and analytics programme, ensuring that we are surprising and delighting all our FANS and delivering the best customer service possible, every single day.

We celebrated our 10th birthday in 2020, after launching in 2010 as the first new high street bank in the UK in more than 100 years. Since 2010, we have opened 77 stores across the UK supporting more than two million customer accounts. We've opened six new stores in 2020, in London, the Midlands, the North and Wales. Two of these stores (Sheffield and in Cardiff) were opened safely during the pandemic. Throughout 2020 we were also the only Bank to keep all of our stores open. Our newest store in Cardiff also offers a drive-thru service, allowing customers to carry out cashier services from the comfort and safety of their cars, completely contact-free. This is our fifth drive-thru store.

As a community bank, we strive to make a positive difference: through the local colleagues we employ, the local businesses we work with and the causes we support. By helping our communities thrive we believe our business will too.

Supporting our communities

In April 2020, our annual partnership with our official charity partner Teenage Cancer Trust came to an end, beating our fundraising target of £150,000 which allowed us to fund three specialist nurses for a year at a Teenage Cancer unit. Our colleagues participated in bake sales, quizzes, the Three Peaks Challenge, abseiling down The Orbit and many more fundraising activities, and our customers have helped us support the cause through donations via our Magic Money Machines.

Since March 2020, our colleagues have continued to focus on supporting causes in their local areas and during the pandemic our colleagues went above and beyond to support their communities. 2020 was like nothing that we've ever experienced before and at Metro Bank, like everywhere else, we've had to adapt. Every year we give each of our colleagues a Day to AMAZE, a day when they'd ordinarily be working to use for volunteering within their local community. We extended this initiative to five days volunteering so colleagues could support local areas during the pandemic, when we knew they needed help more than ever.

Our colleagues have volunteered at foodbanks, checked in with those self-isolating, made scrubs for their local NHS hospitals and delivered prescriptions for local pharmacies. Some of our stores have acted as donation points for essential food and supplies for those who need it and for frontline workers.

We put in place new processes for more vulnerable customers to access cash and, at the height of the pandemic when our contact centres were busier than usual, we also set up dedicated times for vulnerable customers to call our contact centre.

Despite the circumstances, some things haven't and won't change – our commitment to our customers remains more important than ever, and we are proud to say that we stayed open during lockdown to help people with their banking needs.

Supporting customers financially

We understand it has been and will continue to be a particularly difficult time for both our personal and business customers. At Metro Bank we appreciate that every situation is different, so we've worked together with our customers on an individual basis to find a solution that best meets their financial needs.

Alongside this, there are a number of other ways that we have been supporting both personal and business customers since early March 2020 to offer vital peace of mind and additional financial flexibility – for example through capital repayment deferrals, interest roll ups, increasing overdrafts or waiving overdraft arrangement fees.

For small and medium enterprises (SMEs) we recognise that many are experiencing tough times and even tougher times ahead. As an accredited lender with the British Business Bank we have provided nearly £1.5 billion in government-backed loans to 36,000 businesses since the start of the COVID-19 pandemic. We will continue to do our utmost to support the UK's businesses during this challenging time.

Having granted relief to thousands of customers through these means, we're now working with customers to understand their needs going forward. Our network of Local Business Managers and Commercial Relationship Managers are providing their expertise and guidance to our customers to help them manage their finances in the current environment.

Kids and families

We are passionate about supporting the kids in our community. Our stores run Money Zone, a free financial education programme. It introduces pupils to key financial skills, helping them understand how money, savings and banking work. Our sessions for Key Stages 2 and 3 are linked to the wider government curriculum guidelines. We are proud to offer these courses in English and Welsh. Since launching the programme, we have educated more than 200,000 kids through the Money Zone programme. We are also developing a way to make these digital so teachers and parents can teach the material at home.

We have continued to host our in-store family extravaganzas including our Back to School and Halloween events, with social distancing in place, and following all health and safety precautions. Families have been able to enjoy our free crafts in store where it has been safe to do so, as well as take them away to have fun at home.

Tax

We are a major UK employer, investor and purchaser of goods and services. We recognise our responsibilities as a financial institution and make a significant contribution to the UK exchequer each year.

In 2020, we made a total tax contribution of £132.9 million, which comprised of £86.5 million of taxes we paid and £46.4 million of taxes we collected on behalf of the government.

Ultimately, society as a whole will benefit from a fair, effective and predictable approach to taxation. This includes all of our customers, colleagues and communities. We pride ourselves on always acting with integrity, honesty and transparency with regard to tax and we continually adhere to the highest standards of corporate governance.

Data privacy and security

The steady rise in both the number and sophistication of cyber-attacks, combined with the sudden shift to almost all colleagues working from home as a result of the COVID-19 lockdown, has presented unprecedented challenges for our data privacy and information security teams. Despite this, during 2020 we substantially strengthened both our procedural and technical defences, bringing in new capability, experience and tools to the bank, in order to maintain our focus on protecting FANS, colleagues and the Bank's information. The flexibility and responsiveness of our security capability has been key in enabling us to meet FANS' needs, for instance in rolling out the government-backed business loan schemes quickly and successfully.

Information security and cyber defence

In 2020, we partnered with a world-leading cyber security firm to develop a Security Operations Centre, which monitors our networks and systems 24/7 to alert us to any unexpected or potentially malicious cyber activity. We have also invested heavily in our cyber intelligence capability, giving us advance warning of impending attacks and often allowing us to react in time to head them off. This is tightly integrated with Fraud and Financial Crime teams, giving our FANS, and their money, all-round protection.

Our other key focus has been on improving the resilience of our systems to attack. Huge progress has been made in patching and upgrading our IT platforms, to minimise vulnerability to the latest cyber threats. This cyber resilience improvement is part of a wider IT resilience programme, which continues into 2021, under the guidance of our new, highly experienced Chief Information Security Officer and overseen by our Chief Information Officer (CIO), Executive Committee and Board.

Data protection

Privacy remains a key priority for our FANS. Building on the foundations of earlier General Data Protection Rules (GDPR) compliance work, we have run a substantial GDPR improvement programme throughout 2020, improving the effectiveness, maturity and efficiency of our data privacy capability. We have established dedicated teams for data protection operations, responding quickly and efficiently to FANS' data rights requests, and ensuring consistent good governance over systems handling personal data. We have also integrated data protection into our wider architecture processes and tooling.

GDPR improvement is a long-term investment, continuing into 2022. Key focus areas for 2021 are embedding data retention policies and driving the anonymisation or deletion of unneeded personal data, to minimise the risk of leaks.

Fraud prevention

We take our customers' security extremely seriously and have a range of safeguards in place across all channels to help defend customers against fraud. We continue to work closely with other stakeholders including banks, network operators and law enforcement agencies to prevent and protect customers from fraud.

During the course of 2020 we have increased the level of communication we have with customers around the risks of fraud and how to help protect against it.

We are active supporters of UK Finance's Take Five fraud awareness campaign, and have an extensive online security centre that provides information on how we protect customers' accounts and how they can keep their personal details safe. We continually update and share via social media the latest threats and advise on practices to guard against these.

Protecting our customers is a key priority and we are always working to enhance our security, whilst making sure all customers enjoy a convenient banking experience.

We're also proud to be a member of the Authorised Push Payment Scams Steering Group and were one of the original banks to sign up to the voluntary code which launched on 28 May 2019. This gave consumers significantly increased protections against authorised push payment scams.

Our suppliers

It is important to us that we work with suppliers who uphold our values. We take this seriously at the procurement stage and maintain this throughout the entire life cycle of our business relationships. We continually review the controls put in place by our suppliers to prevent and detect data security breaches, bribery, corruption, modern slavery, child trafficking, unfair wages, unacceptable working conditions and labour rights abuses.

We also collect details about the control environments that our suppliers operate and, as a member of the Financial Services Supplier Qualification System (FSQS), we make it as easy as possible for our suppliers to share these details with us. FSQS helps our suppliers by reducing duplication of effort in responding to buyer due diligence requests, and benefits us by sharing resources and best practice with other buyers. We also conduct regular meetings and supplier assurance reviews on our riskiest suppliers to ensure that they are upholding the highest standards.

Anti-bribery and corruption

We are committed to maintaining the highest standards of ethics and integrity. Any act of bribery or corruption is unacceptable and we take the same approach with our suppliers. We protect our customers and the Bank by setting out and regularly training our colleagues on our Anti-Bribery and Corruption Policy; this helps us to make sure all of our colleagues are conducting business in an honest and ethical way, which reflects our zero tolerance approach to bribery and corruption.

Modern slavery

Our philosophy is to conduct all business in an appropriate manner. Slavery, servitude, forced labour and human trafficking (modern slavery) is a crime and violation of fundamental human rights. We have zero tolerance of modern slavery and continue to be committed to acting professionally, fairly and with integrity in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

During 2020 we continued to follow and progress our processes to support our Modern Slavery Policy, including:

- Publishing Metro Bank's fourth Modern Slavery Statement, approved by the Board and signed by the CEO, on our website in June 2020 (metrobankonline.co.uk).
- Delivering the third report of the Modern Slavery Champion to the Board in April 2020, including:
  - The annual review of our Modern Slavery Policy.
  - Updating on the 2019/2020 Modern Slavery Assurance Review which found that the Policy and the Annual Report of the Modern Slavery Champion meet legislative requirements and governance has been managed consistently.
  - Updating on progress against the Modern Slavery Statement and Action Plan.
  - Working on developing plans for sustainable banking, responsible business conduct and environmental and social risk, including modern slavery risk.
- Metro Bank continues to leverage FSQS to support due diligence on suppliers before contracting and ongoing during the relationship, on a risk basis. In 2020, we engaged with 1,801 active third parties. 24 (1.3%) were either based in riskier locations (where the 2019 Measurement Action Freedom score, an independent assessment of government progress towards UN Sustainable Development Goal 8.7, is less than 50) or were more likely to be exposed to modern slavery risk due to the nature of the services. In accordance with our Modern Slavery Policy further investigation was conducted, following which, 20 suppliers demonstrated adequate controls to mitigate modern slavery risk, and the remaining four supplier relationships were terminated.
- All colleagues were required to undertake modern slavery computer-based training during 2020.

Our Modern Slavery Statement is available at metrobankonline.co.uk

Our planet

Our greenhouse gas (GHG) reporting is undertaken in line with our obligations under The Companies Act 2006, (Strategic and Directors' Reports) Regulations 2013 and latest 2018 regulations. The emissions this year also include the acquisition of RateSetter and emissions have been incorporated from the acquisition date, 14 September 2020 to year end.

GHG emissions	2020 (tCO_2e)	2019 (tCO_2e)	2016 (tCO_2e)	Change from 2016 (tCO_2e)
Scope 1 Emissions	**1,492**	1,699	1,160	28.7%
Scope 2 Emissions (location based)	**3,644**	4,247	5,044	(27.8%)
Scope 2 Emissions (market based)	**344**	449	5,044	(93.2%)
Scope 3 Emissions	**1,303**	1,951	1,661	(21.5%)
Total GHG Emissions (location based)	**6,440**	7,897	7,865	(18.1%)
Total GHG Emissions (market based)	**3,139**	4,099	7,865	(60.1%)
Intensity Metric[1] (FTE)	**4,515**	3,555	2,417	86.8%
Total Emissions[2] per FTE	**1.43**	2.22	3.25	(56.2%)

1. The intensity ratio is calculated as the sum total of Scope 1 and Scope 2 emissions divided by the average FTE count (which was 1.43) during the reporting year.
2. The total emissions per FTE is calculated as Total GHG Emissions (location based) divided by the average FTE count.

We have chosen operational control as the consolidation approach and the boundary includes all entities and facilities either owned or under our operational control that are within the UK. The methodology used to calculate the CO_2e emissions utilises the carbon emissions methodology as defined by the World Resources Institute/World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol. Where properties are covered by our consolidated financial statements but are leased to tenants who are invoiced for utilities, these emissions are not included in the GHG calculations. For properties where we are the tenant, the landlords of these properties provide us with utility bills which are included in our emissions reporting.

This is the fifth year of GHG reporting and is aligned with the financial year, 1 January 2020 to 31 December 2020. The first year of reporting, 2016, forms the baseline year. The intensity metric chosen is number of full time employees as at the Financial Year ending 31 December 2020. Total GHG emissions for the 12 months to 31 December 2020 are 18.5% less than the previous year. Additionally, when viewed as an intensity metric, our emissions have reduced by 35.6% per full-time equivalent employee year-on-year. We have no qualifying carbon offsets during this financial period. The majority of electricity that the Bank procures is either REGO backed or 100% Carbon offset, hence market-based emissions are relatively small. This year's reporting period has been significantly impacted by the COVID-19 situation which has reduced occupation of buildings and Company transport and therefore associated emissions since March 2020.

TCFD focus area	Key progress in FY20	Focus areas for FY21
Governance Read more on pages 84 and 99	Enhanced Board and Management Committee ESG/ climate risk governance, including refreshed charters and accountabilities.	Regular Board and Leadership Team deep dives planned on ESG, including climate-related risks and opportunities.
Strategy Read more on page 53	Started to develop scenario analysis capabilities to inform future strategy refreshes.	Refresh ESG strategy with clear goals, milestones and priorities, which target material areas of the balance sheet such as mortgages. Expand dialogue with customers on climate-related risks and opportunities.
Risk management Read more on pages 53	Analysis undertaken on mortgages and business lending, including initial flood risk and transition risk analysis.	Expand ESG Credit Policy and sensitive sectors analysis. Develop the use of data and modelling to inform credit decisions.
Metrics and targets Read more on pages 67 to 69	Set aspirations for reduction in GHG emissions.	Develop roadmaps and interim milestones for moving towards our 2030 aspirations. Develop an ESG balanced scorecard.

Our focus on energy efficiency and renewable energy supply has also helped us to mitigate the environmental impact of the growth of our business.

We did not develop any carbon targets for the current reporting period. However, we have a plan for a steady reduction in operational emissions (Scope 1 and Scope 2) over the next five years. During the last 12 months, we have continued to implement a number of energy efficiency and waste reduction initiatives, including purchasing green energy on electricity contract renewal, replacing all fleet vehicles with electric or hybrid vehicles and switching to zero-to-landfill waste management providers.

We're also continually looking for ways to reduce our energy consumption as we open new stores, including electric car chargers, installing double glazing, LED light replacements, and motion detector installations for store lighting. However, we know we need to do much more to meet our aspirations and will be building out our net-zero roadmap over the coming year. We will also be working to better understand our indirect (Scope 3) emissions and prioritise where we have the greatest opportunity to influence reductions. The surveys and associated reports completed as part of Phase 2 ESOS will provide a roadmap for which energy conservation measures can be implemented cost effectively. To reduce energy consumption, cost and carbon emissions, we will continue our existing good work and implement further energy conservation measures in the next 12-month period, and as the changing COVID-19 situation allows.

The changes to our working model in response to COVID-19 have also helped us to decrease our energy footprint. As we build our future working model, we plan to harness the positive environmental impacts from COVID-19 and will strive to minimise our personal and corporate energy consumption through reduced corporate travel and commuting, supported by our ongoing energy efficiency initiatives.

Enabling our FANS to manage their finances online and make sustainable long-term decisions is integral to our business model. The continual development of our digital capabilities has not only reduced excess waste by enabling paperless banking, but has also reduced the need to come into stores to access our services, thus helping to reduce the carbon footprint of our FANS.

With 15% of UK carbon emissions coming from heating our homes, we know we have an important role to play in helping our mortgage customers reduce the carbon footprint of their own homes. In 2020, we began work to better understand the carbon intensity of our mortgage book, which will help us establish a detailed roadmap for our lending-related Scope 3 emissions. We are also working to enhance the way ESG is reflected in credit risk policies. Our starting position is strong with a focus on supporting small and medium-size enterprises, exclusively based in the UK, and low levels of lending to carbon-intensive sectors, mitigating our exposure to material climate-related risks.

We remain committed to developing our disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD)'s recommendations.

Our colleagues

Our colleagues help to make Metro Bank unique. We're big believers in people-people banking: a genuine belief that people value human relationships when it comes to their finances. To live up to that ethos we ensure that we support and invest in our people. We put 100% into supporting our colleagues in reaching their full potential and through our culture encourage people to be themselves so that they can be at their very best for our customers.

Our AMAZEING behaviours

- **A** Attend to every detail
- **M** Make every wrong right
- **A** Ask if you're not sure – bump it up!
- **Z** Zest is contagious, share it!
- **E** Exceed expectations
- **I** Inspire colleagues to create FANS!
- **N** Nurture colleagues so they grow
- **G** Game-change because this is a revolution

Our culture and our AMAZEING behaviours are at the heart of our business and communities, now more than ever. All colleagues learn about our culture in their first interaction with Metro Bank, through their recruitment journey, to their very first day where they start on our cultural engagement programme, Visions. We want Metro Bank to be a place where everyone can be at their best, and our inclusive approach celebrates diversity. Our colleagues represent the communities we serve and the locations where we are based.

Colleague networks

Our colleague networks include Women on Work (WOW), Mpride for our LGBT+ colleagues, Mbrace for our Black, Asian and Minority Ethnic (BAME) colleagues and Mparents for all working parents and parents-to-be. All groups are open to all colleagues, regardless of race, gender or sexual orientation and all have the aim of helping everyone to be their very best. The networks hold a variety of internal and external events that provide support to network members and raise awareness across our business.

Each network is supported by an executive sponsor, a network lead and an external coach, providing a link between the inclusion networks and senior management. Our Inclusion Committee oversees the activities of our four networks and facilitates an intersectional approach to our diversity and inclusion activities.

All of our senior leaders continue to fully support our networks through attendance at events, as well as acting as speakers and panel hosts. We also launched a new reverse mentoring scheme with the Mbrace committee and our senior leadership population. We will continue our work to understand the identities and experiences of all of our Metro Bank colleagues. Looking forward, we will carry on using data-informed efforts to support diversity, equality and inclusion.

Ethnic diversity at Metro Bank

Asian British	25.5%	Mixed Other	2.2%
Asian Other	8.2%	White British	37.4%
Black British	7.0%	White Irish	0.6%
Black Other	2.2%	White Other	8.7%
Mixed British	2.3%	Undisclosed	5.9%

The events of 2020 are yet another reminder that we need to do more, both as an organisation and as a society, to tackle systemic racism and inequality in every aspect of life in the UK. In particular, the Black Lives Matter movement has been a powerful force in raising awareness of the issues faced by BAME people.

We have always believed it is imperative that we represent the communities we serve; this is the foundation of our community banking model. It is this philosophy that has fostered a culture of diversity and inclusion within our workforce.

We believe an organisation with a broad range of skills, backgrounds, knowledge and experience is more effective and we are deeply committed to promoting greater diversity throughout the Bank and transparently reporting against progress.

Our leadership team, with the support of our inclusion network Mbrace, is looking at how we support our BAME colleagues, and what more we can do to champion the issues impacting them. This will be an ongoing process and is something we are committed to.

Social mobility

We are incredibly proud of the work we have been doing on social mobility. We work with a range of charities and organisations including the Armed Forces Covenant, the Mayors Fund and Code 4000. In 2020, we obtained the silver award from the Defence Employer Recognition Scheme as part of our Armed Forces Covenant. Throughout the year we have run multiple careers events, CV upskilling workshops and business insight days to audiences such as the Liverpool Education Authority, the Lord Mayor's Fund, Job Centre Plus, armed forces veterans, those leaving public services, ex-offenders looking to return to work, and Brunel and Birmingham Universities.

We have entered into a partnership with the Care Leaver Covenant to provide a care leaver friendly bank account opening process, which uniquely does not require them to produce photo ID. In addition, we are committed to working with care leavers before, during and beyond the account opening process to ensure they have a smooth experience, and to develop and further enhance the experience for future care leaver customers. We are proud to deliver a much friendlier bank account opening process, helping to empower care leavers as they grow into adult life.

Through our partnership with the Lord Mayor's Fund we have run sessions helping to educate school age kids from disadvantaged backgrounds in preparing for work. We have also worked with Birmingham University on various projects to support a diverse workforce and learn what the next generation of candidates will require from an employer to be successful.

Gender representation by grade

Gender	Executive leadership team	Senior managers[1]	All colleagues
Female	6 (43%)	24 (36%)	1,890 (45%)
Male	8 (57%)	42 (64%)	2,294 (55%)

1. Senior managers includes statutory directors of subsidiary companies.

Gender diversity

43% of our ExCo and 36% of the Senior Leadership Team (SLT) is female, significantly exceeding the Hampton-Alexander Review's target of 33% female representation on the ExCo and SLT (direct reports to the Executive Team). We are also proud signatories of the Women in Finance Charter, which aims to achieve gender balance at all levels across financial services firms.

Since the last Annual Report, we published our gender pay gap figures for the third time, in line with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. Our gender pay gap is below the UK median, and we continue to focus on supporting talented women (and men) to progress at Metro Bank. All details can be found on our website. For more information please visit metrobankonline.co.uk.

Our gender pay gap figures are explained in more detail in the Directors' Remuneration Report on pages 110 to 111.

Supporting more women into leadership roles won't happen without investment of time and resource, which is why we have a number of initiatives in place to help us achieve our objectives. As well as our Women on Work network, we run mentoring circles, leadership seminars on key topics and provide diverse candidate shortlists to hiring managers. We also offer flexible working arrangements and 14 weeks' parental leave for all new parents, regardless of gender.

The Bank is a signatory of the Investing in Women Code, a commitment to support the advancement of female entrepreneurship in the United Kingdom by improving female access to tools, resources and finance from the financial services sector.

COVID-19 response for colleagues

A key priority continues to be the health and safety of our colleagues and their families. Since early March, our colleagues have been working productively from home or from our offices and stores which have been adapted to meet social distancing requirements. We created a coronavirus communication channel accessible for all our colleagues working from home, self-isolating or on voluntary leave to ensure they were communicated to and supported during the lockdown. We welcomed over 700 new starters remotely, ensuring that they had the same 'cultural injection' through our virtual Visions that they would have enjoyed through the face-to-face equivalent. We also set up a £2 million 'Thank You payment' of up to £1,000 for frontline colleagues who had continued to physically attend work during the outbreak of the pandemic.

To adapt to the different ways of working we also:

- Introduced new flexible working practices for our corporate functions colleagues that had caring responsibilities. This included colleagues doing condensed hours, such as working early mornings or evenings to enable them to take the middle of the day off.
- Supported colleagues that were shielding on full pay.
- Increased emergency dependant leave to seven days to support colleagues during the initial lockdown.
- Supported over 250 colleagues to take voluntary leave on 80% of pay without taking part in the Government Coronavirus Job Retention Scheme (furlough) – aimed at those who were struggling to attend work.
- Encouraged colleagues to take more time to complete Corporate Social Responsibility (CSR) activity and support their local communities through additional paid leave.
- Supported colleagues whose store openings were delayed on full pay.

Wellbeing and colleague engagement

We want our colleagues to be at their best both at work and at home, and we have continued to work on enhancing our holistic health and wellbeing offering. In 2020 we conducted a wellbeing survey, with 77% of colleagues responding, empowering us to identify new ways to support colleagues. Initiatives to come out of the survey included a free year-long subscription to Headspace to offer our colleagues mindfulness tools and techniques.

We also launched a new wellbeing portal that has helped to engage many of our colleagues in conversations about mental health in a positive way, and there is now a growing community of colleagues who are taking proactive care of themselves and others. Our partner Vitality has adapted their offering to provide online exercise classes, rewarding colleagues for healthy behaviour during lockdown with a range of benefits that can be accessed at home.

We work hard to understand how our colleagues feel about Metro Bank as an employer, as a place to work and as a provider of banking services. Each year we run a VOC engagement survey and have selected a new partner to support us in running our 2020 survey. With the new provider we have taken the opportunity to reset our approach with new questions, a new scoring system and new benchmarks. We have retained the main engagement question to enable us to have a broad comparison to 2019. Whilst the engagement score has marginally reduced, it still remains within the range that we would expect, particularly in such an unusual year.

The 2020 VOC survey saw over 87% of colleagues taking the time to share their views. ExCo and the Board closely monitor the results of the survey to continuously improve our colleagues' experiences.

Headlines from 2020's survey

- 91% of colleagues feel they have a good working relationship with their team.
- 73% of colleagues are happy working at Metro Bank.
- 77% of colleagues feel that Metro Bank does things for the best of our customers.
- 76% of colleagues feel that Metro Bank has a great culture.
- 75% of colleagues feel that everyone has an equal opportunity to succeed.
- 81% of colleagues feel comfortable being themselves at work.

During 2020 we appointed Sally Clark as the designated Non-Executive Director for workforce engagement. More information on workforce engagement in 2020 can be found on page 88.

All colleagues benefit from health and safety training when they join Metro Bank. Colleagues are encouraged to participate in mental health awareness training and also have access to employee assistance and the independent and confidential Bank Workers Charity contact line. This provides information, advice and expert support services. We work with partners that have also had mental health first aid training, to support with colleague conversations.

Furthermore, our Health and Safety Policy protects our customers and colleagues and ensures we are compliant with our statutory duties and responsibilities.

Environmental, social and governance review continued

Developing careers

We are proud of the career development opportunities we offer:

- We offer all our store and contact centre advisors the chance to gain a professional qualification with the Chartered Banker Institute.
- We have an apprenticeship programme to support young people to start a career in banking.
- Colleagues can make the most of our training facilities. Metro Bank University, our online learning platform, offers over 70 different courses and almost 100 e-learning modules.
- We promote from within – we always look for internal candidates before searching externally.

During the year, we welcomed 1,000 new colleagues to Metro Bank and promoted more than 600 colleagues already working in the Bank. To help our colleagues develop the skills they need to succeed, we have empowered them through our talent programmes, resulting in eight new Local Directors, 12 Local Business Managers, and 79 new leaders. We have updated over 600 pages on Metropedia (our employee information site) and have grown our library to more than a thousand pages which are accessed over 40,000 times a month by our colleagues. We have rewritten over 500 hours of learning content for virtual delivery and created a library of over 900 learning items, which have been completed more than 134,000 times.

We have also retrained 84 colleagues across the business to take calls in AMAZE Direct during the COVID-19 lockdown, helping to ensure business continuity and trained 130 new AMAZE Direct colleagues to support our customers throughout the pandemic.

Apprentices at Metro Bank

Across our stores and call centres we are accredited to Level 2 standard (equivalent to five GSCEs) for the Financial Services Customer Advisor Apprenticeship Programme. Our programme has been running since 2017, offering apprentices invaluable opportunities to further their career progression. For example, within our call centre apprenticeship programme all apprentices have the option to gain their Professional Banker Certificate in addition to the regular programme, further boosting their future career prospects.

We recruit apprentices regularly based on demand for roles within the bank, with 19 apprentices currently undertaking apprenticeship programmes across our store and call centre networks. We have further plans to extend our apprenticeship programme and offer a Level 3 (Equivalent to 2 A-Levels) accreditation in 2021. We were one of the few employer providers who were able to continue to support our cashier apprentices during the lockdown which means they were still able to graduate in 2020 as originally planned.

In partnership with Cranfield School of Management, we run the UK's first masters level apprenticeship for senior banking professionals. The MSc in Retail and Digital Banking has seen its first cohort of 22 colleagues complete their first year of the two-year part time degree. The course is a fully funded masters programme, with support from the Apprenticeship Levy. For the second cohort in 2020, the opportunity to join the programme was opened up to colleagues at other banks, who are learning alongside our Metro Bank colleagues.

Rewarding and retaining our colleagues

As a growing bank – one that puts its communities at the heart of everything it does – we know just how crucial our colleagues are when it comes to achieving our objectives and providing great customer service. Our reward principles, which reflect this and apply to all colleagues, are designed to incentivise our colleagues to perform at the highest level and retain the talent upon which our business depends. Our principles include:

- Paying fair salaries and providing strong career and growth opportunities, underpinned by our AMAZEING culture.
- Empowering each colleague to be an owner, aligning them to the Bank's long-term vision.
- Rewarding colleagues based on Metro Bank's culture and performance and how they behave and deliver, both as part of the team and as an individual.
- Keeping the reward process simple and transparent.
- Offering competitive levels of remuneration: no excessive cash bonuses or linear incentives which can skew behaviours and encourage unnecessary risk taking.

Policy	Description	ESG priorities
Treating Customers Fairly	The policy reflects our goal to create FANS through the delivery of consistently AMAZEING outcomes. This philosophy is embedded in our culture and is an integral part of our business model and strategy. Our zero tolerance for unfair customer outcomes is underpinned by our Conduct Risk framework which was approved by the Board.	1 2
Lending Policies (including residential mortgage, retail unsecured finance, private banking credit, commercial, arrears management)	The policies make sure that we're lending in the right way.	1
Anti-Money Laundering/ Counter Terrorist Financing	The policy sets out the systems and controls to identify, assess, monitor and manage financial crime risks and the procedures in place to assess their effectiveness.	1 2
Diversity and Inclusion	The policy means that we treat our colleagues fairly. It sets out our commitment to having a diverse workforce which reflects our customer base and to employment policies which follow best practice, based on equal opportunities for all colleagues.	2
Recruitment and Selection	The policy relates to all recruitment-related activities and is relevant for all colleagues and any third-party recruitment partners. The policy outlines responsibilities for hiring aligned to our Company objectives/ethos and in accordance with the relevant legislation and regulation.	2
Board Diversity	The policy sets out our commitment to diversity and inclusion for the Board. This is based on our knowledge that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, will be a more effective and responsible Board.	2
Health and Safety	The policy protects our customers and colleagues. It recognises our statutory duties and responsibilities under the relevant Health and Safety and Welfare legislation.	2
Whistleblowing	The policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting the Bank.	2
Anti-bribery and Corruption	The policy outlines our approach to managing the risk of bribery and corruption and to ensure we conduct business in an honest and ethical way, with a zero-tolerance approach to bribery and corruption.	2
Conflicts of Interest	The policy provides consistent practical guidance to all relevant parties in relation to the identification, recording and maintenance of actual and perceived conflicts of interest.	2
Anti-tax Evasion	The policy sets out our zero-tolerance approach to tax evasion.	1
Business Continuity	The policy makes sure we are able to continue delivering services to our customers at acceptable levels if something unexpected were to happen. It addresses impacts to the continuity of critical business activities in the case of man-made disasters, natural disasters or other material events.	1 2 3 5
Data	The policy sets out our objectives and expectations in managing data and data governance practices. It makes sure that data is managed, governed, accessed, protected, utilised and disclosed appropriately. It also focuses on the quality of key data elements and their ongoing maintenance.	1 2 4
Procurement & Supplier Management	The policy ensures that when we rely on an external supplier for key processes and activities, we take the reasonable steps to identify, monitor and mitigate the external supplier risks.	1 5
Modern Slavery	The policy describes our approach towards preventing slavery, servitude, forced and compulsory labour and human trafficking in any of our operations or at any of our suppliers and, through them, our supply chains.	1 5

1 Our FANS and communities **2** Our colleagues **3** Data privacy and security **4** Our planet **5** Our suppliers

Non-financial information statement

This is our Group non-financial information statement, prepared in order to comply with sections 414CA and 414CB of the Companies Act 2006. We explain here where you can find further information on how we make sure we do the right thing in relation to wider society and the environment and how we seek to do the right thing in terms of our impacts.

A description of our business model and strategy, as well as the non-financial KPIs relevant to our business can be found on pages 12 to 14. Additional KPIs in relation to each of the matters listed in the table below have been disclosed on pages 10 to 11, where we believe this will assist in demonstrating the outcomes of our policies and activities during 2020.

Reporting requirement	Where to find further information necessary for an understanding of our business and our impacts, including outcomes of our activities	Relevant policies (please see page 73 for a description of each policy)
Environmental matters	Our Planet, page 67	Our comprehensive risk management processes (see below) have not identified environmental matters or climate change as a principal risk for the business; we do however consider this an emerging risk as described further in the Risk report. So, at present, we do not have a bespoke environmental policy. We do, however, recognise the need to minimise our impact on the environment and manage any material impacts from climate change on our business, as described in the emerging risks on page 52. As disclosed in the Our Planet section, we have successfully driven progress in our environmental performance to date without the need for a bespoke policy. We will continue to review the appropriateness of this approach.
Employees	Our Colleagues, page 69 The CEO's statement (pages 06 to 10) and the description of our business model (pages 12 and 13), articulate how our colleagues are an essential component of our success.	• Diversity and Inclusion • Recruitment and Selection • Health and Safety • Whistleblowing • Conflicts of Interest and Related Parties
Society and communities	Our Communities, page 64	As outlined in the communities section of this report, we are proud to be an integral part of the communities we serve. At present, we do not pursue a bespoke policy regarding our activities with the wider communities but stores are key to our unique model and we strive to make a positive difference, through the local colleagues we employ, the local businesses we lend to and through the causes we support. By helping our communities thrive we believe our business will do too.
Respect for human rights	Our Suppliers, page 66	• Modern Slavery • Outsourcing
Anti-bribery and corruption	Our Suppliers, page 66	• Anti-bribery and Corruption

Management of principal risks and due diligence for ESG policies

We manage risk through a comprehensive governance and control framework, as described in our Risk report on pages 25 to 55. The Risk report also describes the principal and emerging risks to our business. Our risk management policies and controls are reviewed regularly to reflect changes in market conditions, regulations and our activities. Through regular training and additional standards, guidance and procedures, we aim to develop a robust and effective control environment in which all our colleagues understand their roles and obligations. The policies disclosed on page 73 form part of our wider risk management approach. All colleagues are responsible for managing risk as part of their day-to-day role and our AMAZEING culture is all about our colleagues doing the right thing for our FANS and the business. As such, everyone at Metro Bank plays a role in risk management.

Management exercises an appropriate level of due diligence over the policies and activities referenced in the Stakeholder section and this Non-Financial Information statement. Our reporting on environmental and social matters is subject to the oversight of the Audit Committee.

This Strategic Report was approved by the Board and was signed on its behalf by:

Daniel Frumkin
Chief Executive Officer
23 March 2021

Corporate governance overview

ROBERT SHARPE
CHAIR

Introduction

I set out Metro Bank's corporate governance statement, and my first report since being appointed as Chair in November 2020. I am delighted to have joined the Board and I look forward to leading the Bank on the next stage of its journey.

Firstly, I would like to thank Sir Michael Snyder for the significant progress made during his tenure as Chair. During that time the Bank appointed a new permanent CEO, announced its revised strategy and continued to strengthen the skills, experience and independence on the Board through the appointment of four new Non-Executive Directors.

2020 was undoubtedly a testing year for us all given the significant uncertainty brought by the COVID-19 pandemic. A key area of focus for the Board has been overseeing the Bank's response to the pandemic. The Board and I are proud of the way colleagues across the Bank have come together to support customers and each other through this time. The Board will continue to monitor the evolving nature of the pandemic including the macroeconomic challenges and how this impacts the Bank and its stakeholders into 2021 and beyond.

Leadership, succession planning and diversity

A key focus of the governance work during the year has been to review the composition of the Board to ensure that it continues to be diverse in terms of background, skills and experience in order to support the strategic and operational direction of the Bank. A particular emphasis has been placed on finding Non-Executive Directors with strong retail banking knowledge following the departure of Gene Lockhart and Stuart Bernau in 2020. I am pleased to report that during the year the Board, on the recommendation of the Nomination Committee, appointed Anne Grim, Ian Henderson and Nick Winsor, all of whom have extensive retail banking experience from their executive careers.

Since 2019, the Board and the Nomination Committee have worked to improve the levels of independence, gender and ethnic diversity, skills and experience on the Board and this is reflected in the makeup of our Board today. The Board is now comprised of 33% females and there is one Director of colour as at 31 December 2020. I am therefore pleased to report that the Board is meeting the objectives of its Board Diversity Policy.

The Board's composition is well placed to provide robust and effective oversight of the Bank and this was reflected in the feedback from our recent external Board evaluation.

Looking forwards, the Board and the Nomination Committee will continue to focus on longer-term succession planning with a focus on high-quality diverse candidates, who can add value and insight to our strong Board into 2021 and beyond.

New Chair Selection Committee

A committee of independent Directors was formed following the departure of Vernon W. Hill, II as Chair in October 2019, to oversee the search for a new independent permanent Chair for the Bank. The Committee carried out a robust and thorough search process during the first half of 2020 with the help of executive search firm Korn Ferry. I was appointed as Chair on 1 November 2020 following regulatory approval.

Governance and Board effectiveness

In our corporate governance report on pages 76 to 151, we aim to provide a clear and meaningful explanation of how we as a Board provide oversight of the Bank and discharge our governance duties, including how we have complied with the 2018 UK Corporate Governance Code (the 'Code'). It also outlines the governance initiatives we have undertaken during the year. For more information on our compliance with the Code, please see the Code Compliance Statement on page 80.

A key area of governance work this year has been the externally facilitated Board evaluation which took place during Q3. The evaluation was carried out by Independent Audit, a market leading firm. I am pleased to report that overall the findings of the evaluation were positive and the new Board is working well together. Like many boards, we have adapted to the challenges of remote meetings and have continued to provide effective oversight and scrutiny of the management team in what is the new 'normal' way of working.

Following the evaluation, the Board agreed an action plan to address the findings of the report and I am pleased to report the actions are now largely complete. More details can be found on page 86.

Further to the action plan, I am pleased to report that, in line with best practice, the Board separated the role of CFO and Company Secretary and Melissa Conway was appointed as Company Secretary of the Bank. This marks a further step in the Bank's maturation as a listed company and our commitment to the highest standards of corporate governance.

Remuneration

Listening to shareholder feedback is one of the most important components of my role and one of the areas that we are regularly asked about is our approach to remuneration. It is for this reason that, despite reviewing it last year, we have decided to once more refresh our Remuneration Policy. The new policy, for which we will seek approval at our AGM, is more in line with wider market practices and provides greater levels of transparency and incentive.

I appreciate that changing an organisation's approach to executive remuneration in the current climate is not an easy one, but I firmly believe it will better align the interests of management to those of our shareholders and other stakeholders.

Workforce Engagement

Sally Clark was appointed as our Non-Executive Director for Workforce Engagement in May 2020. Since that time, Sally has been busy meeting colleagues remotely via a variety of mechanisms to ensure that colleague feedback is heard by the Board, despite the challenges of the pandemic. Sally has provided regular updates on the views of our colleagues to the Board and on the actions to be taken as a result. A detailed summary can be found on pages 88 to 89.

Future priorities

My overarching priority, as well as that of the wider Board, is to ensure the Bank remains well capitalised and returns to sustainable profitability in the medium term. The recent sale of a mortgage portfolio was an important step in achieving this and there is more work to be done in 2021. Additionally, in line with its strategy of increasing its presence in the unsecured lending market, the Bank also announced the purchase of the RateSetter back book in February of this year.

The Bank continues to feel the effects of legacy issues and is still subject to regulatory investigations. Closing out the investigations and ensuring the lessons are learned to avoid any future issues remains of paramount importance to the Board.

The Bank will also need to evolve its approach to sustainability, including setting out targets to help measure our progress.

I am immensely grateful for the support both I and management have received from stakeholders as we look to reposition the business and deliver profitable growth.

Robert Sharpe
Chair
23 March 2021

Board of Directors

Key to Committees

A Audit
R Remuneration
N Nomination
O Risk Oversight

ROBERT SHARPE
CHAIR

Appointed to the Board 1 November 2020

Robert has over 45 years' experience in retail banking. He is currently Chair at Hampshire Trust Bank plc, Honeycomb Investment Trust plc and Aspinall Financial Services Limited. He has had an extensive number of appointments both in the UK and the Middle East including Chair of Bank of Ireland (UK) plc, Vaultex Limited and RIAS plc. He has also been a NED at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, LSL Properties plc, and several independent NED roles at banks in Qatar, UAE, Oman and Turkey. Robert was previously CEO at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was CEO at Portman Building Society, Bank of Ireland (UK)'s consumer business in the UK and Bank of America's UK retail banking business.

DANIEL FRUMKIN
CHIEF EXECUTIVE OFFICER

Appointed to the Board 1 January 2020

Daniel is responsible for leading the Bank – with a focus on driving long-term growth by delivering great customer service at the right cost, to create even more FANS. Prior to joining Metro Bank, Daniel worked in America, the UK, Eastern Europe and Bermuda. He has performed business, risk, product and commercial executive level roles throughout his career. Most recently, Daniel was Group Chief Operating Officer at Butterfield Bank, with responsibility for eight jurisdictions across the globe covering a range of business and support areas.

DAVID ARDEN
CHIEF FINANCIAL OFFICER

Appointed to the Board 29 March 2018

Prior to joining Metro Bank, David was CFO at Sainsbury's Bank and interim MD of Argos Financial Services, following the successful acquisition of Home Retail Group by J Sainsbury plc in September 2016. David joined Sainsbury's Bank from Shop Direct Financial Services, where he was CFO. In his 30-year career, he has held a number of senior positions including MD of RBS/NatWest credit cards and Finance and Risk Director for Tesco Bank.

SIR MICHAEL SNYDER
SID

Appointed to the Board 22 September 2015

Michael served as Chair between October 2019 to November 2020. During his tenure as Chair the Bank appointed a new CEO, strengthened gender balance on the Board and refreshed its ExCo. He was accountable for setting a new five year strategy and helping the Bank navigate COVID-19. Michael is a NED of Mason Pearson Bros. Limited, Sumner Group Holdings Limited and is a NED and Audit Chair of Power By BritishVolt. He is an experienced business leader, having chaired GLE Loan Finance Ltd, been Co-Chair of the government's Professional and Business Services Council, and Chair of the Association of Practising Accountants. He is Senior Partner of Bramdean Consultants LLP and an elected member of the City of London Corporation, acting as Chair of the Policy and Resources Committee for five years.

ANNE GRIM
INED

Appointed to the Board 20 April 2020

Anne is currently a NED of Plus500, Insight Investment Funds Management Limited, Openwork Holdings Limited, and Retail Money Market Ltd (RateSetter). Anne is an experienced executive turned advisor, consultant and NED with more than 30 years in senior financial services leadership roles at Barclays, Wells Fargo, American Express, Mastercard and most recently as Chief Customer Officer at Fidelity International. Her expertise is in customer experience, strategic planning and execution, technology innovation and business transformation. In addition, she is currently an Advisor to the Investment Association's FinTech Engine, a Trustee on the UK board of Opportunity International and a Director of CXpertin Ltd.

ANNA (MONIQUE) MELIS
INED

Appointed to the Board 20 June 2017

Monique is a Managing Director and the Global Service Line Head of Regulatory Consulting at Duff & Phelps, a Kroll Business and is a member of Duff & Phelps' Luxembourg Management Company Board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included Executive Board member at Kinetic Partners and roles at the Cayman Islands Regulator and Stock Exchange, the Financial Services Authority and the Securities and Futures Authority.

PAUL THANDI CBE
INED

Appointed to the Board 1 January 2019

Paul is CEO of the NEC Group in Birmingham, where he has overseen the growth of one of the world's top venue management companies. He is also a CEO of West Midlands Growth Company Limited and NED of British Allied Trades Federation. Paul is an experienced CEO, Chair and NED with diverse international media and service-led experience with an emphasis on people, innovation, data and culture. Paul has over 20 years' experience in the media industry, including as Executive Director at CMP Information. He is Deputy Lieutenant of West Midlands Lieutenancy, representing the Queen in the region, and was appointed Commander of the Order of the British Empire in the 2020 New Year's Honours for his services to the economy through his 13-year leadership of the NEC.

MICHAEL TORPEY
INED

Appointed to the Board 1 September 2019

Michael retired from the position of Chief Executive of the Corporate & Treasury division and Member of the Group Executive Committee at Bank of Ireland in August 2018. He has extensive experience in senior roles across financial services. His past appointments include: Head of Banking at the National Treasury Management Agency in Ireland; Group Treasurer at Irish Life and Permanent plc; Senior Treasury Adviser at Irish Financial Regulator; Finance Director at Ulster Bank Group; and Finance Director at First Active plc.

CATHERINE BROWN
INED

Appointed to the Board 1 October 2018

Catherine holds various non-executive roles including: NED of FNZ (UK) Limited and NED of QBE Underwriting Limited and QBE UK Limited, and Chairman and NED of Additive Flow Limited and The Plastic Economy Limited. Until 31 March 2020, she was a Non-Executive Board Member at the Cabinet Office. Most recently, in mid-2019, she joined QBE Underwriting Limited (QBE UK Ltd), one of the world's leading international insurers, as a NED for the UK. She is a Trustee of Cancer Research UK, one of the UK's largest charities. Catherine has extensive experience in organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous appointments include: Group Strategy Director at Lloyds Banking Group, Executive Director of Human Resources at the Bank of England and Chief Operating Officer at Apax Partners.

SALLY CLARK
INED AND DNED FOR WORKFORCE ENGAGEMENT

Appointed to the Board 1 January 2020

Sally is a Director at Acin, the data standards firm for non-financial risk and controls. She is also a NED of Frattina Services Ltd. Previously, she was Chief Internal Auditor at Barclays Internal Audit (BIA) from 2014 to 2019. Her role was to run the 650-strong global function providing assurance to key stakeholders on the effectiveness of the control environment at Barclays. Before that she was the Chief of Administration for BIA. Her responsibilities revolved around strategy for the function along with professional practices including QA, training and development, BIA operations and communications. A qualified executive coach and Fellow of the Institute of Leadership and Management, Sally also mentored staff within Barclays and was the ExCo sponsor for the wellbeing agenda. Sally has a track record of success in developing and executing strategy, driving operational excellence and audit delivery. She served on the Council of the Institute of Internal Auditors for three years and was Deputy President in 2018/19.

IAN HENDERSON
INED

Appointed to the Board 20 April 2020

Ian is currently CEO of Kyckr, an Australian listed RegTech business providing global KYC solutions to banks, payments services providers and other regulated businesses. He joined Kyckr after a 30-year career in retail and business banking and wealth management. He is also a Member Trustee of the Chartered Bankers Institute. Since 2012, he has been actively involved in the UK Challenger Bank sector holding CEO roles at Arbuthnot Latham & Co Limited, Kensington Mortgages, and Shawbrook Bank. Prior to this, he was Chief Operating Officer of the Private Banking Businesses in Barclays Wealth and before that he was with RBS for 21 years. His final role there was as CEO of RBS International. He also held the positions of Chief Operating Officer Retail Banking and Marketing Director RBS & NatWest. Ian holds degrees in Economics and Finance from Scottish and Canadian universities and an MBA.

NICHOLAS WINSOR MBE
INED

Appointed to the Board 20 April 2020

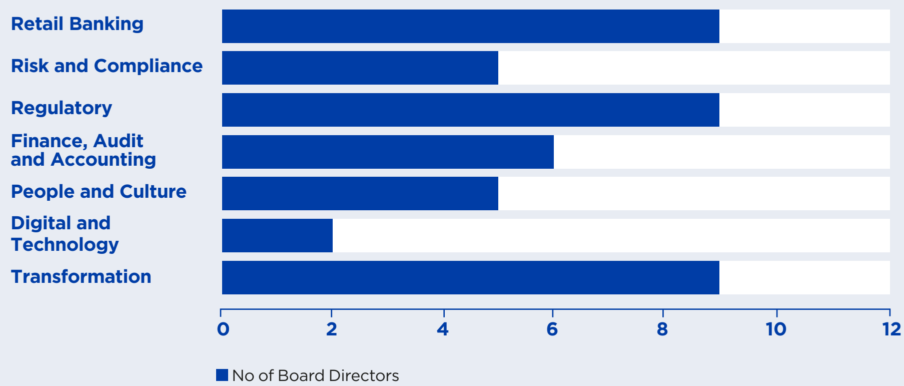
Nick is an independent consultant and non-executive director. He is NED of Schroder Oriental Income Limited, Chair of its Nomination and Remuneration Committee and a member of its Audit and Management Engagement committees. He is also a NED of the States of Jersey Development Company, Chair of its Remuneration and Nomination Committee and is a member of the Audit and Risk Committee and the Deal Advisory Panel. Nick has more than 35 years of international banking experience with HSBC Group in a number of markets: Brunei; Channel Islands; Hong Kong; India; Japan; Qataer; Singapore; Taiwan; United Arab Emirates and the United Kingdom. He was Chief Executive Officer and Vice President of HSBC Bank (Taiwan) Limited, CEO of HSBC's businesses in the Channel Islands and Isle of Man and a Director of HSBC Bank Middle East Limited. Nick is also Chair of Autism Jersey and was awarded an MBE for services to the community in the Queen's 2020 Birthday Honours List. He holds a Masters in Physics from Oxford University and is a Fellow of the Institute of Directors.

MELISSA CONWAY
COMPANY SECRETARY

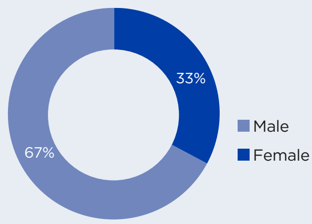
Appointed 1 December 2020

Melissa joined Metro Bank as Deputy Company Secretary in 2017 and was appointed as Company Secretary in December 2020. During that time she was responsible for building the Company Secretary function and worked closely with the Board on a number of key governance tasks including the appointment of the new CEO and permanent Chair. Melissa is an experienced Company Secretary with extensive listed company experience having held roles at HSBC Group and Henderson Global Investors (now Janus Henderson) prior to joining Metro Bank. Melissa acts as Secretary to the Board, the Remuneration and Nomination Committee and also supports the Bank's Executive Committee. She holds a Bachelor of Laws degree from the University of Sheffield and is an associate of the Institute of Chartered Secretaries and Administrators.

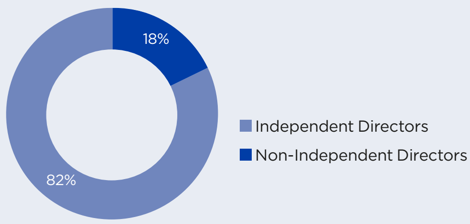
Board skills as at date of the report



Gender Diversity



Board Independence



This calculation excludes the Chair in line with the requirements of the Code.

Corporate governance

Highlights

Major board decisions

Consideration of our stakeholders and promoting the long-term sustainable success of the Company are at the centre of our Board's decision making. Further information on the Board's s172 duties can be found in our dedicated statement on page 56.

A summary of the major decisions taken in 2020 is set out below, further detail on these decisions can be found on pages 56 to 58:

- Reviewing the Bank's revised strategy, long term plan and the impact of COVID-19.
- Oversight of the Bank's responses to COVID-19 including the wellbeing of our colleagues and the various initiatives through which we have supported our customers (details of which can be found on pages 56 to 58).
- Exiting the contractual lease of our Old Bailey office, as part of the return to work strategy for our colleagues.
- Acquisition of RateSetter as part of the Bank's turnaround strategy.
- Sale of a portfolio of mortgages to a high street mortgage provider.
- Board composition and succession planning including the appointment of our new Chair, new independent Non-Executive Directors, as well as new ExCo appointments and Company Secretary.

Board succession

Key priorities for the Board in 2020 were Board succession planning and continuing to strengthen the skills, experience and independence of our Board. Changes to our Board in 2020 included:

- Sally Clark joined the Board on 1 January 2020 with Anne Grim, Ian Henderson and Nick Winsor joining on 20 April 2020 as independent Non-Executive Directors.
- Sir Michael Snyder stepped down as Interim Chair and Robert Sharpe was appointed as Chair of the Board as of 1 November 2020, with Sir Michael resuming his role as Senior Independent Director.

Governance enhancements

- Following the appointment of the new NEDs, the Board (excluding David Arden and Daniel Frumkin) is now comprised of a wholly independent Non-Executive Director membership.
- Appointment of a permanent independent Chair.
- Splitting the role of CFO and Company Secretary to appoint a designated Company Secretary.
- Refreshing the Board Committee membership, further strengthening the relationships between Committees with cross memberships between Audit and Risk Oversight.
- Updated and approved the Board Committees' Terms of Reference to reflect current best practice.
- Undertook an externally facilitated Board evaluation, more details of which can be found on page 86.

Corporate governance compliance statement

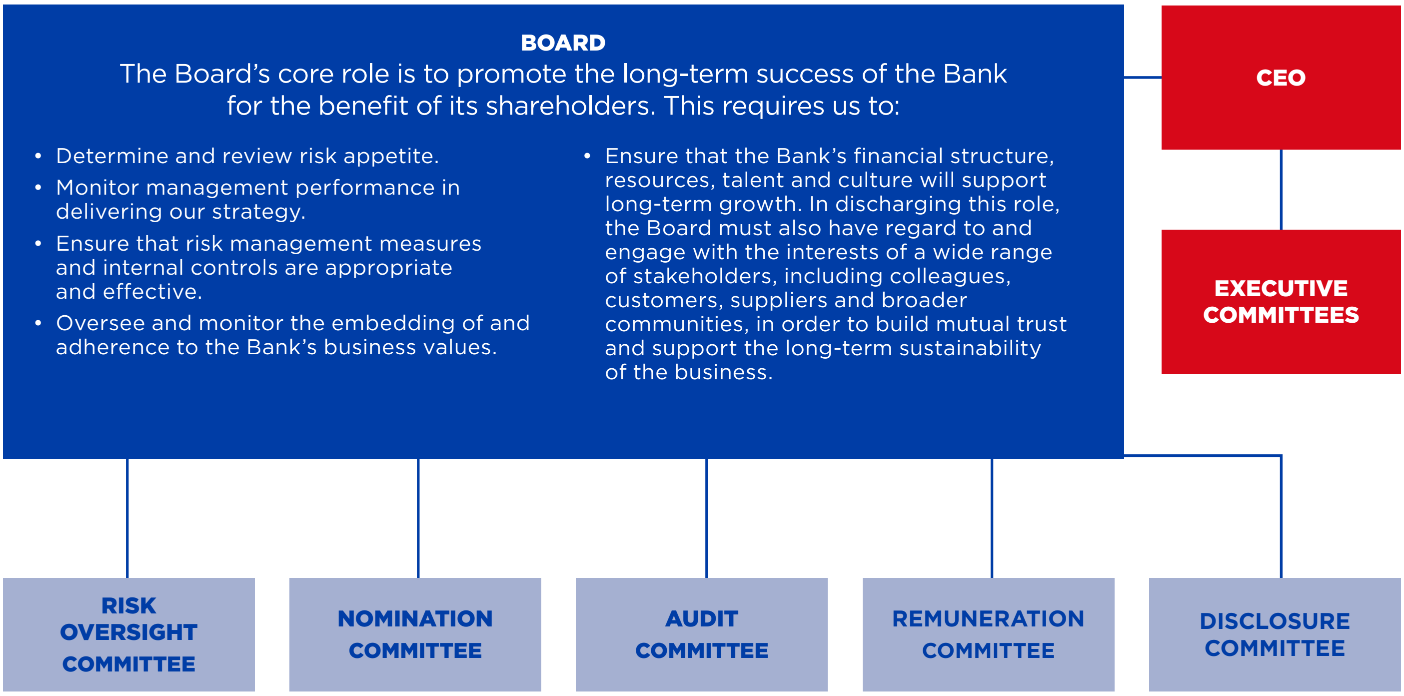
Good corporate governance is essential to the delivery of our revised strategy and the long-term success of the Bank. This report also sets out how the Bank has applied the principles as set out in the UK Corporate Governance Code (the Code). During 2020 there were two instances of non-compliance with the detailed provisions of the Code and we have set out the explanations below.

Code Provision	Explanation
Provision 25 – Where a separate board-level risk committee (rather than the audit committee) reviews some or all of the company's internal financial controls or wider internal control and risk management systems, it should be composed of independent non-executive directors.	As disclosed in the 2019 Annual Report, Gene Lockhart and Stuart Bernau, who were both non-independent NEDs, sat on the Risk Oversight Committee before stepping down from the Board. Since May 2020, the Risk Oversight Committee has been fully comprised of INEDs, and as at the year end the Bank is fully compliant with this provision.
Provision 38 – The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.	As per the Bank's remuneration policy, any new Executive Director hire will have a maximum pension contribution at a level aligned with those available to the workforce. Our new CEO was appointed on a pension contribution level of 8% of base salary in line with this approach. The pension contribution rate for the CFO is currently 10% of base salary. This will be reduced to a level aligned with those available to the workforce by the end of 2022. In line with the latest FRC Guidance we have recognised this as an area of non-compliance with the Code during 2020, and as outlined above we are committed to ensuring our executive pension contributions are fully aligned with the provisions of the Code.

Governance framework

The Board has a robust and coherent corporate governance structure with clearly defined responsibilities and accountabilities. These have been designed to provide prudent oversight of the strategic and operational direction of the Bank.

Corporate governance structure



The Executive Committees are outlined in the Risk report on page 27.

Board Leadership and Company Purpose

The role of the Board

The Board is responsible to our shareholders and sets our strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Bank. The importance Metro Bank places on the interests of its wider stakeholders, and the fact that the Bank has its customers at the heart of everything it does, is always at the forefront of the Board's agenda. In February 2020 the Bank announced its strategic ambition to become the UK's best community bank and every decision we make is in furtherance of this ambition. More detail on this can be found in our s.172 Statement on pages 56 to 58.

The composition of the Board

As at the date of this report, the Board consists of the independent Non-Executive Chair, two Executive Directors (the CEO and CFO) and nine independent Non-Executive Directors.

Division of responsibilities between the Chair and CEO

The Board has formally documented the separate roles and responsibilities of the Chair and CEO and more detail on this can be found on the Bank's website at www.metrobankonline.co.uk/investor-relations.

Matters reserved for the Board

The Board is responsible for setting and managing our strategic direction. The operation of the Board is documented in a formal schedule of matters reserved for its approval. These include matters relating to the decisions concerning our strategic aims and long-term objectives, the structure and capital of the Group, financial reporting and controls, risk management and various statutory and regulatory matters. The Board is also responsible for effective communication with shareholders, any changes to Board or Committee membership or structure, and has authority to recommend the Directors' Remuneration Policy to shareholders. The Board delegates responsibility for day-to-day management of the business to the CEO and sets out the basis for delegation of authorities from the Board to its Committees.

Corporate governance continued

Further to the acquisition of Retail Money Market Ltd and its subsidiaries ('RateSetter'), RateSetter is currently continuing to operate as a standalone entity. As part of the pre-completion matters, the Board considered the most effective way to maintain an appropriate level of oversight; RateSetter has its own Board of Directors, with a mix of both INEDs, NEDs and Executive Directors, and its own matters reserved for the Board, with certain matters reserved to the shareholder. Informal updates are provided from its Audit and Risk Committees to their Metro Bank counterpart Committees and the RateSetter CEO is a member of the Bank's ExCo who, as part of the cycle of ExCo presentations to the Board, presents to the Directors on an annual basis.

Board Committees

The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination and Remuneration Committees, and reports for each are set out on pages 90 to 115. Each Committee has written Terms of Reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee Terms of Reference are available on our website: metrobankonline.co.uk.

The Board also delegates the review of the Bank's disclosure obligations to a Disclosure Committee, formed of the CEO, CFO, Company Secretary and General Counsel. The Disclosure Committee also has an approved Terms of Reference.

We keep the Terms of Reference of each Committee under continuous review to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice. They are also reviewed formally every year by the relevant Committee, ultimately approved by the Board, along with a self-assessment of how each Committee's duties have been addressed. The composition of each of the Committees can be found at the beginning of each Committee's individual report. Any changes to the Committees are made by recommendation of the Nomination Committee.

Effectiveness

A clear record of the time commitments of each Non-Executive Director is maintained and reviewed annually by the Nomination Committee and the Board is satisfied that the Chair and each of the Non-Executive Directors is able to devote sufficient time to the Company's business. Each Director has committed to dedicate as much time as is necessary to the Company and the Non-Executive Directors' letters of appointment set out that they should be prepared to dedicate at least 20 days per year to the Company. Since taking on the role of Chair, Robert has stepped down from his position as Chairman of Bank of Ireland (UK). Directors are expected to attend all meetings of the Board, and the Committees on which they sit, and to devote sufficient time to the Company's affairs to enable them to fulfil their duties. If Directors are unable to attend a meeting, their comments on papers to be considered at the meeting will be discussed in advance with the Chair or Company Secretary so that their contribution can be included in the wider Board discussion.

Board skills

As part of how the Board plans for succession, it reviews and maintains a clear record of the skill-set that each Director provides. The Directors' skills and experience span a wide range of sectors and specialisms which can be found on pages 78 to 79. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

Independence of Directors

The Board is satisfied that, as at 31 December 2020, all Non-Executive Directors and the Chair of the Board were independent.

Induction of new Directors

During 2020, we welcomed Sally Clark, Anne Grim, Ian Henderson and Nick Winsor to the Board. All of our new Directors undergo a formal, robust and tailored induction programme upon appointment which is agreed with the Chair and coordinated by the Company Secretary. Non-Executive Directors meet the Chair and the CEO as part of the Nomination Committee's selection process and then again on appointment for a thorough briefing on all relevant aspects of the Company. They also meet the Company Secretary, senior management and our advisers for briefings on their responsibilities as Directors and on our business, finances, risks, strategy, procedures and the markets where we operate. Directors also receive an electronic induction pack upon their appointment which includes relevant Bank policies and corporate and financial information. New Directors also received listed company director responsibilities training from our legal advisers as part of their induction.

External appointments

In appropriate circumstances, the Board may authorise Executive Directors to take non-executive positions in other companies and organisations. Such appointments should broaden their experience, provided the time commitment does not conflict with the Director's duties to the Company. The appointment to such positions is subject to the prior approval of the Board. During the year ended 31 December 2020, none of the Bank's Executive Directors held directorships in any other quoted company.

Board roles and responsibilities

Role	Names	Responsibility
Chair	Robert Sharpe	The Chair leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company, including overseeing the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of colleagues. He is responsible for ensuring that there are strong links between the Board and management and between the Board and shareholders. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He reports to the Board and is responsible for the leadership and overall effectiveness of the Board, including responsibility for fostering a positive Board culture that reflects the values of the business.
CEO	Daniel Frumkin	The Chief Executive Officer (CEO) is responsible for the day-to-day management of our operations, for recommending our strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the ExCo. The CEO reports to the Chair and to the Board directly and is responsible for all executive management matters of the Bank.
CFO	David Arden	The Chief Financial Officer (CFO) has responsibility for planning, implementing, managing and controlling all financial-related activities of the Company, both day-to-day and for the long-term. He is responsible for managing the Bank's financial position including allocation and maintenance of capital, funding and liquidity. The CFO also has oversight of the Treasury, Legal, Company Secretarial and Investor Relations functions, and is also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting.
Company Secretary	Melissa Conway	The Company Secretary is responsible for advising and supporting the Chair and the Board on good corporate governance and best boardroom practice. She leads the Bank's Company Secretarial function.
SID	Sir Michael Snyder	The Senior Independent Director's (SID) role is to act as a sounding board for the Chair and to serve as an intermediary for Directors when necessary. The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chair, CEO or CFO. The SID will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns, if contact with the Chair, CEO or CFO is inappropriate. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chair and conducts the Chair's annual performance evaluation.
DNED for Workforce Engagement	Sally Clark	The DNED is responsible for: • bringing the views and experiences of colleagues into the boardroom; • as required, working with the Board, as a whole, and particularly the Executive Directors, to take reasonable steps to evaluate the impacts of Board proposals and developments on colleagues; • engaging with the Executive Directors regarding workforce engagement and steps taken to address colleague concerns arising out of business-as-usual activities; • providing feedback to colleagues on steps taken in response to their feedback; and • reporting regularly to the Board on activities undertaken and feedback, as well as presenting the annual update for the inclusion in the Annual Report and Accounts.
INEDs	Catherine Brown Sally Clark Anne Grim Ian Henderson Monique Melis Paul Thandi Michael Torpey Nick Winsor	The role of the Independent Non-Executive Director (INED) is to constructively challenge proposals on strategic direction. Each INED brings specific experience and knowledge to the Board and its Committees. The INEDs as a whole have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. A skills matrix for the Board can be found on page 79. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture. Each INED is appointed for an initial two-year term but is re-elected on an annual basis.

The composition of the Committees can be found at the beginning of each of their individual reports.

The Board's year in review

Board attendance as at 31 December 2020

The following is a list of the Board's attendance in 2020 for scheduled Board meetings. A number of ad hoc meetings were held at short notice during the year to consider strategic opportunities and as a result of the COVID-19 pandemic. The Board were able to devote additional sufficient time to the Company as a result of COVID-19.

	Meetings attended 2020	
	Attended	Meetings held during Director's tenure
Robert Sharpe (independent Chair)	1	1
Daniel Frumkin (CEO)	10	10
David Arden (CFO)	10	10
Catherine Brown (INED)	10	10
Sally Clark (INED and DNED)	10	10
Anne Grim (INED)	7	7
Ian Henderson[1] (INED)	6	7
Anna (Monique) Melis (INED)	10	10
Sir Michael Snyder (SID)	10	10
Paul Thandi[2] (INED)	9	10
Michael Torpey (INED)	10	10
Nick Winsor (INED)	7	7
Directors who have retired during the year		
Gene Lockhart (former NED)	4	4
Stuart Bernau (former NED)	4	4
Roger Farah (former INED)	2	2

1. Ian was absent from one meeting for personal reasons but was fully briefed on all matters discussed at the meeting.
2. Paul was absent from one meeting for personal reasons but was fully briefed on all matters discussed at the meeting.

Full details of appointments and resignations in the year can be found on page 149.

Development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations. In 2020, the Board received internal training sessions on whistleblowing, the Bank's cloud strategy and from PwC on ESG: Climate related risk. Non-Executive Directors attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Committees on which they sit.

Board activities

The Board has a forward plan for its meetings which includes regular updates from the Executive Committee and on financial, risk management and operational matters. Each Board Committee has defined Terms of Reference with delegated specific areas of responsibility to ensure that all areas for which the Board has responsibility are addressed and reviewed during the year. The Board recognises the importance of culture and it has continued to increase the amount of time dedicated to the monitoring and assessment of culture at Board meetings in 2021.

Reports from the CEO, CFO and CRO are standing items on every agenda. The Company Secretary reports on governance matters and updates the Board on any changes to their statutory duties or the regulatory environment which are pertinent to their role. The Chair of each Committee reports on the proceedings of the previous Committee meeting at the next Board meeting, and minutes of the Disclosure Committee are also included in the Board papers.

The Executive Committee, senior management team and advisers are invited to attend Board and Committee meetings, to present, contribute to the discussion and advise members of the Board or its Committees on particular matters. The involvement of the Executive Committee and senior management at Board and Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategic direction. Further, it also enables the Board to scrutinise and challenge management on the delivery of strategic objectives. The Chair, assisted by the Company Secretary, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary compiles the Board and Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary also ensures that any feedback or suggestions for improvement on Board papers is fed back to management. The Company Secretary provides minutes of each meeting and is responsible for following up on any action items.

The table below sets out the Board's activities in 2020 and how these link to our business model, which is how we deliver our purpose to create FANS, and ultimately on our ambition to become the UK's best community bank.

Topic	Link to business model	Activity	Progress
Leadership and effectiveness	• Integrated model • Unique culture • Low-cost deposits • Risk-adjusted returns	• Appointment of three new INEDs and an independent Chair. • Oversight of strengthening of the Executive Committee. • Review of External Board Evaluation findings and approval of action plan.	• The Board has the right balance of skills and independence to provide effective oversight of the Bank. The Nomination Committee and Board will continue to focus on longer term succession planning. • Executive Committee appointments are now complete. The Board is confident that the Executive Committee is comprised of the right people to deliver on the Bank's strategic objectives. • The actions from the Board Evaluation are materially complete, more information can be found on page 86.
Strategy	• Integrated model • Unique culture • Low-cost deposits • Risk-adjusted returns	• Approval of the Bank's new strategy. • Oversight of the Bank's response to COVID-19.	• The Board has undertaken a comprehensive review of the strategy, which has been further reviewed to adapt to the challenges presented by COVID-19. Delivery against the strategy continues with the acquisition of RateSetter, sale of a portfolio of residential mortgages and the purchase of the backbook of RateSetter in February 2021. • The Board received regular updates from management on the Bank's response to COVID-19.
New initiatives	• Integrated model • Risk-adjusted returns	• Approval of expansion into specialist lending. • RateSetter acquisition.	• The Board and the ROC continue to receive updates on specialist lending. • The acquisition of RateSetter completed in September 2020. The integration is now at an advanced stage and periodic updates are given to the Board.
Capital and financial performance	• Low-cost deposits • Risk-adjusted returns	• Review and approval of the Bank's Long Term Plan. • Review and Approval of the ICAAP and ILAAP. • Review and approval of financial reporting.	• During 2020 the Board approved the Bank's Long Term Plan and has reviewed and approved the Bank's 2021 budget. • The Board has reviewed capital and liquidity adequacy as part of the approval of the ICAAP and ILAAP, supported by detailed review at the ROC. • Approved the sale of a portfolio of mortgages to create capital headroom.
Colleagues	• Unique culture	• Ongoing monitoring of culture including updates from CPO and her team and review of the Voice of the Colleague and wellbeing surveys. • Review of informal and formal feedback from the DNED from colleague engagement activities • Exit of the Old Bailey site further to the results of the colleague wellbeing survey.	• The Board reviewed and discussed the results of the Voice of the Colleague engagement survey and keeps the action plan under review. • The Board review and discuss colleague feedback, which is taken into consideration when making its decisions. • Further to feedback from stakeholders, the Board, through the Remuneration Committee has overseen the review of the Bank's remuneration framework. Further information can be found on pages 124 to 125 in the Remuneration Report.
Technology	• Integrated model	• Review of the Bank's technology strategy and journey to the cloud.	• The Bank has adopted a cloud strategy and implemented a cloud platform.

The Board's year in review continued

Performance

The Board recognises the importance of, and value gained from, continuing to develop as a whole, and individually. Every year, the Board undertakes an evaluation of its performance, as well as that of its Committees and individual Directors, to ensure the Board's continued effectiveness.

External Board evaluation

In line with the evaluation cycle and further to the internal evaluation in 2019 reported on last year, an externally facilitated evaluation was undertaken in 2020. The Bank appointed Independent Audit to carry out this exercise further to a selection process supported by the Bank's procurement team. Independent Audit were also subsequently engaged to undertake the external quality assessment of the Bank's Internal Audit function. Aside from this, Independent Audit have no other connection with the Bank.

Independent Audit were selected due to their experience in the market and their proven ability to conduct an evaluation to meaningfully support the Board in analysing their effectiveness and create a suggested action plan. As part of their field work, Independent Audit were invited to observe Board and Committee meetings, they held 1:1 interviews with all directors and various members of ExCo, as well as reading Board papers and governance materials.

Areas of assessment	Agreed actions and progress
Board logistics	• Review the Board agenda and identify opportunities to reduce the length. This is complete. • Schedule informal sessions to encourage development of Director relationships. This is ongoing. • Review arrangements for holding meetings virtually. This is complete. • Separate the CFO and Company Secretary roles. This is complete.
Role and focus of the Board	• Agree schedule of strategy updates. This is complete. • Agree style and content of executive reports. This is complete. • Agree approach to ongoing monitoring of culture This is complete.
The Committees	Included in the individual reports of the Committees.

The actions arising from the evaluation are materially complete and progress against the remaining actions will be monitored during the year by the Chair and Company Secretary, with status reports back to the Board as required.

We are satisfied that the Board and each of the Committees continue to operate effectively. The findings of the evaluation showed the progress made regarding Board composition in particular the strengthening of skills, experience, notably retail banking, and independence of the Board. More details on succession planning can be found in the Nomination Committee report on page 104.

In line with the Code, an internally facilitated evaluation will take place in 2021 which will also be an opportunity to revisit progress made against the 2020 exercise.

Systems of internal control and risk management

The Board believes that effective risk management is crucial to the Bank's strategic objectives and long-term success. The Board has overall responsibility for ensuring risk is effectively managed.

Our approach to risk is further detailed on pages 25 to 55. The ROC reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the ROC report on pages 99 to 103. The Board confirm that there is an on-going process for identifying, evaluating and managing the emerging and principal risks faced by the company.

The Board has delegated responsibility to the Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Audit Committee report on page 90.

The Board is ultimately responsible for the Bank's internal control and risk management systems, and in discharging this duty they regularly receive updates from the Chairs of both Committees as well as updates from the CRO. The Board also approves the Internal Audit plan on recommendation from the Audit Committee. The Board is satisfied that the internal control and risk management systems are operating effectively and that they have been in place for the year under review and up to the date of approval of the Annual Report.

Conflicts of interest

At each meeting, the Board considers Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest.

During 2020, the Company had a commercial relationship with InterArch, Inc. ('InterArch'), a firm which is owned by Shirley Hill, the wife of Vernon W. Hill, II (former Chair) for architectural design and marketing services which ended in February 2020.

The Bank then entered into an additional short contract for advisory services to ensure an effective transition to its new providers which ceased in June 2020. The Audit Committee has responsibility for the oversight of this related party transaction and reviewed the arrangements with InterArch and the reporting requirements ahead of the 2020 Annual Report and Accounts. Further details are set out in note 36 to the financial statements.

Independent professional advice
Directors have access to independent professional advice at the Company's expense. In addition, they have access to the advice and services of the Company Secretary and her team, who are responsible for advice on corporate governance matters to the Board.

Directors' indemnities and insurance
We provide Directors and Officers of the Bank with appropriate insurance during the course of their appointment, which is reviewed annually. In addition, Directors of the Bank have received an indemnity from the Bank against: (a) any liability incurred by or attaching to the Director in connection with any negligence, default, breach of duty, or breach of trust by them in relation to the Bank or any associated company; and (b) any other liability incurred by or attaching to the Director in the actual or purported execution and/or discharge of their duties and/or the exercise or purported exercise of their powers and/or otherwise in relation to/or in connection with their duties, powers or office other than certain excluded liabilities, including to the extent that such an indemnity is not permitted by law.

Appointment and retirement of Directors
The Board may appoint Directors to the Board. Newly appointed Directors must stand for election by shareholders at the AGM following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2021 AGM. Robert Sharpe will stand for election by shareholders at the 2021 AGM, this being the first AGM following his appointment. Under the Articles of Association, shareholders may remove a Director before the end of their term by passing an ordinary resolution at a general meeting.

Employee engagement
For further information on how the Directors have engaged with colleagues, had regard to colleague interests, and what the effect of this has been, including on the principal decisions taken by the Company during the financial year, see page 60.

Other stakeholder engagement
For further information on how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and what the effect of this consideration has been, including on the principal decisions taken by the Company during the financial year, see pages 59 to 63.

Relations with investors
The Board continues to place great importance on regular two-way engagement with investors. We welcome engagement and dialogue throughout the year as part of an ongoing process. We connect with our investors on an ongoing basis through a variety of channels including face-to-face meetings pre COVID-19, telephone calls, presentations, webcasts and online content.

Investor meetings are undertaken by the Chair, CEO and CFO, supported by the Director of Investor Relations. During 2020 most communication was virtual in response to the risks of COVID-19. The team participated in over 200 individual and group meetings with shareholders, analysts and investors from the US, UK and Europe and presented at various investor conferences. Institutional investors have the opportunity to meet with the Chair, SID and/or other NEDs to discuss any areas of concern. In addition, the Committee Chairs seek engagement with shareholders on significant matters related to the areas of their responsibility. During early 2021 and prior to the publication of this report, the Chair of the Remuneration Committee engaged with shareholders regarding changes to the Bank's Remuneration Framework – more details can be found in the Remuneration Committee report.

The Investor Relations function reports to the Board on a regular basis on matters including share price performance, changes in the shareholder register, analyst and investor feedback and significant market updates, with the assistance of the Bank's corporate brokers. The Investor Relations team is responsible for ongoing communication with shareholders, analysts and investors. All financial and regulatory announcements, as well as other important business announcements, are published in the Investor Relations section of our website and stakeholders can subscribe to receive news updates by email by registering online on the website: metrobankonline.co.uk/investor-relations/. Contact details for the Investor Relations and Company Secretary are available on the website for any shareholders, analysts or investors who wish to ask a question.

Letter from the Non-Executive Director for workforce engagement

SALLY CLARK

I was very pleased this year to succeed Stuart Bernau as Metro Bank's Non-Executive Director for workforce engagement (DNED). Having joined the Bank at the beginning of 2020, taking on this role has been a wonderful opportunity to get to know colleagues across the business; hearing what is important to them and being able to give additional insight to the rest of the Board on colleague culture. At Metro Bank we know that our people are our 'special sauce' and listening to their feedback is of the utmost importance.

This year, being connected to our colleagues, supporting and listening to them has been more vital than ever, and I'm proud to be on the Board of an organisation that champions the wellbeing of its colleagues. You can read more about the Bank's response to COVID-19 on 59 to 63.

As set out last year, to comply with the UK Corporate Governance Code, the Board's aim with choosing a DNED as its workforce engagement mechanism was to create an environment where colleagues could participate and have their voices heard through an authentic dialogue and increased connectivity between our colleagues and the Board. As we moved into our second year, we continued to leverage the existing communication and engagement channels with colleagues, which are working well, as well as expanding these to ensure we were able to continue to engage remotely as result of the pandemic. My formal reporting on colleague engagement to the Board is complemented by updates from the Bank's Chief People Officer on culture, which enable the Board to gain insight into culture and the voice of our colleagues, as well as through the monthly business update which provides periodic updates on stress related absence, attrition and gender and diversity statistics.

Our activities during the year are set out in the calendar to the right and explored in more detail below.

DNED activities during the year:

- Attending a virtual 'Visions' session as part of my own onboarding as a Board member – a great opportunity to take part in the Bank's cultural engagement programme.
- Publishing a Colleague Communication, issued to colleagues when I took the role over from my predecessor, as well as a wellbeing blog post on the Bank's Intranet during the summer.
- Working closely with the Company Secretariat, we took steps to formalise the role with a terms of reference which was approved formally by the Board.
- Quarterly working groups with the CPO, Director of Corporate Affairs and Company Secretariat ('DNED Working Group') with the aim of identifying the most suitable engagement opportunities and reflecting on feedback and the effectiveness of engagement ahead of the formal Board updates.
- Continuing with regular reporting to the Board (two formal Board papers, plus ongoing opportunities for informal feedback).
- Meeting with the CPO to discuss the Voice of the Colleague results, ahead of the Board presentation.
- Introductions made to the chairs of all the Colleague networks with a view to utilising the broad channels across the Bank, so far resulting in attendance at both the Women on Work annual careers event, Black History month events and an invitation to the D&I Committee.
- Attending external round sessions during the year which were useful opportunities to reflect on the development of the role with our peers, adding value by being able to share meaningful suggestions and contacts with management.

Highlights of Colleague engagement feedback and action taken in 2020

Our virtual roundtable with our CPO and colleague volunteers was a fantastic opportunity to have a more focused session, with colleagues bringing their thoughts on what they appreciate about the Bank and what they would like to change:

- Further to feedback we recognised that there was an opportunity to increase awareness and understanding of the roles of the Bank's colleague networks.
- The session also discussed the merits of mentoring, particular reverse mentoring, and this is something that is being fostered through colleague networks.

- Finally, the group also discussed the Bank's return to office strategy and new working spaces. We discussed that thought should be given as to how colleagues can make the most of the opportunity to collaborate with their team/stakeholders when they are in the office. Management took this on board and are considering this carefully as part of the broader return to office strategy.

We also had some feedback at one of the Bank's online Q&As earlier in the year, which was in relation to supporting women and their career path at the Bank. Further to this I was honoured to join my colleague Anne Grim presenting at the Women on Work annual career event in September.

I was very pleased to be able to report back to the Board on these points in my report in September, and I have been delighted to observe the tremendous appreciation for the culture here at the Bank, the care and positivity extended to and among colleagues, with a real enthusiasm and passion for the brand and making FANS.

Looking forwards

As the role continues to develop, an action for us to focus on next year will be evolving the opportunities for engagement to ensure that they continue to be as effective as possible, particularly in light of new ways of working. Although I have been appointed as the DNED, the Board as a whole recognises its responsibility to engage, listen and take colleagues' views into consideration when making its decisions, and in addition to the regular informal and formal discussions with the Chair and my NED colleagues on wider colleague engagement, the DNED Working Group also considers opportunities for other directors to participate when considering the engagement plan.

Regarding the changes to the remuneration framework, we are committed to engaging with our colleagues. We listened to the feedback our colleagues gave us as part of the VOC survey and follow up VOC ambassador sessions. Through my role I'll continue to engage with colleagues to receive feedback around these proposed changes at one of our virtual roundtables in H2.

We've found the feedback from our colleague population of the impact of having a DNED to be positive, with an enthusiastic response from colleagues to the invitations to engage. The Board is satisfied that after a second year with the DNED role in effect, that a meaningful and regular dialogue is being established with our colleagues, continuing to strengthen our colleagues voice in the boardroom.

Sally Clark
Independent Non-Executive Director
23 March 2021

Calendar of colleague engagement opportunities in 2020

H1	• Attendance on colleague briefing calls in respect of the release of the 2019 financial results.
	• Online live Q&A. • Welcome email from Sally on taking on the DNED role.
H2	• Virtual colleague roundtable (Tea on Teams), with store, AMAZE Direct and AMAZE Central colleagues. • 'Wellbeing Wednesday' blog post on the Bank's intranet. • Participation in the Women on Work network career event with fellow Board member Anne Grim.
	• Virtual store visits. • Listened into a meeting of the Inclusion Committee.

2021 Opportunities

- Store Tour.
- 'Get Chatty with Sally' virtual roundtable.
- AMAZE Direct and Central Town Halls.
- RateSetter Town Hall.
- Colleague Network Events (rotation).
- New store opening.

Audit Committee report

MICHAEL TORPEY
AUDIT COMMITTEE CHAIR

Composition of the Audit Committee

In addition to the Committee Chair, Michael Torpey, there are five members of the Audit Committee: Sally Clark; Anne Grim; Ian Henderson; Monique Melis; and Paul Thandi. Each are independent Non-Executive Directors with a range of relevant business experience. Michael and Sally have recent and relevant financial experience and the Committee as a whole has competence in the banking sector. For further details of their skills and experience, please refer to their biographies on pages 78 and 79.

New Committee members in the year met with the Audit Committee Chair, Committee Secretary and Director of Internal Audit for a briefing session as part of their induction programme.

Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Deputy CFO, Director of Finance Transformation and representatives from the external auditor, PwC.

Audit Committee attendance for 2020*

Members	Meetings attended	Meetings held during Director's tenure
Sally Clark[1]	6	6
Anne Grim[2]	5	5
Ian Henderson[3]	2	3
Monique Melis	9	9
Michael Torpey (Chair)	9	9
Paul Thandi[4]	8	9

1. Sally Clark was appointed to the Committee on 1 March 2020.
2. Anne Grim was appointed to the Committee on 1 May 2020.
3. Ian Henderson was appointed to the Committee on 1 September 2020. He was unable to attend one meeting for personal reasons but was fully briefed on discussions at the meeting.
4. Paul Thandi was unable to attend one meeting for personal reasons but was fully briefed on discussions at the meeting.

* In addition to these scheduled meeting, additional meetings were held at short notice to consider matters in relation to the Annual Report and Accounts and financial considerations related to strategic opportunities.

2020 Activities

- External effectiveness evaluation of the Committee and Internal Audit function.
- Monitoring the going concern and viability assumptions as the COVID-19 pandemic developed.
- Oversight of the Regulatory Reporting Assurance Programme.
- Reviewed the Modern Slavery action plan, statement and policy, and recommended to the Board for approval.
- Reviewed the Annual Report on the systems and controls in place for whistleblowing.
- Reviewed Internal Audit reports and attestations and all of the Bank's financial reporting.

Key areas discussed by the Committee during the year are covered in detail on page 92.

2021 Focus areas

- Key regulatory changes, including CRR2/CRD5.
- Continuing to monitor going concern and viability of the Bank.
- Oversight of the integration of RateSetter from a financial reporting perspective.

Dear shareholders

I am pleased to present the Audit Committee report for the year ended 31 December 2020. In my first full year as Audit Committee Chair, we've witnessed a lot of change in the macro environment and the resulting challenges posed by the COVID-19 pandemic with the Bank responding and adapting accordingly. All the while, the Committee has provided support as part of the Bank's wider governance framework by maintaining focus on evaluating the effectiveness of the Bank's control environment which continued to evolve and strengthen during 2020. Building on the regulatory reporting programme commenced in 2019, which the Audit Committee had close oversight of, we've been pleased to observe during the year that the regulatory reporting framework is continuing to be embedded and there is a strengthening culture, enterprise wide, on risk awareness. Further, the Bank continues work to implement a new regulatory reporting system as well as establishing a new internal assurance function within the finance and regulatory team, further strengthening the control framework (more on this can be found later in the report on page 94). As we continue into 2021, the Committee will be overseeing the preparation for the implementation of the Capital Requirements Directive and Regulation (CRR2/CRD5) due in early 2022.

During the year, the Committee continued to provide challenge and scrutiny on financial reporting, fulfilling our role supporting the Board in evaluating the appropriateness of financial reporting. In light of the unfolding challenges caused by COVID-19 in early 2020, additional meetings were convened for the Committee to devote the necessary focus on going concern and viability assumptions, satisfying themselves that all relevant matters around the impact of the pandemic and the revision to the Bank's long term plan were explored and taken into account. The Committee also met to consider matters associated with the acquisition of RateSetter.

The Committee has overseen the delivery of the 2020 Internal Audit Plan. During the year the 2020 Plan has had to evolve and be reprioritised, to take account of the external factors of COVID-19, as well as accommodate additional audits associated with new initiatives such as CBILS and the acquisition of RateSetter. We provide significant challenge to management and scrutiny over actions through review of the Internal Audit reports and, in the event that management actions are not satisfactory, take a robust stand. The relevant ExCo member is then invited to the Committee to discuss the findings and a timeline for completion of remedial actions, which the Committee also pays close attention to and challenges where necessary.

Following each Committee meeting, I provided a verbal update to the Board on key issues and, where necessary, outlined the actions being taken by management to address any issues raised. The minutes are also included in a subsequent Board pack. I meet on a regular basis with the external audit partner, and the Committee members have time as required with the external auditor at the end of each meeting, without the presence of management.

The Committee received briefings during the year from subject matter experts in the Bank on cyber security, the AIRB programme and from the Internal Audit team on the risk assessments that take place to determine the Internal Audit plan. These were excellent opportunities to meet more of our colleagues as well as expand our understanding with deep dives on these topics.

Building on the rotation of members last year, we have continued to refresh our membership and welcomed Anne Grim to the Committee on 1 May 2020 and Ian Henderson on 1 September 2020. Both Anne and Ian bring a wealth of knowledge with them in financial services and retail and business banking respectively.

This year, and looking forward, the role of the Audit Committee will be to continue to ensure the control environment of the Bank keeps pace with the delivery of the Bank's strategic objectives.

Michael Torpey
Audit Committee Chair
23 March 2021

Audit Committee report continued

Key areas discussed at Audit Committee meetings in 2020

Area	Key topics
Policy	• Annual report on the systems and controls in place for whistleblowing, including considering the new external whistleblowing mechanism, as well as reports on whistleblowing claims as required. • Non-audit services policy. • Treatment of income statement items as underlying or non-underlying.
Financial reporting	• Review quarterly trading updates ahead of release to the market. • 2020 half-year results, including an update of critical accounting judgements and estimates, going concern and viability. • 2019 full-year results, Annual Report and Accounts, including assessment of the key judgements and estimates, going concern and viability report. • Post-COVID-19 Long Term Plan scenarios. • Tax strategy, Senior Accounting Officer Review and HMRC Employer Tax Compliance Review. • Deferred tax asset review. • Review and challenge carrying values of certain intangible assets. • Accounting treatment of exiting our Central London office at Old Bailey. • Integration of RateSetter from a financial reporting perspective, including alignment of accounting reference date and external audits.
Internal Audit	• Review of the 2020 Director of Internal Audit reports, and any remedial action plans. • Approval of the Internal Audit Charter. • Review and approval of the 2021 Internal Audit Plan. • Evaluation of the effectiveness of the Internal Audit function. • RateSetter – pre-acquisition Internal Audit review.
External audit	• 2020 External Audit Plan, engagement terms and fees. • Terms of engagement for the half-year review. • External auditors' half-year review findings. • 2019 full-year external auditors' report and findings.
Related party disclosure	• Reviewed the disclosure relating to the transition arrangements with InterArch for advisory services during 2020.
Financial and regulatory assurance	• Ongoing oversight of the regulatory reporting framework as processes embedded (including reports from PwC on capital ratios). • Horizon scanning the regulatory landscape to get ready for implementation of CRR2/CRD5. • AIRB programme updates. • Oversight of the customer remediation project in respect of overdraft SMS warning alerts. • GDPR.
Governance	• Modern Slavery Statement and annual report on the operation and effectiveness of the systems and controls in place for the Modern Slavery Policy, as well as regular updates from the General Counsel including an action plan. • IT and Cyber Security Framework. • Terms of Reference (ToR) reviewed and recommended to the Board for approval. • Self-assessment of the Committee's duties under its ToR. • Supplier payment practice reporting. • Committee performance evaluation. • C&I Fund updates. • RateSetter funding approach.

The Audit Committee in brief

The Audit Committee's key role is to review the integrity of the financial reporting for the Bank and to oversee the effectiveness of the internal control systems and the work of the internal and external auditors.

External audit

- Recommend the appointment, reappointment or removal of the external auditors.
- Review independence and objectivity, as well as the quality of the audit work performed.
- Approve audit remuneration.
- Review the supply of non-audit services in line with the Bank's policy and professional independence requirements.
- Meet regularly without management present.
- Ensure the audit contract is tendered at least every 10 years.

Internal Audit

- Approve appointment or termination of the Director of Internal Audit.
- Monitor and review the effectiveness of the function.
- Review and approve the Internal Audit Charter biennially.
- Review and assess the Internal Audit Plan and ensure that resources are adequate.
- Meet regularly with the Director of Internal Audit and ensure access to Board.
- Review all reports on the Bank from the Director of Internal Audit.
- Review management's responsiveness to findings.

Financial and narrative reporting

- Monitor the integrity of the financial statements and formal announcements relating to the Bank's financial performance.
- Review and report to the Board on significant financial issues and material judgements.
- Review and challenge accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure.
- Advise whether the Annual Report is fair, balanced and understandable.

Whistleblowing and Modern Slavery

- Review the adequacy and security of whistleblowing arrangements.
- Chair of Audit is the Modern Slavery Champion and reports to the Board at least annually on the effectiveness and integrity of the systems and controls in place to ensure compliance with the Modern Slavery policy.

Internal controls and risk management

- Consider the level of assurance the Committee is getting on the risk management and internal control systems, including internal financial controls, and whether this is enough to help the Board in satisfying itself that they are operating effectively.
- In conjunction with the Risk Oversight Committee, review and approve the statements in the Annual Report concerning internal controls and risk management.

In addition to the key areas on the previous page, the Committee reviewed the progress against the Internal Audit Plan and reviewed the detailed reports where appropriate. To create a cohesive governance structure and the right level of oversight of the RateSetter business, in addition to the updates the Committee received on integration from a financial reporting perspective, our Committee member Anne Grim is also a Non-Executive Director on the Board of RateSetter, as well as a member of its Audit Committee. Additionally, our Director of Internal Audit is invited to the RateSetter Board Audit Committee meetings as a guest, reporting back to the Bank's Audit Committee as appropriate. The audit of the integration of RateSetter into the Bank will form part of the approved Internal Audit plan for 2021, whilst the Internal Audit function of RateSetter continues to be outsourced to Grant Thornton.

The Chair of the Audit Committee holds regular meetings with colleagues from the Bank, including the Director of Internal Audit, CRO, CFO and senior members of his team, and the Assistant Company Secretary who acts as Secretary to the Committee. The Committee Chair also sits on the Risk Oversight Committee and works closely with Ian Henderson, its Chair.

Committee evaluation

Throughout the year the Committee has continually evaluated its effectiveness and this included a full review of the Terms of Reference and an in-depth self-assessment to determine how it met its responsibilities during the year. The Committee was satisfied that it had addressed all its duties during 2020 and was well placed to deliver on the same in 2021. There is a continued close collaboration with ROC, and both Terms of Reference were reviewed to ensure that each Committee's distinct responsibilities, and where the Committee's collaborate, is clearly articulated.

Committee Evaluation Actions

Independent Audit suggestion	Metro Bank action/approach
Review the membership of the Audit Committee	To be discussed by the Chair of the Board and Audit Committee Chair in Q1 2021.
Clarify responsibilities around how financial controls will be addressed by the Audit Committee	An annual paper to be prepared by management to demonstrate the appropriateness of the financial controls.
Consider how cultural issues can be more actively included in Audit Committee discussions	Committee Chair to consider/ encourage discussions on how internal audit and other control-related points highlight cultural issues and root cause.

As part of the wider external Board evaluation, facilitated by Independent Audit, the effectiveness of the Committee's performance was also assessed. The Chair led a discussion on feedback at the November meeting. Overall, the members were in agreement that the Committee was continuing to operate effectively and the actions from the action plan would be addressed in Q1 of 2021.

Related parties

During 2020, the Bank's related party transactions under the Listing Rules with InterArch for Architectural Design Services and Marketing Services ended as disclosed in last year's report. In order to ensure an effective transition, a new short term arrangement for advisory services was entered into which ceased in June 2020. The Committee has responsibility for the oversight of such related party transactions and reviewed the arrangements with InterArch and the reporting requirements ahead of the 2020 Annual Report and Accounts.

Expected credit losses

During the year the Group recognised a significant increase in the expected credit losses, with the expected credit loss expense for the year of rising to £126.7 million from £11.7 million in 2019. The Committee dedicated time to review the appropriateness of the expected credit losses proposed and to challenge the assumptions that underpinned these. This included reviewing the use of post model overlays and adjustments, which were deemed to be a new critical accounting judgement in 2020.

Recognition of provisions

The Committee continues to get regular updates on the progress and status of the Group's legal and regulatory matters. For the purpose of year end reporting the Committee was provided with an assessment of whether a need was required to make a provision in respect of any of these matters.

Regulatory reporting framework

Following on from the solid base established for regulatory reporting in 2019, culminating in the reasonable assurance opinion from PwC on the 2019 CET1 and total capital ratios, the focus for 2020 has been on ensuring that the transformational changes within regulatory reporting remain embedded and effective. The final aspects of the transformational programme not completed in 2019 pertain to the implementation of a new regulatory reporting system, Moody's Analytics. This implementation is overseen by the Audit Committee on a regular basis to ensure that sufficient resource and management oversight is applied to the completion of the system implementation.

During 2020, Metro Bank has also continued its focus on the undertakings required to seek IRB accreditation in 2021. A successful accreditation would leverage the transformations already achieved in regulatory reporting and those in flight within risk, given the IRB interdependencies on the regulatory and risk management frameworks. The Audit Committee provide regular oversight and challenge to this IRB programme. The Chair of the Committee further enhances this challenge and oversight through his membership at the Board IRB Working Group.

Building on the increased focus of the Audit Committee on the underlying controls environments and infrastructure supporting both regulatory reporting and IRB implementation, controls reporting will be further enhanced in 2021. This will enable the Committee to assess the effectiveness of the controls as the strategy of the Bank continues to evolve, coupled with the additional requirements for data collection and regulatory reporting as a result of changes in the macroeconomic environment which required rapid and large scale change to respond to customer needs.

Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2020 Annual Report is 'fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy'. The Committee is satisfied that the 2020 Annual Report meets this requirement and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. The process supporting this goal included:

- The compilation of the 2020 Annual Report and Accounts which was managed by the CFO together with a cross-functional team of senior managers.
- Input by a cross-functional team from Finance, Risk, People, Legal, Investor Relations and business lines.
- A formal review by the Committee of the draft 2020 Annual Report and Accounts, along with a review of any issues raised in the external auditor's report, in advance of final sign-off.
- A final review, performed by the Board of Directors.
- The preparation of a going concern and viability statement that highlighted the profitability, capital and liquidity position of the Bank over the planning period to 2024.

Internal Audit

The Group's Internal Audit function plays a key role in providing independent assessment and challenging governance, risk management and control. The Committee approved the Internal Audit Plan and considered the results of its work. It also:

- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources and skills.
- Carried out an externally facilitated review of the effectiveness of the Internal Audit function.
- Monitored the delivery of the Internal Audit Plan.
- Approved the Internal Audit Plan for 2021.

The Committee was satisfied that Internal Audit had adequate resources available this year, to perform the commitments under the plan for 2020.

In developing the Internal Audit Plan for 2021, we have ensured inclusion of those areas which bear the greatest risk to the Bank, those which are most impacted by continued growth and areas of regulatory focus. We monitor the resource available to the Internal Audit team to ensure it has sufficient resource to fulfil its responsibilities. The 2021 Internal Audit Plan was approved by the Board in January 2021 following discussion at the Committee and it also approved the level of risk assurance contained within the Plan.

Internal audit evaluation

In line with best practice, and further to an external evaluation performed in 2016/17, an external quality assurance (EQA) was commissioned in Q4, with the conclusion that the IA function was effective. The report highlighted that there is a positive relationship between IA and executive management which represents a real asset to the Bank's risk management capability. The EQA further highlighted that audit work is governed by an appropriate methodology, is comprehensively planned and complies with the spirit of the IIA Standards and the CIIA guidance on effective audit in the financial services sector.

Systems of internal control and risk management

Details of the Bank's risk management framework are provided on pages 25 to 55. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the external auditor. In addition, executive management was invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Committee. The Committee also challenge management where appropriate on the timeframe of the delivery of the actions.

Financial risk management processes and controls are in place and there is assessment of the effectiveness of our internal controls on an ongoing basis. The internal controls framework encompasses all controls, including those relating to: financial reporting processes; preparation of consolidated Group accounts; and risk management processes, including formulation of the Group's strategic plans, budgets and forecasts, and its accounting policies and levels of delegated authority. Management regularly review key risks and the effectiveness of mitigating controls including finance governance meetings. There is an ongoing process for identifying, evaluating and managing the principal and emerging risks faced by the Bank. The Committee is satisfied that strong internal controls in relation to financial controls have been in place for the year under review and up to the date of approval of the Annual Report and Accounts.

Additionally, a Financial and Regulatory Assurance function was created in March 2020 with a remit of ensuring that processes are supported by robust systems and controls, to ensure high quality output with risks and issues being identified, highlighted and rectified appropriately. The team has a strong focus on risk, control and quality of reporting, and works to drive accountability across the Finance and Regulatory teams. The assurance provided includes business as usual assurance, such as review of core deliverables and external reporting, as well as performing deep dive reviews into processes where risks or issues have been observed. Assurance is also provided over technical interpretations, both from an accounting and regulatory viewpoint. The Assurance team has provided regular written updates to the Audit Committee throughout 2020.

Modern slavery

The Bank has a modern slavery policy that is accessible to all colleagues via the Bank's intranet. The policy outlines the Bank's zero tolerance approach to modern slavery. The Chair of the Committee is the Bank's Modern Slavery Champion. In 2020, we continued to follow and progress our processes to support our policy. We published our fourth Modern Slavery Statement and the General Counsel provides regular updates to the Committee on progress against our statement and action plan.

Whistleblowing

The Bank has a whistleblowing policy that is accessible to all colleagues via the Bank's intranet and regular e-learning training for colleagues. The policy outlines the Bank's whistleblowing process which enables colleagues of the Bank to raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the workplace. Further to a recommendation by the Committee that the Bank's whistleblowing processes be enhanced, an external confidential reporting hotline is to be implemented. The Committee and the Board review whistleblowing reports throughout the year and an annual report is presented to the Board on the operation and effectiveness of the systems and controls in place for whistleblowing.

External audit

The Committee reviews and makes recommendations to the Board with regard to the appointment of the external auditor, its remuneration and terms of engagement.

The Committee is also responsible for the oversight of the relationship with the external auditor and the effectiveness of the audit process. To satisfy ourselves of the effectiveness of the external audit, during the year we:

- reviewed the proposed Audit Plan in advance of the annual audit;
- noted the FRC Practice Aid for Audit Committee's as part of the January Committee papers;
- reviewed and approved the audit engagement terms and proposed audit fee;
- considered the continued independence and objectivity of the external auditor; and
- reviewed and discussed the reports provided by the external auditor.

In our assessment of PwC's performance effectiveness, we also considered the Financial Reporting Council's (FRC) Audit Quality Inspection Report published in July 2020. In addition, the FRC's Audit Quality Review team reviewed PwC's audit of the Bank's 2019 financial statements as part of its latest annual inspection of audit firms. The Committee received a copy of the findings in March 2021 and discussed them with PwC. While there were no significant findings, the documentation of some aspects of PwC's audit procedures was identified as needing limited improvements only.

The Audit Committee are satisfied that the auditors demonstrated appropriate professional scepticism and challenged the key focus of the financial statements, including material and judgemental areas. The auditors have effectively contributed to the financial assessment of the business throughout the year and their contributions have been appropriately investigative and valuable, and their expertise welcomed. We invite comment from our audit partner throughout the Committee meetings as well as regularly taking the opportunity to hold meetings without management present to maintain integrity and objectivity.

The Audit Committee confirms that PwC continues to be effective.

The Bank confirms that for the purposes of compliance with Article 7.1 of the Competition Markets Authority (CMA) Order, it has complied with Articles 3, 4 and 5 of the CMA Order for the financial year under review.

Independence

PwC has been appointed as the Bank's external auditor since 2009. The Bank is required under law to put its audit out to tender at least every 10 years and to change its auditor at least every 20 years. Our last formal competitive tender exercise took place during 2018. In relation to the audit for the year ended 31 December 2019, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2020 Annual General Meeting to reappoint PwC, which shareholders subsequently approved. At the forthcoming AGM, the Committee will again be recommending the reappointment of PwC.

In addition, the lead audit partner rotates every five years. The Bank's PwC audit partner Darren Meek is due to be rotated after the financial year ended 31 December 2020 in accordance with the FRC's Revised Ethical Standard 2019, having been appointed into role in 2016.

Non-audit services

The Bank and PwC have safeguards in place to protect the independence and objectivity of the external auditor. A Revised Ethical Standard concerning auditor independence took effect on 15 March 2020 and the Bank's policy on Approval of Non-Audit Services by the External Auditor was revised accordingly and approved by the Committee. Key changes to the policy include:

- Moving to a specific list of permitted non-audit services for UK incorporated Public Interest Entities, rather than referring to a specific list of prohibited services as under the previous standard.
- Prohibition of internal audit services, secondments and contingent fee arrangements.

Requirements of the ethical standard:

An ethical standard for statutory audit is in place which sets out a specific list of permitted non-audit services for UK incorporated Public Interest Entities (PIEs). These services are largely those required by law and regulation, loan covenant reporting, other assurance services closely linked to the audit or Annual Report and Accounts and reporting accountant services. Examples of such services include:

- Reporting required to a competent authority or regulator under UK law or regulation, such as reporting to a regulator on client assets.
- Reporting on the iXBRL tagging of financial statements.
- Reports required by regulators where the regulator has specified the auditor provide the service or has indicated that the auditor would be an appropriate choice.
- Reviews of interim financial information, and providing verification of interim profits.
- Additional assurance work or agreed upon procedures performed on material included within or referenced from the Annual Report and Accounts.
- Reporting on government grants.
- Reporting on covenant or loan agreements which require independent verification.

Certain non-audit services are prohibited including:

- Services involving contingent fee arrangements.
- Internal audit services which play any part in management's decision making.
- Secondments/loan staff arrangements.
- Tax, consulting, valuation or corporate finance services (other than reporting accountant engagements).

Under the ethical standard, there is a 70% cap on non-audit fees for services provided by the external auditor. The cap is based on comparing the average of three consecutive years of statutory audit fees to the non-audit fees for services in the fourth year. Therefore, non-audit fees for 2020 should be compared to the average of audit fees for 2017, 2018 and 2019. The cap does not apply to non-audit fees for certain services required by law or regulation.

Application of the standard within Metro Bank

All non-audit services provided to the Bank by the external auditor must be approved in advance by the Committee subject to the guidelines and thresholds detailed in the policy. Approval must be performed by the Committee; it cannot be delegated to a member of management. The Committee must be provided with a detailed explanation of each particular service to be provided to allow it to make an appropriate assessment of the impact of the service on the external auditor's independence.

The Committee carefully monitors the level of non-audit services provided by PwC. During 2020, in instances where PwC were engaged for non-audit services they were chosen due to their unique position and knowledge of areas within the Bank and the services were in respect of audit or assurance-related matters consistent with the principles of independent assurance provision. Details of services provided and the fees paid to the external auditor during the year can be found in note 8 to the financial statements on page 177.

The Committee concludes that the Bank's policy on Approval of Non-Audit Services by the External Auditor is aligned to the Revised Ethical Standard concerning auditor independence, and the Bank has complied with its policy during 2020.

Audit Committee report continued

Significant financial reporting areas considered by the Audit Committee

In respect of financial reporting, the Committee considered a number of key areas of judgement and estimates. The table below details the areas considered in our reviews.

Key area	Summary of review undertaken
Effective interest rates for financial instruments	Materiality of impact following refresh of assumptions.
Measurement of the expected credit loss allowance	During the year the Committee reviewed the measurement of the expected credit loss including ensuring that management's approach to provision remained appropriate, especially resulting from the deteriorating macroeconomic environment. This included a review of the appropriateness of the post-model overlays applied.
Recognition of provisions	The Committee reviewed whether there was a need for provisions in respect of the ongoing legal and regulatory matters the Group is subject to. The Committee also discussed and reviewed the associated disclosures.
Write-offs and impairment testing	The Committee reviewed the annual impairment review including discussing the impairment indicators that had arisen and the associated work undertaken. As part of this, the Committee considered the results of management's assessment of the write-offs and impairments required and whether these were appropriate.
Alternative performance measures	The Committee considered whether management's basis for underlying results remained appropriate. This included a review of the items that were classified as non-underlying.
Acquisition of RateSetter	The Committee reviewed the acquisition-related accounting pertaining to the purchase of RateSetter in September.
Sale of mortgage portfolio	As part of the residential mortgage portfolio sale to NatWest the Committee reviewed the associated accounting.
Going concern and viability statement	In accordance with the requirements of the Code, the Committee undertook an assessment of the Group's going concern and viability over the assessment period. The assessment was performed considering the risks the Bank faces as well as taking account of the new long-term plan. A copy of the viability assessment can be found on pages 54 to 55.

The Committee is satisfied that the approach taken and judgements applied were reasonable.

Risk Oversight Committee report

IAN HENDERSON
RISK OVERSIGHT COMMITTEE CHAIR

Risk Oversight Committee attendance for 2020

Member	Meetings attended	Meetings held during Director's tenure
Catherine Brown	9	9
Ian Henderson (Chair)[1]	6	6
Michael Torpey	9	9
Nick Winsor[2]	6	6
Former members		
Stuart Bernau[3]	4	4
Sally Clark[4]	3	3
Gene Lockhart[3]	3	3
Monique Melis[3]	2	2

1. Ian Henderson joined the Committee on 1 May 2020.
2. Nick Winsor joined the Committee on 18 May 2020.
3. Gene Lockhart, Monique Melis and Stuart Bernau stepped down from the Committee on 28 April 2020, 16 March 2020 and 18 May 2020 respectively.
4. Sally Clark joined the Committee on 1 March 2020 and stepped down on 1 June 2020.

Composition of the Risk Oversight Committee

In addition to the Committee Chair, Ian Henderson, there are three members of the Risk Oversight Committee (ROC): Catherine Brown, Michael Torpey and Nick Winsor. Non-Executive Directors who are not ROC members may attend meetings. The CEO, CFO and CRO have standing invitations to attend as guests, unless the Chair of the Committee asks them to excuse themselves from a particular meeting or discussion.

Other Directors and colleagues attend as guests by invitation of the Chair to present and report on relevant topics. The Company Secretary and her team act as Secretary to the Committee.

2020 Activities

- The Chair and members of the Committee met with the regulator as part of its supervision of the Bank.
- Overview of the Bank's enhanced Risk Management Framework.
- Oversight of the Bank's risk appetite.
- Reviewed and approved the Bank's Pillar 3 disclosure.
- Reviewed and approved or recommended policies to the Board for approval.
- Oversight of the Bank's capital and funding positions.
- Provided oversight of the preparation of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP).
- Held 'Deep Dive' review sessions on COVID-19 operational resilience, change risk and transformation, cyber risk, data privacy, information security and IT resilience, people and culture, customer strategy and innovation, stores, non-stores, and fraud.
- Reviewed the Bank's risk profile and response to the COVID-19 pandemic.
- Oversight of the impact of COVID-19 on the Bank's risk appetite.
- Oversight of the financial crime control framework.
- Had oversight and advised the Board on the acquisition and onboarding of RateSetter.
- Regular updates on the progress of the advanced internal ratings based approach to calculating credit risk (AIRB) accreditation programme.
- Oversight of the appropriateness of the Bank's models.
- Risk sections of the 2019 Annual Report and Accounts.

2021 Focus areas

- Embedding and enhancement of the Bank's Risk Management Framework.
- Ongoing work to enhance the Bank's financial crime control framework.
- Change and execution risk relating to strategy and transformation agendas.
- Ongoing work towards AIRB accreditation.
- Capital.
- Liquidity.
- Climate change.

Risk Oversight Committee report continued

Dear shareholders

I set out below the report of the Risk Oversight Committee (ROC) for 2020.

Overview

I was delighted to join Metro Bank as a Non-Executive Director in April 2020 and take up the role of Chair of ROC in May 2020. It has been a challenging year for the Bank and its stakeholders. I have been heartened to see the Bank's response to the pandemic and the way the Bank has adapted to ensure it continues to support its customers and colleagues in a safe and sustainable way. The ROC has overseen the Bank's response to the pandemic and is monitoring any increases to the Bank's risk profile as a result of COVID-19. The Bank's ability to support customers and adapt quickly to the demands of the UK Government-backed loan schemes for businesses and to offer payment holidays to mortgage, personal and business customers is a testament to the Bank's Risk Management Framework (RMF).

Committee composition

There were a number of changes to the composition of the Committee during the year. I would like to take this opportunity to thank the previous Chair, Gene Lockhart and Committee member, Stuart Bernau for their contribution to the Committee during their time at the Bank. As part of the wider changes to Board and Committee composition, Sally Clark and Monique Melis also stepped down from the Committee during 2020.

The Committee is now fully independent in line with the UK Corporate Governance Code and I was pleased to see further strengthening of the Committee with the appointment of Nick Winsor in May. He brings a wealth of retail banking and financial crime risk management experience and therefore is a valuable asset to the Committee.

I also joined the Audit Committee as a member in September. Michael Torpey, Chair of Audit, is also a member of the ROC and this allows for coordinated and full coverage oversight of the Bank's risk management and internal control systems.

The Committee also considered and endorsed the appointment of the Bank's new CRO, Richard Lees. I look forward to working alongside Richard in 2021 as he embeds and strengthens the RMF implemented during 2020.

Deep dives

The Committee heard from the Bank's first line of defence at meetings during 2020 and received detailed accounts from the Bank's senior management and their teams. The updates covered: COVID-19 and the Bank's operational resilience, change risk and transformation, cyber risk, data privacy, IT resilience, people and culture, customer strategy and innovation, distribution and fraud.

This in-depth insight gave the Committee a broad overview of improvements made to controls and processes through the year, particularly with regard to the pandemic, and gave the Committee the opportunity to ask questions and challenge management, in order to discharge their oversight responsibilities.

RateSetter

Prior to a decision being taken by the Board, the Committee reviewed the proposed acquisition of RateSetter and made a recommendation to the Board, taking into account the implications for the risk appetite and tolerance of the Bank. The Committee was pleased to endorse the acquisition and welcome RateSetter to the Bank. This is an exciting step in the Bank's new strategy and we will continue to have regular updates on the integration as we move into 2021.

Evaluation

During September the Committee took part in the scheduled externally facilitated Board evaluation. The Committee welcomed the independent evaluation of its activities and was pleased that the findings demonstrated that the Committee was working well. The Committee is liaising with the Company Secretary and the management team to reduce the size of the Committee's packs and to continue to refine agendas to ensure there is sufficient data on the most important issues.

Credit risk

As a community bank we have done all we can to support our customers during the pandemic and we are closely monitoring credit risk metrics in light of supporting customers with repayment holidays and Government backed loan schemes. During the year, the Committee focused on ensuring that credit risk appetite remained appropriate in line with COVID-19 support and new credit propositions which support the Bank's revised strategy.

Operational risk

This has been a tough year for our communities and the Bank's people and as part of our operational risk oversight, we have been closely monitoring the impact of COVID-19 on our key stakeholders. I would like to take this opportunity to thank the Bank's colleagues for all their efforts to keep our stores open and as always putting our customers at the heart of everything we do.

The Committee received regular reports from the Chief Operations Officer on the Bank's operational resilience in response to COVID-19. It is a testament to the Bank's approach to business and to putting customers first that it was able to quickly adapt to the changing environment in a safe way.

We will continue to monitor this as the situation progresses.

Regular reporting categories

The risk weighted assets remediation programme, which was commenced in 2019, was concluded in 2020. We continue to make ongoing improvements to our risk-related internal systems, processes, controls and governance around capital and risk-weighted assets, and we expect to implement a new regulatory reporting system in a phased approach over 2021 and 2022. The Audit Committee is providing oversight over this programme.

Efforts continue towards AIRB accreditation. Additional momentum was applied to the initiative in 2020, leveraging the enhancements made to the risk management framework, internal capabilities and internal ratings based governance and during 2021 we will maintain dialogue and engagement with the PRA throughout the process.

As part of its oversight role, the Committee has also spent time reviewing and challenging the Bank's ICAAP, ILAAP and associated documents, including stress testing and assumptions, prior to the submission to the PRA. The Committee was pleased to see material improvements to the quality of both documents during 2020.

Financial crime risk

The Committee reviewed the Money Laundering Reporting Officer report and the strategic plans focused on continuing to develop the Bank's money laundering control framework. The Committee had oversight of the key milestones of the Financial Crime Improvement Programme and we also continue to increase customer awareness of fraud risks.

Sanctions review

We continued our review of our sanctions compliance framework with the support of external advisers, following our notifications to regulators on the sanctions matters discovered in 2017 and 2019. Metro Bank continues to fully cooperate with its regulators in relation to any enquiries in this regard.

Outlook for 2021

I look forward to leading the Committee through 2021 and the changing landscape that a post-COVID-19 environment will bring. The Committee will continue to focus on areas within its remit and will challenge and provide oversight of the continued risks associated with the COVID-19 pandemic.

The following sections explain the role and activities of the ROC, and how it has discharged these responsibilities, as well as setting out several key areas of activity during 2020.

Ian Henderson
Risk Oversight Committee Chair
23 March 2021

Risk Oversight Committee report continued

The Risk Oversight Committee in brief

The ROC provides oversight of risk and advises the Board, as appropriate, on the risk posed to the Bank from its continuing business activities and future risk strategy.

Accountable to the Board, the ROC provides leadership, oversight and direction regarding the Bank's risk governance and management. It is charged with helping the Board to create an appropriate culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. The ROC is responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP document, ILAAP document and risk policies. It also provides oversight of the risk model programme. The ROC oversees risk management procedures and reviews risk reports on key business areas.

The ROC receives regular management information and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. Regular updates are received on regulatory developments, and consideration is given to how these will affect plans, processes, systems and controls.

The key areas of risk considered by the Committee include:
- credit risk;
- treasury and prudential risk;
- operational risk;
- compliance and conduct risk (including regulatory risk); and
- financial crime risk.

The ROC is a sub-committee of the Board. Its specific responsibilities are set out in its Terms of Reference which are reviewed annually and available on the Bank's website.

As a key part of the Bank's governance framework, the ROC ensures that the CRO has unfettered access to the Committee and its Chair.

At each scheduled meeting, the ROC considered the following standing items:

CRO report

This includes a summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics.

Treasury and prudential risk

The Treasurer's commentary is tabled at each ROC meeting and the Treasurer provides a summary of relevant Treasury matters, including balance sheet performance and each of the principal Treasury risks i.e. liquidity and funding, capital and market risks. In addition, the status of the Recovery Plan and indicators therein are discussed. The Treasurer also tables relevant Treasury polices for approval and notes the minutes of the ALCO, which is the primary venue for in-depth discussion on Treasury matters. The report to the Committee includes high-level MI on; liquidity, funding, capital and market risks. In addition, the Treasurer's report includes updates on relevant regulatory matters.

The Committee also receives a regular update from the Director of Prudential Risk on Treasury risk, Treasury risk appetite performance and model risk.

During the year, ROC also reviewed and recommended to the Board for approval the ICAAP, ILAAP, Recovery Plan and relevant policies.

Credit risk

Execution of strategy requires prudent and controlled management of credit risk. To support this, one of the roles of the ROC is to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a particular customer or loan has deteriorated. This ensures that lending remains within risk appetite and policy exceptions are monitored. The Committee regularly reviewed the performance of the loan portfolio including assessing immediate and ongoing COVID-19 impacts across all products. The Committee also oversaw the implementation and performance of the suite of government financial support measures including: capital payment holidays, CBILS and new/increased overdraft facilities.

Operational risk

The ROC receives reports concerning risk appetite and risk assessment for a number of key operational risks including: information security and systems availability, operational resilience, and the execution risk of change. Incidents and root cause analysis as a result of any material incidents were presented in 2020 to demonstrate how the Bank captures learnings and takes action to prevent or mitigate any potential recurrences. The view of the Committee is that the management of these incidents and the actions taken in response were proportionate and appropriate to the size and scale of the incidents.

During 2020 the Committee has also received reports from management on emerging non-financial risks and how these risks are mitigated.

Compliance and conduct risk

The ROC is updated regularly on regulatory developments and changes that could impact the Bank. The Committee receives updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and feedback from 'Voice of the Customer' surveys. The Committee is also updated on how the Bank manages expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line of defence.

Financial crime risk

Given the level of risk posed by financial crime to all banks, the Committee reviews management information on matters including: performance against the Bank's financial crime key risk indicators; compliance with customer identification and verification requirements for all new accounts and oversight and risk assessment of high-risk customers. The regular reporting also includes payments and customer screening, as well as updates on items of note from the Financial Crime Steering Group.

Litigation update

The ROC notes the report from the Bank's Legal team regarding any material litigation cases.

Deep dives and in-depth reviews

The ROC receive in-depth reviews on areas of emerging risk and regulatory interest throughout the year.

Executive Committee minutes

The Committee reviews and formally notes the minutes of the Executive Risk Committee and the Asset and Liability Committee.

Key policies considered by the Risk Oversight Committee in 2020

Policy

Policies approved by the ROC:

- Retail Mortgage Policy
- Anti-Bribery & Corruption Policy
- Anti-Tax Evasion Policy
- Impairment Policy
- Regulatory Reporting Disclosures Policy
- Commercial Lending Policy and Commercial Lending Standards Policy
- Retail Unsecured Lending Policy
- Collections and Recovery Policy
- Dealing Policy
- Model Governance Policy
- Retail SME Credit Policy
- Risk Management Framework

Policies reviewed and recommended to the Board:

- Credit Risk Policy.
- Responsible Lending Policy
- Information Security Policy
- Fraud Policy
- Capital Management Policy
- Liquidity Policy

Nomination Committee report

MONIQUE MELIS
NOMINATION COMMITTEE CHAIR

Nomination Committee attendance for 2020*

	Meetings attended	Meetings held during Director's tenure
Catherine Brown	5	5
Monique Melis (Chair)[1]	3	3
Sir Michael Snyder	5	5
Robert Sharpe[2]	1	1
Former members		
Roger Farah[3]	2	2

1. Monique Melis joined the Committee in March 2020.
2. Robert Sharpe joined the Committee in November 2020.
3. Roger Farah left the Committee in March 2020.

* In addition to the scheduled meetings listed above the Committee held additional meetings to review succession planning and NED recruitment.

Composition of the Nomination Committee

In addition to the Committee Chair, Monique Melis, there are three members of the Nomination Committee: Catherine Brown, Sir Michael Snyder and Robert Sharpe. Each are independent Non-Executive Directors. The CEO and the CPO attend meetings by invitation. The CPO provides support to the Committee Chair and Committee as needed and the Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers.

2020 ACTIVITIES

- The Nomination Committee oversaw and recommended the appointment of three new Non-Executive Directors, Anne Grim, Ian Henderson and Nick Winsor, who joined the Board on 20 April 2020.
- We announced in October 2019 that Vernon W. Hill, II was stepping down as Chair. Sir Michael Snyder was appointed as interim Chair and a separate Committee of independent Directors was established to oversee the search for a new permanent independent Non-Executive Chair working with Korn Ferry. The New Chair Selection Committee was comprised of Monique Melis (Nomination Committee Chair and former interim SID), Catherine Brown (Remuneration Committee Chair), Paul Thandi (iNED).
- Robert Sharpe was appointed as Chair on 1 November 2020, following an extensive search process led by the New Chair Selection Committee.
- During 2020 the Bank has further strengthened its Executive Committee.
- The Board endorsed the appointment of a Company Secretary, separating the role from the CFO in line with best practice.
- The Committee also reviewed and recommended to the Board for approval, changes to the membership of the Board's Committees, following the appointment of the new NEDs.
- Led by the Committee Chair, held a session on the work of the Committee for new NEDs, which formed part of their induction.

2021 FOCUS AREAS

- Long term succession planning for the Board and Senior Management, including the mix of skills, experience, independence and diversity on the Board.
- Monitoring progress against the objectives set out in the Bank's Diversity Policy.
- Further review and refinement of Committee membership following the appointment of the new Chair and new NEDs in 2020.

Dear shareholders

I am pleased to share my Nomination Committee report for the 2020 year end. I write to you following a turbulent and challenging year for us all and I hope this letter finds you well. The Committee and I, along with our Board members, are proud of the way the Bank has supported its people and its customers through this difficult time. I am pleased to see that Colleague wellbeing is a top priority for the Executive Committee.

Looking back on 2020, we made significant progress on Board succession planning through the appointment of a new independent Chairperson and three new INEDs during 2020. The Committee is satisfied that there is the correct balance of skills and experience on the Board to provide effective oversight of the Bank and the delivery of its strategic objectives.

Working with Executive Search Partners Korn Ferry following a detailed and robust process led by the New Chair Selection Committee, Robert Sharpe was appointed as Chair of the Board on 1 November 2020. Korn Ferry has no other connection to Metro Bank.

Robert brings extensive retail banking and governance experience from his executive career and board roles. He has over 45 years' experience in retail banking. He is currently chairman at Hampshire Trust Bank plc, Honeycomb Investment Trust plc and Aspinall Financial Services Limited. He was the Chairman of the Bank of Ireland (UK) plc until November 2020. In his executive career Robert was previously Chief Executive Officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was Chief Executive Officer at Portman Building Society.

As part of the search for a new Chair the Nomination Committee considered the appointment of an interim Chair. Sir Michael Snyder was selected to fulfil this role given his extensive knowledge of the Bank and strong relationships with the Bank's shareholder base. I was appointed as interim Senior Independent Director while Sir Michael carried out this role. Following the appointment of Robert Sharpe, Sir Michael returned to the position of Senior Independent Director.

A key focus during the year has been to increase the level of retail banking experience on the Board following the departure of Gene Lockhart and Stuart Bernau after nine years of service in 2020. We appointed Anne Grim, Ian Henderson and Nick Winsor to the Board on 20 April 2020. Anne has more than 30 years experience in senior financial services leadership roles at Barclays, Wells Fargo, American Express, Mastercard and most recently as Chief Customer Officer at Fidelity International. Ian has had a 30 year career in retail & business banking and wealth management. Since 2012, he has been actively involved in the UK Challenger Bank sector holding CEO roles at Arbuthnot Latham & Co Limited; Kensington Mortgages; and Shawbrook Bank. Nick has more than 35 years of retail and commercial banking experience with HSBC Group in a number of international markets. Latterly he was head of the Financial Crime Remediation Programme at HSBC.

It is great to be able to welcome new talent to the Board and to increase the diversity of background, skills and retail banking experience we have amongst our Non-Executive Directors. Whilst we believe that the current make up of the Board is right and don't plan to make any further appointments in the short term, we also know that finding high quality, diverse candidates takes time. We have therefore spent time reviewing a new candidate profile for NED searches. Diversity of gender and ethnicity is at the heart of this.

Committee Performance Evaluation

As part of the broader externally facilitated Board evaluation in 2020 the Committee undertook a review of its effectiveness. I am pleased to report that the review showed that the Committee is working well together and is also benefiting from the support and advice of our new Chief People Officer, Carol Frost. There were no actions arising from review relating to the work of the Nomination Committee. We will carry out an internal review of effectiveness in 2021 in line with the Committee Terms of Reference.

Looking forward, 2021 will continue to be busy for the Nomination Committee as it further reviews the composition of Board Committees, long term succession planning as well as progress against the objectives of our Board Diversity Policy. A summary of the progress made in 2020 is set out below. Wishing you the best for a healthy and happy 2021.

Monique Melis
Nomination Committee Chair
23 March 2021

Nomination Committee report continued

Key areas discussed at Nomination Committee meetings in 2020

Board appointments

- The appointment of Anne Grim, Ian Henderson and Nick Winsor as new Non-Executive Directors.
- Review of proposed Non-Executive Director candidates from diverse long lists.
- Appointment of Interim Chair and Interim SID.
- Appointment of SID.
- Reviewing and agreeing the latest candidate profiles for NED search.

Board succession

- The Board succession plan and progressively refreshing our Board with a view to promoting diversity of backgrounds, skills, experience, and personal and cognitive strengths.
- Succession planning for the Executive Committee and senior management.
- Reviewing the Board Skills Matrix.
- Reviewing and updating the Board Diversity Policy.
- Agreement of Committee memberships and Committee Chair Roles.
- Agreement of composition for the independent New Chair Selection Committee.

Other areas for review

- NED time commitments.
- Approval of Nomination Committee report.
- Annual review of the Nomination Committee Terms of Reference.
- Review of the DNED Terms of Reference.
- Nomination Committee annual effectiveness review.

Board composition, independence and time commitments

We reviewed the skills, experience, independence and knowledge of the Board during 2020 to understand which areas to focus on when recruiting future Board members and the future composition of our Board and Committees. We are aware of the areas of expertise we may need to strengthen and we will also continue to review length of tenure to ensure there are orderly succession plans in place, taking into account the strategic and oversight needs of the Bank.

We reviewed the time commitments of the Board and are satisfied that all Board members have sufficient time to dedicate to their roles. We were also satisfied that Board members were able to devote additional time to the Company as a result of COVID-19.

The changes to the Board during 2020 and the appointment of Robert Sharpe as Chair gave us the opportunity to refresh the membership of our Committees.

The Board carried out an externally facilitated evaluation during 2020. More details are on page 86.

The Nomination Committee in brief

The Nomination Committee leads the process for identifying and making nomination recommendations to the Board. Its duties include:

- regularly reviewing the structure, size and composition (including skills, knowledge, experience, independence and diversity) of the Board as a whole and making recommendations to the Board as required;
- considering succession planning for members of the Board and Executive Directors, including the length of service of members and the need to regularly refresh Board membership, taking into account the Bank's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Bank and the skills and expertise needed on the Board in the future;
- taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board;
- evaluating the balance of skills, knowledge and experience, diversity and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Bank;
- considering Board candidates on merit and against objective criteria and with due regard for the benefits of diversity, taking care that appointees have time available to devote to the position; and
- reviewing the results of the Board performance evaluation process relating to Board composition.

The Nomination Committee Terms of Reference can be found on our website: metrobankonline.co.uk.

Diversity

We understand and value the merits of a diverse organisation and Board. We have worked with Audeliss, a search firm, to support us in sourcing candidates for Non-Executive Director roles. Diversity is central to Audeliss's approach and it is a signatory to the Women on Boards Voluntary Code of Conduct for Executive Search Firms. Audeliss has no other connection to Metro Bank.

As a Committee and as a Board, we recognise that the diversity of our Board drives effective decision making and constructive challenge and scrutiny in the boardroom. This shapes the strategic and operational direction of the Bank. We are therefore committed to building a strong Board which is diverse in many ways, including gender, as per our Board Diversity Policy which is on our website. The gender balance of those in senior management and their direct reports can be found on page 70.

Board Diversity Policy

During 2020 we further reviewed our Board Diversity Policy to ensure this was in line with best practice recommendations and meets the expectations of our stakeholders.

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense.

A summary of the objectives of the Board Diversity Policy and the progress made against these is listed below.

Objective	Progress made in 2020
Considering candidates for appointment as Non-Executive Directors from a wide and diverse pool, which include a combination of skills, experience, ethnicity, age, gender, social, educational and professional background and other relevant personal attributes such as cognitive and personal strengths to provide the range of perspectives.	Diverse candidate long lists were provided for all NED searches by our executive search partners.
Ensuring the female representation on the Board meets and remains at a minimum of 33% as per the Hampton-Alexander objective.	As at 31 December 2020, the Board is comprised of 33% females.
Ensuring the Board's ethnic diversity meets and maintains a minimum of one Director of colour by 2024.	As at 31 December 2020 there is one Director of colour on the Board. The Committee will promote ethnic and racial diversity for any new appointments, but do not expect to make any appointments in the short term given the significant refreshing of our Board in 2020.
Only engaging executive search firms who are committed to sourcing diverse candidates and who have signed up to the voluntary Code of Conduct on gender diversity and best practice.	We have worked with Audeliss, a search firm who are committed to the highest standards of diversity and inclusion.
Reporting annually against our objectives and other initiatives taking place within the Bank which promote diversity.	**Report against objectives:** A summary is included here and more information can be found in the stakeholders' section on page 60. **Other initiatives taking place within the Bank:** **Initiatives launched** • Refreshing the Bank's Colleague Networks and creating consistency. • Supporting diverse talent in succession plans. • Inclusion champions pilot scheme. • Learning content and sessions that promote an inclusive mind set and behaviours refreshed and available in the Bank's Learning System. • Building more inclusive recruitment practices. **Initiatives in progress** • Recruitment of an Inclusion Director. • Inclusion diagnostic and follow up strategy. • Increasing the alignment of the Bank's Inclusion Committee with business areas and regular activity. • Developing a mentoring platform to connect colleagues to mentors, and reverse mentoring initiatives.
Reporting annually on the outcome of the Board evaluation including the composition, structure and diversity of the Board.	Full details can be found on page 86.

Remuneration Committee report

CATHERINE BROWN
REMUNERATION COMMITTEE CHAIR

Composition of the Remuneration Committee

During 2020 the Remuneration Committee comprised Committee Chair, Catherine Brown, and two other members, Sally Clark and Paul Thandi. The Committee has comprised these three members since March 2020 (see below). Each are independent Non-Executive Directors. The CEO and Chair attend meetings by invitation to assist the Committee in its deliberations, although not in relation to their own remuneration. The People team provides support to the Committee Chair and Committee as needed and the Company Secretary acts as Secretary to the Committee. Following each meeting the Committee Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers.

Catherine Brown has chaired the Remuneration Committee since 13 March 2020 with her predecessor, Roger Farah, chairing the Committee to this date.

Remuneration Committee attendance for 2020

Members	Meetings attended	Meetings held during Director's tenure
Catherine Brown (Chair)[1]	8	9
Sally Clark[2]	5	5
Paul Thandi[3]	9	9
Former members		
Roger Farah[4]	3	4

1. Appointed to the Committee on 1 April 2019. Appointed Committee Chair on 13 March 2020.
2. Appointed to the Committee on 13 March 2020.
3. Appointed to the Committee on 1 April 2019.
4. Stepped down from the Board on 13 March 2020.

2020 Activities

The Committee convened more often in 2020 than had been necessary during previous years, due to the impact of COVID on the Bank. This enabled the Committee to make timely decisions in relation to relevant remuneration matters.

The Committee has:

- Reviewed the Directors' Remuneration Policy (the 'Policy'), having taken into account the changing regulatory landscape relating to remuneration since our initial Policy was published in 2017. The Policy was approved at the 2020 Annual General Meeting with over 92% of shareholder votes cast in favour.
- Agreed a temporary, three month reduction in fees for Non-Executive Directors and salaries for Executive Directors during the first national lockdown.
- Overseen the key aspects of reward for all colleagues, including Directors' remuneration, a review of the performance of the Group personal pension scheme and the Company's gender pay gap.
- Considered the appropriateness of the Bank's list of colleagues who fall under the Senior Manager and Certification Regime; specifically, those deemed to be Material Risk Takers.
- Asked Management to instigate a Bank-wide review of our approach to performance management and reward, to ensure that, going forward, colleagues' goals and remuneration are aligned to the revised corporate strategy announced in early 2020.
- Reviewed the principles of the annual Reward Review, including salaries and variable pay, for all colleagues.
- Discussed the treatment of outstanding variable pay awards and variable pay outcomes for 2020 in the context of internal analysis and the ongoing external investigation into the risk-weighted assets adjustment made in early 2019.
- Completed an independent Board effectiveness review with no significant findings.
- Determined that remuneration outcomes for 2020 should reflect the Company's performance in a challenging external environment, while recognising the substantial progress that has been made in delivering the Bank's transformation programme, and applied discretion as appropriate.

2021 Focus areas

- The impact of recent regulatory changes on remuneration as well as the impact of the implementation of the CRD V remuneration rules which apply to the Bank from 1 January 2021.
- The Directors' Remuneration Policy is being reviewed in the context of the announcement of the revised corporate strategy, the evolving external environment and feedback from external stakeholders.
- After a thorough review of our approach to remuneration for colleagues, senior executives and Executive Directors, including a positive engagement process with external stakeholders in Q1 2021, we will submit a revised Policy to shareholders for approval at the 2021 AGM.
- We shall continue to monitor the impact of COVID-related disruption on the Bank's performance and consider any implications that arise regarding remuneration.

Dear shareholders

On behalf of the Board, and as Chair of the Remuneration Committee, I am pleased to present the Remuneration Committee report and the Directors' remuneration report ('the report') for the year ending 31 December 2020. The report aims to describe how the Committee addressed its responsibilities during the year.

I was formally appointed as Committee Chair on 13 March 2020, having been a member of the Board since 1 October 2018 and a member of the Remuneration Committee from 1 April 2019. I would like to take this opportunity to thank Roger Farah for his previous leadership of the Committee.

Since the time of writing my letter to you this time last year, COVID-19 has created a unique series of challenges for the Bank, its customers and colleagues, and other stakeholders. Notwithstanding these challenges, the Committee recognises that substantial progress has been made in delivering the Bank's ambitious transformation programme, which remains on time and on budget despite the vast majority of colleagues working from home for much of the year. With this in mind, the Committee has focused on balancing remuneration decisions that meet the expectations of our customers, colleagues and shareholders, reflecting both 2020 business performance and achievements in strengthening the Bank for the future. The Committee is mindful of the exceptional work undertaken by colleagues across the Bank during these difficult times; ensuring we continued to deliver our market-leading service to customers throughout the year whilst strengthening our capabilities for the future.

Following Daniel Frumkin's formal appointment as CEO in early 2020, a new strategic plan was launched to bring the Bank back to profitability. New talent has been brought onto the Executive Committee and the Senior Leadership Team to enable delivery of the business performance and transformation objectives contained in the plan. The Committee recognised that aligning remuneration to the objectives, targets and outcomes of the plan would be helpful in encouraging commitment to deliver the plan over a number of years, but that the Bank's existing approach to remuneration was not designed to support longer term performance expectations.

As a result, the Committee felt that it was timely and appropriate to review our approach to remuneration, not only for our most senior colleagues, but for colleagues across the Bank. The review was supported by Aon (McLagan), who provided advice on remuneration practices across the financial services sector and options to bring greater alignment of incentives with longer term performance.

Our proposed approach to Executive Directors' and Executive Committee members' remuneration

Whilst we received support for our revised Directors' Remuneration Policy at the 2020 AGM, we will be seeking shareholders' approval for a new Policy for the following three years at the 2021 AGM in light of the remuneration review outlined above. The Committee is cognisant of the views of our shareholders on remuneration matters, and following the feedback received through the recent engagement process, as well as feedback from the proxy advisors in early 2020, the Committee believes a change to the Policy is appropriate. I would like to thank investors for their feedback on the proposed Policy during 2021 and I will continue to engage with them and other stakeholders on our approach to remuneration going forward.

The following key areas are being addressed as part of the newly proposed Directors' Remuneration Policy:

- Introduction of appropriate long term incentives, aligning the interests of executives with those of shareholders
- An increase in the weighting of financial metrics on the variable reward balanced scorecard
- Clarification of the Remuneration Committee's ability to adjust performance outcomes through use of discretion
- Formalisation of post-cessation shareholding requirements
- Malus and clawback provisions reviewed ensuring share plan rules are compliant with CRD V regulation

The Remuneration Committee has agreed to retain the existing Policy relating to fixed remuneration; but is proposing material changes relating to the Bank's approach to variable remuneration for its most senior colleagues. The changes address the Committee's preference to bring greater alignment between longer term performance and incentives, acknowledging external feedback received in 2020. The proposed changes reflect best practice and ensure the Bank's remuneration structure is compliant with the regulatory requirements we are required to observe as a proportionality level 2 firm. We have also considered changes to the corporate governance landscape with respect to executive remuneration. The key changes include:

- **Annual Bonus** – may be delivered in deferred shares and/or cash which, in combination with the LTIP award (see below), will be structured in line with the regulatory requirements on the deferral of variable pay under the PRA Remuneration Code.

Remuneration Committee report continued

Our proposed approach to Executive Directors' and Executive Committee members' remuneration continued

- **Long Term Incentive Plan (LTIP) Award** – Annual, forward-looking awards granted under the LTIP will be determined by the Committee. Any awards are subject to performance conditions measured over a period of at least three years aligned with the Bank's long term strategy. The LTIP awards will be limited to 100% of salary within the current variable pay Policy limit of 200% of salary with the annual bonus limit also to be set at 100% under the new Policy.
- **Shareholding requirements** – formal shareholding guidelines for Executive Directors of 200% of salary form part of the existing Policy; however, under the new Policy the Executive Directors will be expected to build up to this level over a five-year period. In line with investor expectations and best practice relating to Executive Directors, an enforcement mechanism will be introduced to support the current necessity to retain 100% of the shareholding requirement (or actual holding if lower) for two years post-cessation.

The following amendment regarding pension contributions made as part of last year's policy review has been retained and will remain critical to our remuneration approach going forward:

- **Pension contributions** – any new Executive Director hire will have a maximum pension contribution at a level aligned with or lower than that available to the majority of the wider workforce (our new CEO was appointed on a pension contribution level of 8% of base salary in line with this approach). The Committee is mindful of the current debate regarding pension contribution rates, and the pension contribution rate for the CFO (currently 10% of base salary) will be reduced to a level aligned with or lower than that available to the majority of the wider workforce by the end of 2022.

Some aspects of the Directors' Remuneration Policy will be adopted for members of the Executive Committee, including the Annual Bonus and LTIP arrangements as a set out above.

Full details of the proposed changes to our Directors' Remuneration Policy can be found on page 135.

Our approach to Remuneration across Metro Bank

We believe oversight of the remuneration and benefits across the Bank for all colleagues, not just Directors, is an important part of our role. For the first time since the Bank's inception, our revised approach to remuneration for Executive Directors and the Executive Committee will be different from the approach taken for all other colleagues but only with regards to variable remuneration. It will be delivered partly as annual bonus with a long term deferral into shares and partly as an LTIP award. Executive Committee (including Executive Directors) remuneration will comprise a salary, reasonable benefits and pension provisions and variable reward which is delivered through an annual bonus with deferral and LTIP, as described above.

For the wider colleague population, the Committee is keen to ensure our remuneration structure is as simple as possible, delivers variable reward that is valued by colleagues, and is aligned to market practice. Therefore, under our revised approach, colleagues' remuneration below the Executive Committee has been simplified. It will comprise a salary, reasonable benefits, pension provisions and a variable remuneration award which is delivered solely in cash. Historically colleagues have received a combination of cash and share options. The only exception to this will be those colleagues who are deemed to be Material Risk Takers where variable remuneration will be deferred in line with regulatory requirements.

Colleagues across the Bank can participate in our ShareBuy scheme; a share incentive plan (SIP) that is recognised by HMRC and allows colleagues to buy Metro Bank shares in a simple, tax efficient way. During the course of 2021, we will look to extend our ShareBuy offering which will encourage share ownership in the Bank. This aligns all colleagues with both investors and other stakeholders in line with our customer-focused model and long term vision.

All variable awards are subject to malus and clawback of at least three years, extending up to ten years for senior management.

Gender pay

Our median gender pay gap has decreased year on year, while our mean gender pay gap has increased year on year. The 2020 median gender pay gap is 11.7% (2019: 12.4%) and the mean gender pay gap is 21.1% (2019: 20.1%). Whilst it is positive to see the median pay gap reduce, the primary cause of the pay gap is the larger proportion of women in the lower quartiles along with a higher proportion of men in the upper quartiles.

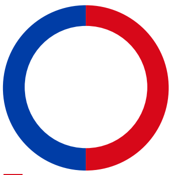
Year	Median pay gap	Mean pay gap	Median bonus gap	Mean bonus gap	Median bonus gap excluding share options sales/gains	Mean bonus gap excluding share options sales/gains
2020	11.7%	21.1%	60.0%[1]	22.7%	60.0%[1]	22.7%
2019	12.4%	20.1%	33.3%	30.6%	33.3%	29.4%

1. Year on year increase in median bonus gap is due to the greater proportion of men in the top quartile of colleagues (see next page for further detail).

We take fairness and transparency very seriously, so we have examined salaries for all roles with more than 10 colleagues in them. This confirmed that we pay colleagues doing the same roles equitably, regardless of gender. Nonetheless, we continue to focus on reducing the gap by supporting all colleagues to develop in their careers and progress towards more stretching jobs that typically command a higher salary. All of our talent development programmes are inclusive and we support leaders by providing them with diverse candidate lists for vacancies.

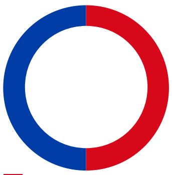
PAY QUARTILES

Lower



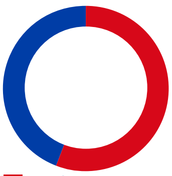
Male	50%
Female	50%
Median pay gap	0.0%
Mean pay gap	0.1%

Lower middle



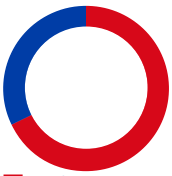
Male	50%
Female	50%
Median pay gap	0.0%
Mean pay gap	0.3%

Upper middle



Male	56%
Female	44%
Median pay gap	0.9%
Mean pay gap	1.5%

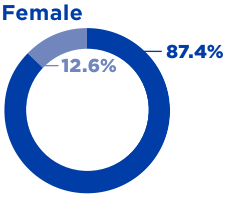
Upper



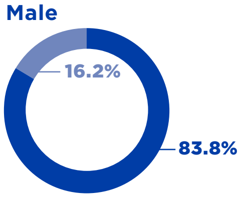
Male	68%
Female	32%
Median pay gap	10.7%
Mean pay gap	8.7%

In 2020, variable reward was balanced with 87.4% of females receiving a bonus, versus 83.8% of males.

Female



Male



Received bonus   Did not receive bonus

The median bonus gap was 60% and the mean bonus gap was 22.7%. With no share option exercises being made during 2020, no gains were made on the sale of share options and as such, the median bonus gap (excluding share options sales/gains) remains at 60.0% and the mean bonus gap (excluding share options sales/gains) remains at 22.7%. The bonus gap is driven by the greater proportion of men in the top quartile where variable reward tends to be higher. The median bonus gap was exacerbated by our approach to awarding bonuses in lieu of 2019 corporate performance.

Full details can be found on our website: metrobankonline.co.uk.

Looking back on 2020

COVID-19 has meant that 2020 has been a unique year, unlike any other in recent memory. It has created significant challenges for all colleagues across the Bank. We have not used the government furlough scheme, ensuring continuity of service to our customers throughout the pandemic and I am very proud to be part of a business where all of our colleagues have risen to the challenge in a variety of ways. Store-based colleagues have remained focused on creating FANS; their dedication to excellent customer service has enabled us to keep all of our stores open throughout the pandemic. Similarly, our AMAZE Direct colleagues have been on the end of the phone throughout the pandemic, supporting those customers who weren't able to get to a store. Management has also led by example, making sound decisions to support colleagues and ensuring the business has remained resilient whilst delivering against our new strategic plan.

In April, the Committee approved a three month reduction in fees for the Non-Executive Director population. They also approved a three month reduction in salary for both Daniel Frumkin and David Arden.

Like most organisations, the Committee has been required to apply its discretion more than before in deciding the remuneration outcomes for the year. Not only has the Committee had to consider the impact of COVID-19 on business performance and shareholders, it has been conscious of all the challenges our extraordinary colleagues have faced during the year. Notwithstanding these challenges, the Committee recognises that substantial progress has been made in delivering the Bank's ambitious transformation programme, which remains on time and on budget despite the vast majority of colleagues working from home for much of the year.

With this in mind and considering the exceptional circumstances we find ourselves in, I believe that the decisions relating to remuneration for the year are appropriate, ensuring we retain and incentivise our colleagues appropriately whilst recognising the significant impact of COVID-19 on business performance.

Looking back on 2020 continued

Past Directors

Vernon W. Hill, II, stepped down from his role as Chair on 23 October 2019 and resigned from the Board on 17 December 2019. He received his annual fee of £385,000 until 9 March 2020 in line with his service agreement and our Remuneration Policy as approved by shareholders in 2017.

Craig Donaldson stepped down from his role as CEO on 31 December 2019 and worked his contractual notice period until 31 December 2020. The Committee considered and agreed that he should retain his outstanding share options on the basis of being culturally aligned in the treatment of colleagues exiting the business and the hard work and commitment of Craig in building the Bank since its inception. Outstanding awards are subject to malus and clawback provisions.

Variable reward

Executive Directors' variable remuneration outcomes are based on key financial, risk, customer and colleague objectives, balanced with personal behaviours and delivery of the individual. This approach is consistent with the standards we apply to every colleague.

As disclosed in our 2018 Annual Report, in January 2019 we announced that we had adjusted the risk weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our risk-weighted assets by £900 million. The Committee decided to freeze vesting of share options and awards for Executive Directors and the Executive Committee, including share options granted for 2019 performance, pending further internal analysis and any external investigations into the RWA adjustment. Awards for 2018 and 2019 will remain frozen, as will any further awards; this approach has been applied to any colleague deemed to be proximate to the issue. The Committee formally reviews all outstanding frozen awards during the year.

To meet our plans to return the business to profitability we set stretching targets for 2020 despite facing significant headwinds, underlying business performance has been strong against all scorecard measures (financial, risk, customer and colleague), which resulted in a formulaic balanced scorecard outcome of 99.1%. The balanced scorecard outcome can range from 0% to 120% with 100% being target performance. In considering the approach to the 2020 year end incentive awards, the Committee agreed to apply the budget recognising the impact of COVID-19 to the corporate scorecard. The Committee considered the outcome and exercised its discretion to reduce the scorecard outcome down to 74.5% after taking into consideration the impact of COVID-19 on the macro business environment, and also the shareholder experience during the last 12 months.

All members of the Executive Committee together with Daniel Frumkin and David Arden have volunteered to forgo any cash bonuses for 2020 performance. Executive Director awards will be delivered in shares in the Deferred Variable Reward Plan. These awards vest between three and seven years subject to ongoing service. Each vest is subject to a mandatory one year holding period. Any vesting of David's award will be frozen pending the internal analysis and any external investigations into the RWA adjustment.

The Committee considers both Daniel and David's share awards reflect their performance during the year including the development and implementation of the strategic plan and their pivotal roles in the successful execution of our transformation plan going forward as we focus on becoming the UK's best community bank. Their awards are therefore delivered in the form of long term vesting share awards to align them with the successful execution of our strategy over the coming years, which will benefit all of our stakeholders and be key for the long term sustainable success of the Bank.

Daniel and David were both awarded individual performance adjustment factors of 115%. Applying this to the company adjustment factor (74.5%) delivers an outcome of 85.7%. Acknowledging that underlying business performance has been strong against scorecard measures but mindful of the shareholder experience during the last 12 months, the Remuneration Committee exercised its discretion to reduce this outcome by 50% to 35.7% for the Executive Directors. There will be no cash bonus awards made this year and the Executive Director incentive awards will be delivered in the Deferred Variable Reward Plan.

The Remuneration Committee has used its discretion to determine that, subject to AGM approval of the new policy and the LTIP plan rules, an LTIP award will be made under the new policy to Daniel and David of 100% of their salary. These LTIP awards will have four-year forward-looking performance conditions, be retentive, will align the Executive Director's interests with shareholders and incentivise them to deliver on the strategic plan.

Pages 118, 119 and 120 detail the scorecard measures, targets and outcomes relating to 2020 as well as any share-based awards made to Executive Directors.

Looking forward to 2021

Salaries from 1 April 2021

We had an overall salary increase pot of 2.5% for 2021. The 'on-target' pay increase for inflationary and behavioural/performance-related salary increases was 1.75%. When we consider all salary increases, the average pay rise was 2.5% and the maximum was 22.2%. In total, 2,500 or 60% of all colleagues received a salary increase above their associated inflationary and behavioural/performance-related pay rise. Salary increases for Cashiers, Customer Service Representatives and AMAZE Direct Representatives (entry level roles) have increased between 1.5% and 2.5%.

The Committee is undertaking a review of the Executive Director roles and the wider market and is considering whether there should be any increase to salaries for Daniel Frumkin and David Arden. No salary increases are proposed at present.

Chair and Non-Executive Director fees

Robert Sharpe was appointed Chair in on 1 November 2020 with a fee of £350,000 per annum. The annual fee for the Chair will remain unchanged. Fees for our Non-Executive Directors remain unchanged at £52,500 per annum.

Former Chair

Sir Michael Snyder stepped down from his role as interim Chair on 31 October 2020. He received his annual fee of £275,000 for the year until this date. He returns to his position as Senior Independent Director.

Variable reward for 2021

The Committee has agreed an appropriate balanced scorecard to inform the Company variable reward adjustment factor for 2021, based on financial, risk, customer and people objectives. Further to feedback from investors and proxy advisors, the Committee has agreed to increase the weighting of the financial measures within the balanced scorecard to 60% in 2021 to demonstrate commitment to strong financial performance. Whilst the colleague and customer measures will slightly reduce, we will not lose any of our focus on these important areas. We will disclose targets and measures in the Remuneration section of the Annual Report for 2021.

As noted above, variable pay for Executive Directors will be awarded through annual bonus including a deferral under the Deferred Variable Reward Plan ('Deferred Plan') and the proposed LTIP. Variable reward for PRA-designated Senior Managers (including the Executive Directors) will vest over a period of up to seven years, subject to LTIP performance conditions being met after three years, with a 12 month post vest holding period in line with our status as a proportionality level 2 firm. 2021 LTIP awards will have performance conditions measured over four years (future awards will have a three year performance period) and are subject to a post-vesting holding period with the result that awards will not be released until at least five years from grant.

Our simplified approach to variable reward, applied across the organisation, focuses all colleagues on growth and the long-term, sustainable success of the business.

Appropriateness of Executive Remuneration

We believe that, with the proposed changes in our approach to variable remuneration, the remuneration structure will become more appropriate and align with our ambitious strategy. The amendments to our policy will strengthen our approach to reward, reflect best practice and investor expectations, bring greater alignment between longer term performance and incentives and ensure continued compliance with the regulatory requirements the Bank is required to observe as a proportionality level 2 firm. Under the proposals, the interests of the Executive Directors, broader Executive Committee and shareholders will be more closely aligned.

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

Colleagues across the Bank can participate in our ShareBuy (SIP) scheme, enabling every colleague to become an owner.

We engage with relevant organisations concerning our approach to remuneration and welcome feedback from investors and stakeholders.

I very much hope that you will support the resolutions to approve the Directors Remuneration Policy, the new LTIP Plan, changes in the Deferred Variable Reward Plan and the Remuneration Report at the forthcoming AGM. We believe that our Policy is critical to motivate and incentivise our senior leadership team to deliver our Strategic Plan. On behalf of the Committee, thank you for your support.

Catherine Brown
Remuneration Committee Chair
23 March 2021

Remuneration Committee report continued

The following table summarises how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code.

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee is committed to providing open and transparent disclosures to shareholders and colleagues with regard to executive remuneration arrangements. In the review of the Remuneration Policy, the Committee engaged with shareholders in order that they could express their views on the proposals, and took into account shareholder feedback to ensure our proposed policy is aligned to best practice and investor expectation. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our Designated Non-Executive Director for Workforce Engagement.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our approach to remuneration for Executive Directors is simple and transparent. It is consistent with structures used widely across the financial services industry.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	In line with regulatory requirements, our remuneration practices promote sound and effective risk management whilst supporting our business objectives. For 2021, 20% of our balanced scorecard which informs variable reward will be based on risk and regulatory measures, and variable reward is also subject to a risk adjustment process and input from the Chief Risk Officer. The deferred portion of any awards granted to Executive Directors is subject to a seven-year deferral period, during which our malus policy can be applied. Awards made under the separate LTIP will also vest over a seven year period, assuming performance conditions (of which one is a risk-based measure) have been met. Our malus policy can be applied to the LTIP throughout the vesting. All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing).
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Variable reward is delivered primarily through long term share based awards. The value of awards are therefore closely aligned to share price movements and the shareholder experience. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the Remuneration Policy on page 143.
Proportionality The link between individual awards, the delivery of strategy and the long term performance of the company should be clear. Outcomes should not reward poor performance.	Variable reward payments require robust performance against challenging conditions. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the individual's AMAZEING review. The Committee has discretion to override formulaic scorecard outcomes to ensure that they are appropriate and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	Our primary objective is to design a remuneration framework that promotes growth and our long term success while supporting our unique culture. The variable reward pool for any year is based on the overall performance of the Bank in terms of culture and delivery in line with the balanced scorecard. All colleagues are able to participate in our HMRC approved SIP scheme, which supports our ethos of colleague buy-in and ownership.

The Remuneration Framework in brief

Our remuneration framework:

- promotes the growth and long term success of Metro Bank
- supports the unique culture and model to deliver outstanding customer service
- promotes sound and effective risk management and does not encourage risk-taking that exceeds the risk appetite agreed by the Board

In line with our business strategy and objectives, the framework strongly supports long term growth with long term share-based awards being the major source of variable reward for our senior executives. This ensures colleagues in leadership roles are focused and rewarded for long term, sustainable success.

Because of the way we measure behaviours and performance for individuals, and how we capture and act upon customer insight across the organisation, the framework is strongly aligned to the delivery of outstanding customer service.

Our approach to reward strikes a balance between short term rewards and the long term performance of the business.
The framework also complies with the FRC remuneration principles. Full details are on our website: metrobankonline.co.uk.

Key areas discussed at Remuneration Committee meetings in 2020

Area	Key topics
Policy and reporting	• Review of Directors' Remuneration Policy, including consultation with key shareholders and proxy advisory bodies on Executive Director remuneration matters • Approval of Directors' Remuneration Report, including letter from Remuneration Committee Chair and Remuneration Policy • Gender pay and approach to reporting 2020 data • Annual review of Remuneration Committee Terms of Reference • Feedback on 2019 Annual Report and 2020 AGM
Reward	• 2019/20 Annual Reward Review for all colleagues – including the adjustment factor for variable reward, awards (for 2019 performance year), pay outcomes and CEO summary • Remuneration for Executive Directors, members of the Executive Committee and Director of Internal Audit as part of the annual review cycle • Fees for Chair and Non-Executive Directors • Consideration of the external environment in which we operate and agreed proposed reductions to salaries/fees of Board members • Full review of our approach to remuneration and performance management for all colleagues across the Bank, ensuring alignment to the strategic plan • Review of Metro Bank Group Personal Pension Plan (Governance report) • Treatment of outstanding variable pay awards in the context of the internal analysis and external investigation into the RWA adjustment
Regulation	• Implementation of remuneration regulatory requirements as a proportionality level 2 firm • Reviewed and approved the extension of the list of roles across the Bank which fall under the Senior Manager and Certification Regime • Remuneration Code Annual Disclosure for 2020 • Ex-post checks for April and October 2020 share option vests • CRO review of FCA remuneration guidelines, including ex-ante checks • Director of Internal Audit sign-off of 2020 Reward Review • Annual review of Remuneration Committee Terms of Reference • New Corporate Governance Code requirements and changes to remuneration report legislation • Remuneration Committee annual effectiveness review, informed by independent, external feedback

Remuneration at a glance

Balanced Scorecard Remuneration Outcome and Company Performance Adjustment Factor

	Weighting	Weighted adjustment factor
A **Financial – see Financial Measures table**	**40%**	**42.5%**
B Risk	20%	11.3%
C Customer	20%	22.5%
D People	20%	22.8%
Total	100%	99.1%
Revised scorecard adjustment factor after discretion applied	100%	74.5%

Financial measures

	Weighted adjustment factor
Underlying Profit (Loss) before tax	**21.0%**
Statutory Return on Tangible Equity	**12.0%**
Statutory Cost : Income Ratio	**9.5%**

Variable reward for all colleagues

Revised Company Adjustment Factor

For each of the individual Company performance metrics the adjustment factor range is 80%–120%

For each performance metric, there will be no payment at all until performance for that metric has reached threshold performance

At threshold performance 80% of the adjustment factor will apply and at maximum performance 120% of the adjustment factor will apply

X

On Target Variable Reward

Each Executive Director is eligible for an on-target variable reward opportunity of 100% of salary

X

Individual Adjustment Factor

The range of the individual adjustment factor is 0%–200%

If the Company adjustment factor doesn't exceed expected performance, the maximum individual adjustment factor that will be applied is 150%

The individual adjustment factor is applied by reference to each colleague's individual behaviours and performance in the year as well as their seniority

=

Total Variable Reward

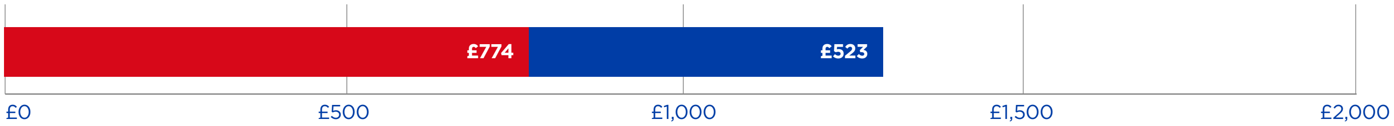
CAP APPLIED 200% OF SALARY

Variable remuneration for Executive Directors will not exceed 200% of salary

2020 Remuneration outcomes for Executive Directors

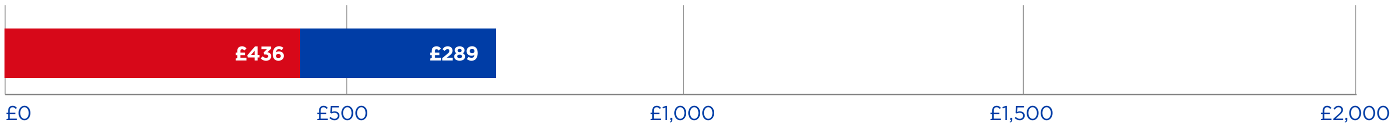
Daniel Frumkin
Chief Executive Officer

2020
£'000



David Arden
Chief Financial Officer

2020
£'000



■ Total fixed remuneration ■ Deferred share award

1. Daniel Frumkin and David Arden have volunteered to forego any cash bonuses for 2020 performance.
2. Deferred share award will over seven-year period, pro rata with no vesting before third anniversary. Each vest subject to mandatory 1-year holding period.

2020 Remuneration outcomes

Financial 42.5% + **Risk** 11.3% + **Customer** 22.5% + **Colleague** 22.8%

Company → Scorecard adjustment factor 99.1% → Remuneration Committee Discretion → Revised company adjustment factor 74.5%

Individual → On-target variable reward opportunity → AMAZEING Review Rating → Total Variable Reward

Annual report on remuneration

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2020. This section will, together with the annual statement by the Chair of the Remuneration Committee, be put to shareholders for an advisory vote at the 2021 AGM.

Single total figure of Remuneration – Executive Directors (audited)

Annual remuneration (£)

The following sets out the remuneration for the individuals who served as Executive Directors in the year.

	Daniel Frumkin		David Arden	
	2020	2019[8]	2020	2019
Salary[1]	**£714,833**	n/a	**£394,875**	£403,750
Taxable benefits[2]	**£1,001**	n/a	**£400**	£356
Pension benefits[1,3]	**£57,253**	n/a	**£39,488**	£40,375
Other[4]	**£875**	n/a	**£768**	£785
Total fixed remuneration	**£773,962**	n/a	**£435,531**	£445,266
Annual variable pay awarded in deferral[5,6]	**£523,214**	n/a	**£288,968**	£115,421
Total variable remuneration[7]	**£523,214**	n/a	**£288,968**	£115,421[9]
Total remuneration	**£1,297,176**	n/a	**£724,499**	£560,687

Notes:
1. Both Daniel Frumkin and David Arden volunteered salary reductions in May, June and July in light of the COVID-19 pandemic. This also impacted their pension contributions. Salaries were reduced by 10% with a further 10% deferment for a period of three months. In respect of Daniel Frumkin, his salary also reflects his time as Interim CEO between 1 January and 18 February 2020. See table below for details of salary reductions.
2. Taxable benefits include private medical insurance.
3. Pension contributions for the Executive Directors may be paid into the Group Personal Pension Plan or paid as a cash in lieu of pension allowance. Daniel Frumkin personally contributes to the pension scheme up to legislative limits and receives a cash allowance of 8% of salary in lieu of company pension contributions. David Arden has opted out of the pension scheme as he has reached the lifetime allowance and receives a cash allowance of 10% of salary.
4. This is made up of non-taxable benefits provided to the Executive Directors and includes life assurance, Group income protection and an annual health check.
5. **2019 Awards:** 100% of the total variable pay awarded was converted into share options. Any share options awarded are included in this figure; they were not in addition to it. There is a continued service condition attached to the award of options.
6. **2020 Awards:** The annual variable pay for 2020 will be delivered fully in shares in the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service.
7. Daniel and David's awards have been calculated using their annual salaries as opposed to adjusted salaries in respect of COVID-19. The voluntary waiver was made in respect of salary payments; the base salary used for calculating variable reward was unchanged by this voluntary waiver.
8. Daniel Frumkin took up the position of Interim CEO on 1 January 2020. Prior to this he held the role of Chief Transformation Officer. His remuneration is only disclosable from his appointment as Interim CEO, at which point he became an Executive Director.
9. 100% of David Arden's 2019 variable reward was delivered in the form of long term share options only. At award, the value of the market price share options was nil. These share options will vest over seven years (pro rata between years three and seven) with a retention period of at least one year after each vest.

Details of the single figure salary (audited)

	Salary as at 1 January 2020	Salary as at 1 April 2020	Total salary paid in 2020[2]
Daniel Frumkin[1]	**£690,000**	**£740,000**	**£714,833[3]**
David Arden	**£405,000**	**£405,000**	**£394,875**

Notes:
1. Daniel Frumkin took up the position of permanent CEO on 19 February 2020, at which point his salary increased from £690,000 to £740,000.
2. Both Daniel Frumkin and David Arden volunteered salary reductions in May, June and July in light of the COVID-19 pandemic. This also impacted their pension contributions. The voluntary waiver was made in respect of salary payments; the base salary used for calculating the variable reward was unchanged by this voluntary waiver. In respect of Daniel Frumkin, his salary also reflects his time as Interim CEO between 1 January and 18 February 2020.
3. If Daniel had not volunteered a reduction in salary in light of COVID-19, his single figure salary would have been £733,306.

2020 variable reward outcomes

Executive Directors' variable reward in relation to performance during 2020 was based on a balanced scorecard of performance measures and objectives, weighted between financial (40%), risk (20%), customer (20%) and people (20%).

In considering the approach to the 2020 year end incentive awards, the Committee agreed to apply the budget recognising the impact of COVID-19 to the corporate scorecard. The Remuneration Committee applied downward discretion to the provisional scorecard adjustment factor and to balance the underlying performance of the business excluding the impact of COVID-19, strong delivery against its strategic plan and the hard work and dedication of our colleagues with current year financial performance, the wider macro-economic environment and the challenges faced by our customers and the communities we serve. With the above in mind and the fact that the Bank had not sought government support through the Coronavirus Job Retention Scheme, the Committee felt it appropriate to offer variable reward to colleagues. However, there will be no cash bonus awards made to the Executive Committee (including Executive Directors) for 2020.

In addition to the Company adjustment factor, a further adjustment factor based on individual behaviours and performance was applied to the balanced scorecard remuneration outcome. The tables below illustrate performance against each of the balanced scorecard measures. As set out on page 125, this approach and adjustment factor are consistent with that applied for all colleagues across the Bank.

Amounts shown reflect the total awards under the variable reward scheme paid in 2021, based on performance in the financial year ending 31 December 2020, including the value of any long term deferred element.

Financial Performance

Performance measure	Weighted performance outcome at threshold[1]	Threshold performance	Weighted performance outcome at target[2]	2020 target performance	Weighted performance outcome at maximum[3]	Maximum performance	Weighted performance outcome	Actual performance outcome
Underlying loss before tax (£'million)	16%	(313.9)	20%	(285.4)	24%	(256.9)	**21.0%**	**(271.8)**
Statutory return on tangible equity (%)	8%	(35.2%)	10%	(32.0%)	12%	(28.8%)	**12.0%**	**(21.8%)**
Statutory cost:income ratio (%)	8%	155%	10%	141%	12%	127%	**9.5%**	**143%**
Total for financial measures	32%		40%		48%		**42.5%**	

1. 80% of weighting is applied for threshold performance i.e. at 90% of target. There is a step progression of 5% in the adjustment factor of the weighted performance outcome from 80% to 120% for every 2.5% increase in performance from 90% to 110%.
2. 100% of weighting is awarded for on-target performance.
3. Maximum adjustment factor is 120% of weighting which is applied for performance of 110% of target or more.

Non-Financial Company Objectives

	Objectives	Key achievements in 2020	2020 Weighted performance outcome at target	2020 Weighted performance outcome
Risk	Key measures relating to Internal Audit, credit quality – arrears and compliance training	Credit quality is good and has continued to perform well, delivering above target performance. Good progress has been made on the enhancements of our Fraud and Financial Crime controls with evidence of delivery against critical milestones throughout 2020. The majority of our audits had good outcomes where controls evaluated were adequate and effective ensuring scorecard target was achieved. Completion of compliance training continues to be a focus of Management, ensuring it is completed in a timely manner across the remote workforce.	**20%**	**11.3%**
Customer	Key measures relating to Net Promoter Scores, and customer complaints	Customer service metrics were above threshold, with customer complaints also in line with expectations. These are good results bearing in mind the changes we had to make to adapt to COVID-19. This performance enabled us to retain our status as the best High Street bank on the CMA service quality results.	**20%**	**22.5%**
People	Key measures relating to voluntary attrition, diversity and being a 'good place to work'	Engagement has remained strong throughout this challenging year. For 2020 we changed the way we measure Engagement and 73% of our colleagues told us that they are happy working at Metro Bank in our annual colleague survey, this is broadly in line with sentiment in previous years. We have seen a decrease in voluntary attrition in the year. We have made progress on both of our diversity metrics, with increases in gender and ethnic diversity in our senior leaders.	**20%**	**22.8%**

Note: As above for financial measures, 80% of weighting is applied for threshold performance – i.e. at 90% of target. There is a step progression of 5% in the adjustment factor of the weighted performance outcome from 80% to 120% for every 2.5% increase in performance from 90% to 110%. 100% of weighting is awarded for on-target performance. Maximum adjustment factor is 120% of weighting which is applied for performance of 110% or more.

Target performance was achieved in all but one of the individual performance metrics under the Customer and People categories on the scorecard.

Overall Balanced Scorecard Remuneration Outcome for Group Performance Adjustment Factor

	Weighting	Weighted performance outcome
A Financial	40%	42.5%
B Risk	20%	11.3%
C Customer	20%	22.5%
D People	20%	22.8%
Total	**100%**	**99.1%**

See how our balanced scorecard measures link to our business model on page 12.

As outlined in our 2019 Annual Report and Accounts, the weightings of the performance measures within the balanced scorecard were amended for 2020. This was following feedback from investors and proxy advisors on appropriate market practice. The weighting of financial measures was increased and the weighting of the customer measure was reduced.

Based on the assessment of performance against the balanced scorecard outcomes outlined above, a Company performance weighting of 99.1% was considered by the Remuneration Committee for 2020. However, using its discretion, the Remuneration Committee agreed to a lower adjustment factor taking into account 2020 financial performance, the external environment and the impact of COVID-19. The revised adjustment factor is 74.5% and has been applied to the annual bonus element of variable reward for all eligible colleagues across the Bank.

Individual Behaviours and Performance Adjustment Factor

A discretionary adjustment factor was applied to variable reward for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Below we set out details of the individual adjustment factor in respect of our Executive Directors for 2020 which was determined by the Remuneration Committee.

Executive Director	Key achievements in 2020	Individual behaviours and performance adjustment factor
Daniel Frumkin	Daniel has successfully steered the Bank through the first year of an ambitious turnaround plan, having announced a new strategy to be the UK's best community bank in February 2020. Whilst the overall financial results for 2020 appear disappointing, if the impact of COVID-19 is removed from the year end outcome, the Bank has exceeded the budgeted 2020 numbers in nearly all aspects of financial performance. Colleague wellbeing and service to customers has been at the top of his agenda, providing visible leadership to all stakeholder groups; engagement has remained strong and our committed colleagues have enabled Metro Bank to be recognised again as the CMA's highest rated for service in Stores. • Operational performance was resilient across all customer channels, and all Stores and AMAZE Direct remained open throughout pandemic. • Rapid response to government support schemes enabling 36,419 businesses to have access to £1.5 billion of government backed loans, provided 2,564 Emergency Repayment Holidays and went the 'extra mile' to identify and help vulnerable customers. • Strong progress implementing sustainable improvements to regulatory controls, risk management framework, financial crime requirements and remediation of historical regulatory issues. • Strengthened his executive team, bringing new talented leaders into key positions. • Recommended and implemented strategic initiatives to meet corporate objectives; – RateSetter acquisition and the subsequent purchase of their back book receivables; – Sale of £3.1 billion of prime residential mortgages to NatWest Group at a premium, avoiding the need to raise additional capital in the near-term; – Creation of a brand new SME lending platform to support BBLS; – Launch of the Business Account Online; – Closure of the Bank's Old Bailey office. All of which have contributed towards putting Metro Bank back on the path of future profitable growth.	115%

Annual report on remuneration continued

Overall Balanced Scorecard Remuneration Outcome for Company Performance Adjustment Factor continued

David Arden	2020 has been a strong year for David, he has made a significant contribution to progress against the turnaround plan. • Led the work to reshape the balance sheet through the sale of £3.1 billion of our Mortgage Portfolio to NatWest Group. • Integral to the successful acquisition of RateSetter which has enabled Metro Bank to quickly establish a presence in the unsecured loan market. • Provided Daniel with invaluable support across a range of internal and external matters through his first year, H1 results in particular. • Further strengthened cost focus through greater transparency and discipline. • Worked to build positive stakeholder relationships and has made further progress improving our Regulatory agenda. • Continued to build capability and capacity in his team and to further enhance our control environment.	115%

Calculation of Variable Pay for the Executive Directors

Executive Director	Salary for variable reward (Note 2)	Company performance adjustment factor[1]	Individual behaviours and performance adjustment factor	Company and individual performance adjustment outcome	Remuneration Committee discretionary adjustment	Company and individual performance adjustment outcome after discretion	Maximum opportunity (as % of salary)	Variable reward (deferred share award)[2,3]
Daniel Frumkin	£733,306	74.5%	115.0%	85.675%	50.0%	35.675%	200%	£523,214
David Arden	£405,000	74.5%	115.0%	85.675%	50.0%	35.675%	200%	£288,968

1. The corporate adjustment factor of 99.1% was adjusted to 74.5% after the Remuneration Committee applied discretion after taking into account 2020 financial performance, the external environment and the impact of COVID-19.
2. Daniel Frumkin and David Arden's awards have been calculated using their annual salaries as opposed to adjusted salaries in respect of COVID-19. The voluntary waiver was made in respect of salary payments; the base salary used for calculating variable reward was unchanged by this voluntary waiver. In respect of Daniel Frumkin, his salary also reflects his time as Interim CEO between 1 January and 18 February 2020.
3. No cash bonus will be paid. The full variable award will be delivered in shares in the Deferred Variable Reward Plan.

In recognition of the corporate scorecard outcome and a holistic review of personal performance and contribution for 2020, the Remuneration Committee agreed an incentive outcome against the Executive Directors' maximum incentive opportunity of 200% of salary permitted under the current Policy. The Remuneration Committee reviewed the outcome of the company and personal performance adjustment factor of 85.675% for the Executive Directors. Acknowledging that underlying business performance has been strong against scorecard measures but mindful of the shareholder experience during the last 12 months, the Remuneration Committee exercised its discretion to reduce this outcome by 50% to 35.675% for the Executive Directors. There will be no cash bonus awards made this year and the Executive Director incentive awards will be delivered in the Deferred Variable Reward Plan.

These awards contribute to the Executive Directors building up their Shareholding Requirement. All share awards are subject to malus and clawback provisions.

How Variable Reward is paid

Executive Director	Total 2020 variable reward	Element of variable reward	Value (£)	Method of delivery[1]
Daniel Frumkin	£523,214	Cash	–	• Paid immediately in cash
		Short term share award	–	• Shares granted immediately but subject to a mandatory 1-year holding period
		Deferred share award	£523,214	• Shares that vest over 7-year period, pro-rata • No vesting is permitted before third anniversary with pro rata vesting from year 3 to year 7 • Each vest subject to mandatory 1-year holding period • No performance conditions
David Arden	£288,968	Cash	–	• Paid immediately in cash
		Short term share award	–	• Shares granted immediately but subject to a mandatory 1-year holding period
		Deferred share award[2]	£288,968	• Shares that vest over 7-year period, pro-rata • No vesting is permitted before third anniversary with pro-rata vesting from year 3 to year 7 • Each vest subject to mandatory 1-year holding period • No performance conditions

1. Daniel Frumkin and David Arden have volunteered to forgo any cash bonuses for 2020 performance. The full variable award will be delivered in shares in the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service.
2. All share awards made to David Arden will be frozen pending further internal analysis and any external investigations into the RWA adjustment.

Annual report on remuneration continued

Directors' remuneration policy in brief and implementation in 2021

Subject to AGM approval of the new policy and the LTIP plan rules, an LTIP award will be made under the new policy to Daniel and David of 100% of their salary. These LTIP awards will have four-year forward-looking performance conditions, be retentive, will align the Executive Director's interests with shareholders and incentivise them to deliver on the strategic plan. The vesting and holding period would extend from five to eight years post grant.

The LTIP grants to the Executive Directors will equal 100% of base salary in recognition of their contribution to performance in the challenging period, their strategic direction, maintaining business continuity through the turbulence of the last year and is to provide a meaningful incentive to drive Metro Bank forward and to deliver the Strategic Plan in the ongoing difficult conditions.

Performance conditions and targets together with corresponding weightings for LTIP awards to be granted in 2021 in respect of forward-looking performance period 2021-2024 are as follows:

	Weighting	Threshold	Maximum
Total shareholder return (TSR) relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory ROTE	40%	See Note 1	
Risk and regulatory	20%	See Note 2	

1. The ROTE performance range will be disclosed in the Annual Report and Accounts immediately following Metro Bank resuming provision of medium term guidance to the market. Since Metro Bank is not currently providing medium term guidance to the market, this is deemed commercially sensitive at this time.
2. Based on a Remuneration Committee assessment of specific quantitative and qualitative measures.

The table below sets out the key features of our proposed new Remuneration Policy, and how it will be implemented in 2021. The Policy is due to be approved by shareholders at our AGM in 2021 for the following three years. Full details of the proposed Policy can be found on pages 135 to 147.

Key elements of remuneration	Key features of the Policy	Implementation for 2021
Salary	• Reviewed annually and increases will normally be in line with increases awarded to other colleagues • There may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, for example where the size and scope of a particular role is increasing as the organisation grows	• Daniel Frumkin: CEO: £740,000 (unchanged) • David Arden: CFO: £405,000 (unchanged)
Benefits	Core benefits include: • Life assurance of 4x salary • Private medical insurance for the Executive Director, their partner and children • Additional benefits may be provided in certain circumstances such as on relocation • Executive Directors will be eligible to participate in any all-employee Share Incentive Plan	• Benefits are provided in line with the approved Policy
Pension	• Executive Directors are automatically enrolled into our Group Personal Pension Plan when they join the Bank. If they have exceeded the lifetime allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit • The maximum employer contribution (including cash in lieu) is 10% of salary	Company contributions: • Daniel Frumkin: 8% of salary • David Arden: 10% of salary
Annual Bonus	• Variable remuneration will be limited to 200% of salary for a financial year. Within this overall limit, annual bonus to be limited to 100% of salary for a financial year • Deferral of annual bonus will be into long term deferred shares	• Scorecard will have a CET1 gateway requirement • 60% Financial (PBT, Cost:Income ratio, Loan to deposit ratio) • 20% Risk (Cost of Risk, Relationship with Regulators) • 10% Customer (NPS, EoDs) • 10% Colleague (Engagement, Diversity) Performance ranges will be disclosed in the 2021 Annual Report as commercially sensitive to disclose at this stage.

Key elements of remuneration	Key features of the Policy	Implementation for 2021
Long Term Incentive Plan (LTIP)	• Variable remuneration will continue to be limited to 200% of salary for a financial year. Within this overall limit LTIP to be limited to 100% of salary for a financial year • Performance to be measured over a three-year period. LTIP shares will be subject to a post-vesting holding period with the result that shares will be held at least five years prior to release • The performance conditions have been aligned to the Strategic Plan and the performance range for these measures will be set to be stretching	• The first grant of LTIP in 2021 will have a four year performance period 2021-2024 to align with the strategic plan • See above table for LTIP performance measures and performance ranges • The ROTE performance range will be disclosed in the Annual Report and Accounts immediately following Metro Bank resuming provision of medium term guidance to the market. Since Metro Bank is not currently providing medium term guidance to the market, this is deemed commercially sensitive at this time
Non-Executive Directors	• All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member • Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director • The basic and additional fees are reviewed periodically, drawing on external market information for comparable financial services groups and companies	• Our Non-Executive Directors are paid in line with the approved Policy • The basic annual fee paid to all Non-Executive Directors remains unchanged at £52,500 • The annual fee for the Chair remains unchanged at £350,000

Remuneration for colleagues below board level

Our approach to remuneration for colleagues below our Executive Committee is consistent for all colleagues. Whilst remuneration for the Executive Committee (including Executive Directors) is structured differently to that of the wider colleague population, it is consistent across this small cadre of colleagues. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business whilst discouraging unnecessary risk taking. Remuneration amongst Executive Committee level colleagues is also focussed on the long term growth of the Bank.

Our current Directors' Remuneration Policy, as approved by shareholders at the AGM on 26 May 2020, as well as our proposed Policy going forward, was developed by reference to our reward principles, which apply to all colleagues:

- Pay fair salaries and offer strong career and growth opportunities in an AMAZEING culture
- Encouraging everyone to be an owner, aligning them to the Bank's long term vision
- Reward colleagues based on Metro Bank's culture and performance and how they behave and deliver, both as part of the team and as an individual
- Keep reward as simple, transparent and as competitive as possible, whilst complying with all relevant regulatory requirements and meeting shareholder expectations

Summary of the Remuneration Structure for colleagues below board level

Salary	Benefits	Pension	Variable remuneration
• We have a 'normal' inflationary and performance-related pay pot of 2.5% • The quantum of salary increases are primarily driven by individual behaviours and capability • We also review salaries for roles that we deem are growing rapidly in scale and/or complexity and are critical to the business and for those colleagues which market data suggests are falling behind the market rates for their roles	• All colleagues are eligible for private medical insurance funded at different rates of cover depending on their level of seniority • All colleagues, including the Executive Directors, receive Life Assurance cover of four times their base annual salary	• The table below shows the minimum and maximum employer pension contributions payable by Metro Bank year-on-year	• We apply the same Company performance adjustment factor to all colleagues • For all colleagues whose personal behaviours and delivery are as expected or better, we apply a adjustment factor up to a maximum of 200%

Annual report on remuneration continued

Pension Contributions[1]

Employer contribution as a % of salary	2020 Minimum	2020 Maximum	2019 Minimum	2019 Maximum	% increase Minimum	% increase Maximum
CEO[2]	**8%**	**8%**	10%	10%	(20%)	(20%)
Executive Directors[2] & Executive Committee	**8%**	**10%**	10%	10%	(20%)	0%
Senior leaders and experts	**10%**	**10%**	10%	10%	0%	0%
Managers and specialists	**8%**	**8%**	8%	8%	0%	0%
Entry-level roles	**6%**	**6%**	6%	6%	0%	0%

1. Data at 1 April each year.
2. A newly appointed Executive Director's pension contributions will be aligned with or lower than those of the wider workforce at the time of appointment. Daniel Frumkin was appointed on a pension contribution of 8% of base salary.

Change in Directors remuneration compared with colleagues

The table below sets out the percentage change in salary and variable reward between 2019 and 2020 for Directors compared with the wider colleague population.

Executive Committee (including Executive Directors) salaries increased at a lower rate than the wider colleague population year on year. However variable reward for Executive Committee members increased by a larger percentage due to the impact of the RWA adjustment on 2019 remuneration outcomes.

Annual percentage change in remuneration between 2019 and 2020

	Average		
	Salary/Fees	Taxable benefits	Variable reward
All colleagues[1]	4.7%	23.9%	41.1%
CEO[2]	(4.7%)	12.5%	100.0%[6]
CFO	(2.2%)	12.5%	150.4%
Executive Committee	3.0%	8.5%	266.5%
Robert Sharpe	n/a	0.0%	n/a
Catherine Brown[3]	13.8%	0.0%	n/a
Sally Clark	n/a	0.0%	n/a
Anne Grim	n/a	0.0%	n/a
Ian Henderson	n/a	0.0%	n/a
Monique Melis[3]	40.6%	0.0%	n/a
Michael Snyder[3]	75.8%	0.0%	n/a
Paul Thandi[3]	6.6%	0.0%	n/a
Michael Torpey[4]	246.6%	0.0%	n/a
Nicholas Winsor	n/a	0.0%	n/a
Roger Farah[5]	(79.7%)	268.9%	n/a
Gene Lockhart[5]	(65.7%)	191.9%	n/a
Stuart Bernau[5]	(66.0%)	0.0%	n/a

1. Due to the significant growth at Metro Bank, 'All colleagues' percentages reflect average percentage change in FTE salary, taxable benefits and allowances, and bonus for colleagues employed on both 31 December 2019 and 31 December 2020. Colleagues who joined or left the Bank within this period have been excluded from the analysis. Salary is taken as at 31 December 2019 and 31 December 2020.
2. Considers Craig Donaldson in the role of CEO for 2019 and Daniel Frumkin in the role for 2020.
3. Year on year increase in fees due to Non-Executive Directors either taking on additional responsibility or undertaking a change in role.
4. New Board member in 2019. 2020 fees reflect a full year and 2019 fees reflect limited period in role.
5. The following Non-Executive Directors stepped down from the Board during the year; Roger Farah (13 March 2020), Gene Lockhart (28 April 2020) and Stuart Bernau (18 May 2020). The benefit increase for Roger Farah and Gene Lockhart was due to settlement of outstanding expenses from 2019 and 2020 prior to their leaving date).
6. Craig Donaldson did not receive a variable reward for 2019. Daniel Frumkin's 2020 variable pay will be delivered in long term deferred shares vesting over seven years.

CEO to colleague pay ratio disclosure

Year	Calculation methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	CEO salary	25th percentile salary	Median salary	75th percentile salary	CEO total pay	25th percentile total pay	Median total pay	75th percentile total pay
2020	**A**	**55:1**	**40:1**	**23:1**	**£714,800**	**£21,100**	**£27,400**	**£47,000**	**£1,297,000**	**£23,800**	**£32,200**	**£57,000**
2019	A	36:1	27:1	16:1	£750,000	£20,700	£26,700	£43,400	£828,600	£22,900	£30,300	£51,200

Note: Salary and total pay figures have been rounded to the nearest £100.
The CEO salary and total pay figures consider Craig Donaldson for 2019 and Daniel Frumkin for 2020.
We have not diverged from the single total figure methodology when calculating employee pay and benefits.

Payroll data from 1 January to 31 December 2020 was used to calculate the lower, median and upper-quartile colleagues. We used the 'single figure' approach (Option A) to calculating total remuneration for all colleagues employed on 31 December 2020. This methodology was chosen as it is the most straightforward approach.

Three colleagues were identified whose full-time equivalent total remuneration places them at the 25th, 50th and 75th percentiles. Colleague total remuneration includes salary, allowances, employer pension contributions, Company-funded health and risk benefits, referral bonuses as well as total variable reward awarded in 2021 in respect of the 2020 performance year. All elements were calculated on a full-time equivalent basis. We are confident that the colleagues identified at the lower, median and upper quartiles are remunerated in line with the Company's wider policies on colleague pay, reward and progression.

The pay ratio has increased year on year due to the Committee agreeing that Craig Donaldson would not be awarded variable remuneration in respect of the 2019 performance year.

Relative importance of spend on pay

The table below shows total remuneration of all colleagues for 2020 compared to 2019. This data is taken from the people costs on page 176 and excludes social security and pension costs.

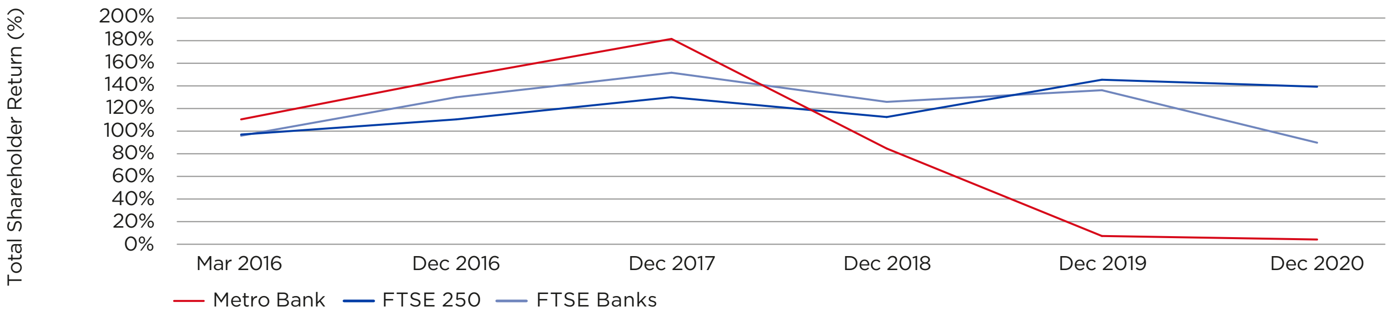
	2020 £'million	2019 £'million	% change
Employee costs	166.9	142.2	17.4

Employee costs have increased as a result of the average salary figure increasing across the Bank between 2019 and 2020. Colleague headcount has increased across the Bank, with the sharpest rise in specialist professional roles, supporting the delivery of strategic projects and strengthening regulatory controls.

We made no distributions by way of dividend or share buy-back during the year, or any other significant distributions. We therefore consider that at this time there is no information or data which would assist shareholders in understanding the relative importance of spend on pay.

Total Shareholder Return

The chart shows our total shareholder return (TSR) relative to the FTSE 250 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250) since our listing on the London Stock Exchange in March 2016. These indices have been chosen as they represent a cross-section of UK companies and banks.



Annual report on remuneration continued

CEO Historic Remuneration

	Daniel Frumkin[1]	Craig Donaldson					
	2020	2019	2018	2017	2016	2015	2014
Total remuneration (including any Listing awards)	**£1,297,176[2]**	**£828,565[3]**	£800,944	£1,518,893	£1,304,919	£2,661,474[4]	£749,443
Variable reward outcome as a percentage of the maximum that could have been paid[5]	**35.7%**	**0%**	0%	62%	52%	n/a[6]	n/a[6]

1. Daniel Frumkin took up the position of Interim CEO on 1 January 2020 and became permanent CEO on 19 February 2020.
2. Daniel Frumkin has volunteered to forgo any cash bonus for 2020 performance. Variable pay will be delivered in shares in the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service.
3. The figure for 2019 takes into account zero variable reward for Craig Donaldson in light of the Committee agreeing that Craig will not be awarded variable remuneration in respect of the 2019 performance year.
4. As disclosed in the Prospectus and 2016 Annual Report, Craig Donaldson received a higher variable reward for 2015 in the form of share awards, granted in March 2016, in recognition of his significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange, as well as his performance in 2015. No other variable reward for the 2015 performance year was awarded. The Listing Share Award is subject to continued employment and no further performance conditions apply to vesting. Further details are included in the shareholding table on page 131 and outstanding share awards table on page 133. As mentioned above, the vesting of these share awards will be frozen pending further internal analysis and any external investigations into the RWA adjustment.
5. Our Directors' Remuneration Policy containing a maximum variable reward outcome was first approved by shareholders at the AGM on 25 April 2017. Under our current Remuneration Policy, approved by shareholders on the 26 May 2020, and our and proposed Remuneration Policy (subject to AGM approval) variable reward remains capped at 200% of salary.
6. Prior to approval of the Policy this cap was not in place.

Non-Executive Directors' Remuneration

Chair's fees

The fees for the Chair remain unchanged at £350,000.

Non-Executive Directors' fees

The Non-Executive Directors are paid a basic fee, with further fees payable to reflect Board Committee memberships and chairmanships and/or additional responsibilities such as Senior Independent Director. Fees are reviewed annually. The fees are benchmarked against financial services and FTSE 250 companies.

The basic fee for Non-Executive Directors, which was last increased in April 2018, remains unchanged at £52,500. Additional fees remain unchanged from 2018. The latest fees are shown below:

Role	Annual fee (£'000)
Non-Executive Director – basic fee	52.5
Senior Independent Director or Deputy Chair	30.0
Chair of Audit or Risk Committee or Designated NED for Workforce Engagement	20.0
Chair of Nomination or Remuneration Committee	10.0
Member of Audit, Risk or Remuneration Committee	10.0
Member of Nomination Committee	5.0

Non-Executive Directors' fees and taxable benefits (audited)

The table below shows the actual fees paid to our Chair and Non-Executive Directors in 2020 and 2019[1].

	Robert Sharpe (Chair)		Stuart Bernau[2]		Catherine Brown		Sally Clark		Roger Farah[3,4]		Anne Grim	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Fees	**£58,333**	n/a	**£30,643**	£90,000	**£81,118**	£71,250	**£79,106**	n/a	**£17,898**	£88,333	**£49,293**	n/a
Taxable benefits[7]	**£0**	n/a	**£0**	£8,493	**£0**	£0	**£0**	n/a	**£9,740**	£2,640	**£0**	n/a
Total	**£58,333**	n/a	**£30,643**	£98,493	**£81,118**	£71,250	**£79,106**	n/a	**£27,638**	£90,973	**£49,293**	n/a

	Ian Henderson		Gene Lockhart[4,5]		Anna (Monique) Melis		Sir Michael Snyder[6]		Paul Thandi		Michael Torpey	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Fees	**£55,998**	n/a	**£29,167**	£85,000	**£101,947**	£72,500	**£230,000**	£130,798	**£68,875**	£64,583	**£89,542**	£25,833
Taxable benefits[7]	**£0**	n/a	**£11,206**	£3,838	**£0**	£0	**£0**	£0	**£0**	£0	**£1,673**	£0
Total	**£55,998**	n/a	**£40,373**	£88,838	**£101,947**	£72,500	**£230,000**	£130,798	**£68,875**	£64,583	**£91,215**	£25,833

	Nicholas Winsor	
	2020	2019
Fees	**£39,982**	n/a
Taxable benefits[7]	**£0**	n/a
Total	**£39,982**	n/a

1. These figures include all fees paid to the Senior Independent Director and to Non-Executive Directors for Board Committee memberships and Committee chairmanships.
2. Left the Board on 18 May 2020.
3. Left the Board on 13 March 2020.
4. For our US-resident Non-Executive Directors all travel is covered by a PAYE Settlement Agreement. Food and lodging are put through payroll and taxed accordingly, rounded up to the nearest £.
5. Left the Board on 28 April 2020.
6. Undertook the role of interim Chair from 23 October 2019 to 31 October 2020.
7. Taxable benefit figures for our UK Non-Executive Directors reflect grossed-up expenses claimed. Both the 2019 and 2020 figures reflect expenses claimed in the 2018-19 and 2019-20 tax years respectively.

Service Contracts and Letters of Appointment

Both Executive Directors have service contracts. Our Non-Executive Directors do not have service contracts but are bound by letters of appointment which are available for inspection on request at the Company's registered office.

Non-Executive Directors are appointed for fixed terms not exceeding two years, which may be renewed subject to their re-election by shareholders at AGMs.

The effective dates of the current Directors' appointments disclosed in their service contracts are shown in the table below.

Executive Director	Notice period	Date of service contract
Daniel Frumkin	12 months	18 February 2020
David Arden	12 months	19 March 2018

Annual report on remuneration continued

Payments to past Directors (audited)

There were no payments made to past Directors in 2020.

Payments for Loss Of Office (audited)

Craig Donaldson received payments in line with the Bank's remuneration policy and his settlement agreement during 2020. During his notice period, he received his salary (£750,000), pension (£75,000) and non-cash benefits (£3,884). He did not receive any variable remuneration in respect of performance year 2020.

Vernon W. Hill, II received payment in lieu of his annual fee pro-rata (£72,917) up to and including 9 March 2020 (i.e. the expiry of his current term). He did not claim any expenses during 2020.

Dilution Limits

The rules of the Metro Bank PLC Deferred Variable Reward Plan contain limits on the dilution of capital. These limits are monitored to ensure that we do not exceed 10% of the issued share capital in any rolling 10-year period. For awards made after the 2021 AGM under the new policy, we will ensure awards under the Deferred Plan and the LTIP will not exceed 5% of the issued share capital in any rolling 10-year period, in line with guidance.

Statement of Voting at the AGM

We will be proposing a resolution to shareholders in respect of the annual report on remuneration, the Directors' Remuneration Policy, minor amendments to the Deferred Variable Reward Plan and the Long Term Incentive Plan (LTIP) at the 2021 AGM.

The table below shows the voting outcomes on the annual report on remuneration and the Directors' Remuneration Policy at the last AGM held on 26 May 2020.

Item	For no.	For %	Against no.	Against %	Votes withheld
Remuneration Policy	88,493,441	92.77	6,893,174	7.23	5,513,110
2019 Remuneration Report	89,259,211	93.38	6,332,404	6.62	5,309,036

At the 2020 AGM, all resolutions were passed by a significant majority of shareholders.

Advisors to the Remuneration Committee

The Committee has not appointed an independent remuneration advisor but, during 2020, Deloitte LLP and Aon (McLagan) have offered advice to management who have advised the Committee. During the period, Aon provided advice on executive and colleague benchmarking and also the 2021 remuneration policy whilst Deloitte LLP also offered advice on our 2020 remuneration policy. Fees in relation to executive benchmarking and remuneration policy totalled £93,500 (excluding VAT), with Deloitte fees totalling £34,300 and Aon (McLagan) fees totalling £59,200. The Committee was satisfied that both Deloitte LLP and Aon (McLagan) offered independent and impartial advice.

Shareholding (audited)

These are the total shareholdings as at 31 December 2020 for each of the Non-Executive Directors and Executive Directors and any related connected persons. Outstanding share awards, including share options, are summarised on pages 132 to 134.

Director*	No. of shares	Percentage of share capital
Robert Sharpe	30,000	0.02
Daniel Frumkin	2,350,000	1.36
David Arden	18,400	0.01
Stuart Bernau[1]	51,154	0.03
Catherine Brown	100	0.00
Sally Clark	0	0.00
Roger Farah[2]	685,023	0.40
Anne Grim	22,500	0.01
Ian Henderson	15,000	0.01
Gene Lockhart[3]	44,989	0.03
Monique Melis	1,690	0.00
Sir Michael Snyder	145,000	0.08
Paul Thandi	30,000	0.02
Michael Torpey	0	0
Nicholas Winsor	50,000	0.03

1. Stuart Bernau held 51,154 shares when he left the Board on 18 May 2020.
2. Roger Farah held 685,023 shares when he left the Board on 13 March 2020.
3. Gene Lockhart held 44,989 shares when he left the Board on 28 April 2020.

This table includes vested shares where the Director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependant child under the age of 18 years.

Robert Sharpe purchased 16,000 shares on 11 March 2021, his total holding is now 46,000 shares representing 0.03% of the Company's issued share capital. Other than this, since the year end and up to 15 March 2021, no transactions in shares by Directors and their connected persons have taken place.

Directors' Shareholdings

Shareholding guidelines

Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary. With the deferral in shares and introduction of an LTIP, a five year timeframe will be formalised for the build-up of the Executive Director Shareholding Requirement. Until this level is achieved, there is a requirement to retain 50% of net shares in the Deferred Variable Reward Plan and those which vest under the LTIP.

Daniel Frumkin has purchased 2,350,000 shares. David Arden has purchased 18,400; he became a Director of the Company on 19 March 2018 and we are allowing him time to build up his shareholding.

Annual report on remuneration continued

Executive Directors are required to retain 100% of their shareholding requirement (or actual shareholding if lower) for two years post-cessation of employment.

	Base Salary	Requirement as a % of base salary	Wholly owned shares	Value[1]	Shareholding requirement met?
Daniel Frumkin	£740,000	200%	2,350,000	£3,290,000	Yes
David Arden	£405,000	200%	18,400	£25,760	No

1. Values are based on 31 December 2020 closing price of 140.00p.
2. The above table reflects the position as at 31 December 2020.

Outstanding Share Awards (audited)

Options have an exercise price that is equal to market value at the date of grant; share options awarded under the Company Share Option Plan (CSOP) from CSOP 2016 onwards are based on the Volume Weighted Average Share Price for Metro Bank on a date determined by the Remuneration Committee.

We have not awarded share options to Non-Executive Directors since 2015 (relating to the 2014 performance year).

No dividends or dividend equivalents are payable on any share options or on any unvested share awards held.

The tables below show, for each Executive Director and Non-Executive Director as at 31 December 2020:

- the total number of share awards, shares granted or interests in shares granted and the award price;
- the total number of outstanding share awards; and
- the total number of share awards frozen, subject to the ongoing RWA investigation. See page 112.

Daniel Frumkin

Share Option Plan Name	Share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested (frozen)[1]	Share options still subject to conditions	Exercised in year
CSOP2020 – Hiring Agreement	100,000	31/03/20	£0.93	£93,000	30/04/23	30/04/27	–	–	100,000	–
Total	**100,000**								**100,000**	

David Arden

Share Option Plan Name	Share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested (frozen)[1]	Share options still subject to conditions	Exercised in year
CSOP2020	76,947	31/03/20	£0.93	£71,561	30/04/23	30/04/27	–	–	76,947	–
CSOP 2019 Deferred Cash 1 Year	9,600	02/04/19	£7.94	£76,224	30/04/20	30/04/20	–	9,600	–	–
CSOP2019	19,200	02/04/19	£7.94	£152,448	30/04/20	30/04/24	–	3,840	15,360	–
CSOP2018	30,000	31/03/18	£35.36	£1,060,800	30/04/19	30/04/23	–	11,999	18,001	–
Total	**135,747**						**–**	**25,439**	**110,308**	**–**

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

Craig Donaldson

Share Option Plan Name	Share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested (frozen)[1]	Share options still subject to conditions	Exercised in year
CSOP 2018 Deferred Cash 1 Year	20,000	31/03/18	£35.36	£707,200	30/04/19	30/04/19	–	20,000	–	–
CSOP2018 Bonus Exchange	20,000	31/03/18	£35.36	£707,200	31/03/18	31/03/18	20,000	–	–	–
CSOP2018	40,000	31/03/18	£35.36	£1,414,400	30/04/19	30/04/23	–	16,000	24,000	–
CSOP2017 Deferred Cash 1 Year	16,819	31/03/17	£32.73	£550,486	30/04/18	30/04/18	16,819	–	–	–
CSOP2017 Bonus Exchange	16,819	31/03/17	£32.73	£550,486	31/03/17	31/03/17	16,819	–	–	–
CSOP2017	33,637	31/03/17	£32.73	£1,100,939	30/04/18	30/04/22	6,727	13,455	13,455	–
CSOP2016 Pension Exchange	4,541	04/03/16	£20.00	£90,820	21/03/16	21/03/16	4,541	–	–	–
CSOP2015	30,000	04/11/15	£16.00	£480,000	31/10/16	31/10/20	18,000	12,000	–	–
CSOP2015 Bonus Exchange	20,000	20/03/15	£14.00	£280,000	20/03/15	20/03/15	20,000	–	–	–
CSOP2014	130,000	31/10/14	£13.50	£1,755,000	31/10/15	31/10/19	104,000	26,000	–	–
CSOP2014 Bonus Exchange	13,077	21/03/14	£13.00	£170,001	21/03/14	21/03/14	13,077	–	–	–
CSOP2013	30,000	11/11/13	£12.00	£360,000	11/11/16	11/11/18	30,000	–	–	–
CSOP2012	50,000	31/10/12	£10.00	£500,000	31/10/13	31/10/15	50,000	–	–	–
CSOP2011	11,000	07/10/11	£9.00	£99,000	07/10/12	07/10/14	7,667	–	–	–
Total	**435,893**						**307,650**	**87,455**	**37,455**	**–**

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

Share Plan Name	Shares awarded	Award date	Award price	First vesting date	Last vesting date	Shares vested and transferred	Shares vested (frozen)[1]	Shares still subject to conditions	Exercised in year
Project Revolution (Listing Awards)	55,459	04/03/16	£0.00	10/03/16	30/04/21	28,837	17,746	8,876	–

1. All vestings under existing awards will remain frozen as will any future awards subject to further internal analysis and any external investigation into the RWA adjustment.

Annual report on remuneration continued

Stuart Bernau

Scheme Name	Share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	7,500	–	–	
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/10/19	15,000	–	–	
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–	
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	–	–	–	
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	–	–	–	
Total	**33,500**						**27,500**	**–**	**–**	

Gene Lockhart

Scheme Name	Share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options vested and unexercised	Share options still subject to conditions	Exercised in year
CSOP2015	7,500	04/11/15	£16.00	£120,000	31/10/16	31/10/20	7,500	–	–	
CSOP2014	15,000	31/10/14	£13.50	£202,500	31/10/15	31/10/19	15,000	–	–	
CSOP2013	5,000	11/11/13	£12.00	£60,000	11/11/16	11/11/18	5,000	–	–	
CSOP2012	2,000	31/10/12	£10.00	£20,000	31/10/13	31/10/15	2,000	–	–	
CSOP2011	4,000	07/10/11	£9.00	£36,000	07/10/12	07/10/14	4,000	–	–	
Total	**33,500**						**33,500**	**–**	**–**	

Executive Director proposed Share-Based Awards

The following share-based awards are proposed to be made in 2021 in respect of the 2020 performance year and are already included in the single figure table for 2020 variable pay on page 118.

Vesting period	Daniel Frumkin	David Arden
After one year	0	0
After seven years[1,2]	£523,214	£288,968
Total	**£523,214**	**£288,968**

1. The annual variable pay for 2020 will be delivered fully in shares in the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service.
2. Share awards made under the Deferred Plan will be granted at a price on the last Dealing Day before the Grant Date, or the average of the closing middle market quotations for Metro Bank as agreed by the Remuneration Committee.
3. The vesting of David Arden's deferred share award will be frozen pending further internal analysis and any external investigations into the RWA adjustment.

Our Remuneration Policy

The section below sets out the Remuneration Policy for Executive and Non-Executive Directors.

Following adoption by the Board of Metro Bank's new Strategic Plan (set out in the H1 2020 Results Presentation) to turn around the business, a new Remuneration Policy will be submitted for shareholder approval at our Annual General Meeting in May 2021 to support delivery of the Strategic Plan. If approved, it will take effect from that date. Details of how the policy will be applied in 2021 are included in the Directors' Remuneration Report.

It is intended that the policy will apply for three years from the date of approval. However, the Remuneration Committee will consider the policy annually to ensure it remains aligned with the business strategy and regulatory requirements. Any changes needed within three years would be subject to shareholder approval, where required.

In determining the new Remuneration Policy, the Committee has undertaken a thorough review of remuneration arrangements at Metro Bank, the strategic priorities of the business, FTSE market practice and investor guidance.

The views of our shareholders on remuneration matters are also important to us and, as a result, we requested feedback from our key shareholders and representative bodies.

With this in mind, we are proposing to make a number of changes to our Directors' Remuneration Policy to align with good practice, regulatory requirements and to put in place a policy which will motivate and incentivise executives and colleagues to deliver Metro Bank's Strategic Plan.

The Committee are satisfied that any conflicts of interest have been mitigated in the preparation of this Policy.

1. Policy

Metro Bank offers banking, focused on the customer, through unparalleled levels of service and convenience.

We offer an approach to compensation which supports our unique culture and strategy as well as being aligned to shareholder needs. We reward colleagues who display the right behaviours and deliver the right outcome for customers and the business, focusing on long term growth and discouraging unnecessary risk-taking.

Pay, pension levels and employment conditions of other colleagues in the Bank were also taken into account when setting this Remuneration Policy. In particular, base salary of Executive Directors is limited by reference to colleague pay as described on page 137 and there is a process for managing Executive Director pension alignment with the majority of the workforce. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our Designated Non-Executive Director for Workforce Engagement.

Our Remuneration Policy continued

Summary of policy changes

This updated Policy has been developed taking into account various regulatory requirements and governance principles. The key changes proposed are set out below:

Component	Current Policy	New Policy
Base salary	Competitive salaries based on role requirements and individual experience which enable us to attract and retain the right calibre of colleague.	No change from previous policy.
Pension	All newly appointed Executive Director contributions to be aligned with or lower than those of the wider work force at the time of appointment. Incumbent Executive Director contributions to be aligned with the wider workforce by the end of 2022.	For the incumbent Executive Directors, they will transition by 31 December 2022 to be eligible for employer pension contributions aligned with or lower than the majority of the Metro Bank colleagues at that time. Executive Director pension contributions are currently set at 8% for the CEO and 10% for the CFO. For new Executive Director hires, they will be eligible for employer pension contributions aligned with or lower than those of the majority of the workforce at the time of appointment.
Benefits	Standard benefits that are provided to Executive Directors are offered to all colleagues. Legacy benefits are no longer offered.	No change from previous policy.
Annual Bonus	Variable remuneration for a financial year is limited to 200% of salary. On-target opportunity is 50% of maximum opportunity i.e. 100% of base salary. At least 40% of variable remuneration will be based on financial performance measures. Variable remuneration deferral into market price options. Deferral for a period of not less than seven years, with pro-rata vesting permitted between years three and seven, and a retention period of at least one year after each vest as required by regulation.	Variable remuneration will continue to be limited to 200% of salary for a financial year. Within this overall limit, annual bonus to be limited to 100% of salary for a financial year. Deferral of annual bonus will be into shares. At least 60% of the corporate scorecard measures will be based on financial performance. Additionally, there will be a gateway requirement of CET1 or a profit hurdle.
Long Term Incentive Plan (LTIP)	No Long Term Incentive Plan.	Variable remuneration will continue to be limited to 200% of salary for a financial year. Within this overall limit LTIP to be limited to 100% of salary for a financial year. Performance to be measured over a three-year period. Subject to AGM approval, the first grant of LTIP in 2021 will have a four-year performance period 2021-2024 and be subject to a post-vesting holding period with the result that awards will not be released until at least five years from grant which, depending on regulatory requirements may extend to eight years prior to release. The performance conditions have been aligned to the Strategic Plan and the performance range for these measures will be set to be stretching.

Component	Current Policy	New Policy
Shareholding requirement	Requirement for Executive Directors to build and maintain a shareholding of 200% of base salary.	With the deferral in shares and introduction of an LTIP, the new policy will introduce a five-year time frame for the build-up of the Executive Director shareholding requirement of 200% of salary from the start of the new policy.
Post-cessation shareholding requirement	Executive Directors are required to retain 100% of their shareholding requirement (or actual holding if lower) for two years post-cessation of employment.	An enforcement mechanism for the post-cessation shareholding requirement will be introduced effective for awards granted from the start of the new policy.

2. Components of Remuneration for Executive Directors

Base salary

Purpose and link to strategy	Base salary is part of the total proposition at Metro Bank, including career and growth opportunities and long term reward. We aim to set pay at a level which enables us to attract and retain the right calibre of colleagues, with the required level of skills, experience and cultural alignment to deliver and improve the model.
Operation	Base salaries for Executive Directors are reviewed annually by the Remuneration Committee with any increase usually taking effect from 1 April the following year and paid in 12 equal, monthly instalments. When determining base salary levels, the Remuneration Committee considers factors including: • Company performance across a balanced set of measures including financial, risk, customer service and culture • Individual behaviours and delivery as per the AMAZEING reviews for Executive Directors • Relevant external market data • Scope and size of role • Individual's skills, expertise and experience and ability to grow with the role and organisation • Level of increases for all colleagues • Internal relativity • Economic factors, e.g. inflation • Affordability and available budget
Maximum potential	Salary increases in percentage terms for Executive Directors will normally be in line with increases awarded to other colleagues, but there may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, including, but not limited to, where there has been a clear increase in the scope of role or change in responsibilities.
Performance measures	Any salary increases for Executive Directors are based on individual behaviours and performance.

Our Remuneration Policy continued

Pension

Purpose and link to strategy	Our pension policy aims to support Executive Directors in building long term savings for their retirement, without exposing the Bank to any unnecessary financial risk or unacceptable cost.
Operation	Executive Directors are automatically enrolled into our Group Personal Pension Plan when they join the Bank. If they have exceeded HMRC pension tax-free contribution limits, they may elect to take cash in lieu of pension for all or some of the benefit on the same basis as other colleagues.
Maximum potential	The current maximum employer contribution (including cash in lieu) for Executive Directors is 10% of base salary. Incumbent Executive Directors will transition by 31 December 2022 to be eligible for employer pension contributions aligned with or lower than the majority of the Metro Bank colleagues at that time. Newly appointed Executive Directors will have their pension contributions set at a level aligned with or less than that available to the majority of the wider workforce.
Performance measures	There are no performance measures related specifically to pension contributions.

Benefits

Purpose and link to strategy	We have a simple approach to reward and support the health, wellbeing and security of our Executive Directors through additional core benefits.
Operation	Benefits may include those currently provided and disclosed in the annual report on remuneration. Core benefits include: • Life assurance of 4x salary • Private medical insurance coverage for the Executive Director, their partner and children • Health screening checks for Executive Directors Additional benefits may be provided in certain circumstances including, but not limited to, relocation. Executive Directors also have access to additional voluntary benefits which are available to all colleagues, including ShareBuy, our Share Incentive Plan (SIP).
Maximum potential	The maximum paid in respect of benefits will be the cost to Metro Bank of providing the benefits noted above. The cost may fluctuate from year to year even if the level of benefit provided remains unchanged.
Performance measures	There are no performance measures specifically related to benefits.

Annual Bonus

Purpose and link to strategy	To recognise and reward the delivery of annual financial and strategic objectives which contribute towards the delivery of longer term strategy.
Operation	Annual bonus across the workforce (including Executive Directors) is determined by an assessment of the Corporate Scorecard outcome and personal performance. The Committee uses the scorecard to assess the overall performance of the business and may, on a discretionary basis, make a holistic assessment of the outcome. The Committee has discretion to reduce the annual bonus if it is not supported by underlying financial performance. If Metro Bank achieves threshold performance on all metrics in the balanced scorecard, we would pay out 40% of the maximum opportunity. Together with the LTIP, at least 60% of variable remuneration (annual bonus and LTIP grant) in respect of a financial year will be deferred with a vesting period of at least three years, increasing to up to seven years where required by regulation. The annual bonus deferral will be delivered under the Deferred Variable Reward Plan in shares (which may be nil/nominal price options or conditional share awards). Dividends or dividend equivalents may accrue from the vesting date. Malus and clawback will apply to these awards.
Maximum potential	Up to 100% of salary for a financial year (50% of maximum for target performance). To note, this award limit is a maximum amount and the actual awards will be assessed for each financial year and will depend on performance and value delivered to Metro Bank shareholders.
Performance measures	The choice of measures is reviewed by the Committee each financial year, with threshold, target and stretch levels of performance set for each measure. At least 60% of the corporate scorecard measures will be based on financial performance. Additionally, there will be a gateway requirement of CET1 or a profit hurdle. Details of these measures for the 2021 financial year are set out in the Remuneration Report on page 124.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	To incentivise and reward the creation of long term shareholder value thereby creating shareholder alignment.
Operation	Executive Directors will be considered for awards on an annual basis. Awards will be in the form of shares (delivered as nil/nominal cost options or conditional awards). Awards will usually have performance assessed on the third anniversary of grant or, if later, when the Committee determines that the performance conditions have been satisfied. The 2021 LTIP grant will have a four year performance period from 2021 to 2024 to align with the delivery timeline of the milestones in the Strategic Plan. The combined performance, vesting and holding period will be at least five years and may exceed this where required by regulation. Dividends or dividend equivalents may accrue from the vesting date. Threshold vesting performance for the LTIP will be set at 25% of maximum opportunity. The Committee may also decide to grant cash based awards of an equivalent value to share based awards or to satisfy share based awards in cash, although it does not currently intend to do so. Awards are satisfied through a mixture of either market purchase or new issue shares. To the extent new issue shares are used, the LTIP will adhere to a 5% in 10 year dilution limit. Malus and clawback will apply to these awards.

Our Remuneration Policy continued

Long Term Incentive Plan (LTIP) continued

Maximum potential	Up to 100% of salary for a financial year. The threshold and maximum vesting levels for LTIP grants will be set to be stretching.
Performance measures	Awards are subject to the achievement of performance targets linked to the long term success of the Company. These targets are currently Relative Total Shareholder Return (TSR) weighted 40%, Return on Tangible Equity (ROTE) weighted 40% and Risk & Regulatory weighted 20%. However, different performance measures and weighting may be set for future awards to ensure that the LTIP remains aligned to the Company's strategy. The performance conditions have been aligned to the Strategic Plan and the performance range for these measures will be set to deliver the plan and be stretching.
Shareholding requirements	Executive Directors are subject to a minimum shareholding requirement equivalent to 200% of salary. Executive Directors are expected to retain all shares vesting under the Deferred Plan and the LTIP (net of tax) until such time as this shareholding requirement has been met. Build up is expected over a period of five years commencing with the later of this policy commencement date or the date the Executive Director joins the Company. Executive Directors are expected to maintain the shareholding requirement (or their actual shareholding at date of leaving, if lower) for at least two years post-employment. For awards granted from the commencement of this policy, the Company will enforce this by way of a contractual requirement.

Notes to the Policy table

Area	Commentary
Deferred reward	Deferred reward in the form of share options or shares awarded subject to forfeiture shall be operated in accordance with the rules of the respective plans. The Committee may exercise operational and administrative discretions under the respective plan rules as set out in those rules.
Prior arrangements	The Committee reserves the right to make any remuneration payment and/or payments for loss of office notwithstanding that they are not in line with the Policy set out in this report, where the terms of the payment were determined before the Policy or any previous policy came into effect, or if the individual was not a Director at the date the remuneration was determined and the remuneration was not set in consideration or in anticipation of becoming a Director.
Minor amendments	The Committee will follow any statutory requirements when operating the Policy and may make minor amendments to the Policy for regulatory, exchange control, or administrative purposes without obtaining shareholder approval for that minor amendment.

Long Term Incentive Plan (LTIP) continued

Area	Commentary
Performance measures and targets	Assessment of performance of the Bank is based on overall performance in line with the Corporate Scorecard. The Corporate Scorecard typically comprises the following measures:

Measure	Rationale
Financial	To ensure delivery of strong growth in deposits, loans and profit
Risk & Regulatory	To safeguard the future of the Bank by focusing on our strategy to offer low-risk and diversified lending
Customer	To support our business model centred around creating FANS through our integrated customer experience
People and culture	To ensure we have dedicated colleagues focusing on our AMAZEING culture and our controls by doing the right things the right way

Individual behaviours and performance is based on the individual's AMAZEING review which supports the development of our AMAZEING culture.

AMAZEING Behaviours framework:
- Attend to every detail
- Make every wrong right
- Ask if you are not sure, bump it up
- Zest is contagious, share it
- Exceed expectations
- Inspire colleagues to create FANS
- Nurture colleagues so they grow
- Game change because this is a revolution

Our Remuneration Policy continued

Long Term Incentive Plan (LTIP) continued

Area	Commentary
Malus/clawback	Malus and clawback apply to all elements of variable remuneration. Cash bonus and share awards may be delayed or reduced before they are paid/before they vest (malus) or may be subject to clawback on or after payment should the Committee conclude that an adjustment needs to be made. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced. While not exhaustive, malus and/or clawback may be applied in the following situations where: • The Executive Director has participated in or is responsible for conduct that has resulted in significant losses to the Bank; • The Executive Director has failed to meet appropriate standards of fitness and propriety; • There is reasonable evidence of misconduct or serious error by an Executive Director; • The Company and/or the business unit for which the Executive Director works suffers a material downturn in its business performance; • The Company and/or the business unit for which the Executive Director works suffers a significant failure in risk management; • There has been a material misstatement in the Company's financial results or an error in assessing any applicable performance condition; • The Company has suffered an instance of corporate failure which has resulted in: – the conditions for use of the stabilisation powers under the special resolution regime in accordance with Part 1 to 3 of the Banking Act 2009 being satisfied; – the Company entering into a compromise or arrangement in accordance with sections 1 to 7 of the Insolvency Act 1986 for the purpose of repayment or restructuring of the Company's debts; or – the passing of a resolution or making of an order which is sanctioned by the Court for the appointment of a liquidator or administrator; • The Company or any Group Member suffers substantial reputational damage to its business from an event to which the Executive Director made a material contribution as a result of their action or conduct or failure to act; • The Executive Director is subject to a regulatory censure in respect of a material failure in control; • The level of the award is not, in the opinion of the Board, sustainable when assessing the overall financial viability of the Company or any Group Member.
Discretion in relation to future operation of the policy	In the event of a variation of the Company's share capital or a demerger, special dividend or any other event that may affect the Company's share price, the number of shares subject to an award and/or any exercise price applicable to the award, may be adjusted. The Committee may amend any performance conditions applicable to variable pay awards if any event occurs which causes the Committee to consider an amended performance condition would be more appropriate and not materially less difficult to satisfy.
Remuneration policy for other colleagues	The remuneration structure for Executive Directors is aligned with the wider colleague population. Performance conditions for variable pay awards are similar to those for all colleagues and we apply the same Company performance factor to variable pay awards to all colleagues across the Bank. Further details are provided on page 116.

3. Illustration of Application of Remuneration Policy

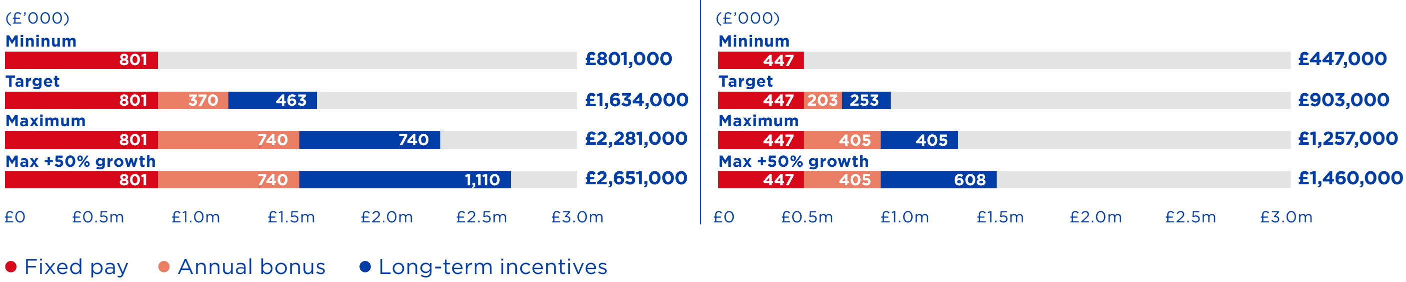
The graphs below illustrate the potential total remuneration for each Executive Director in office at 1 January 2021 under the revised policy for the 2021 performance year. Three scenarios are considered:

- Minimum: Considers fixed elements of package only, including salary, pension and benefits
- On-target: Fixed remuneration and variable remuneration assuming on-target performance (50% of the maximum opportunity)
- Maximum: Fixed remuneration and maximum variable remuneration
- Fixed element is:
  - base salary
  - pension contribution of 8% for the CEO and 10% for the CFO
  - benefits as outlined in the policy table for which we have used the value derived as part of the single-figure calculations.

Minimum (fixed only), on-target and maximum potential annual variable remuneration that may be awarded:

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer



Note
1. These illustrations are based on salaries as at 1 April 2021 and consider the cash amount of annual variable remuneration before conversion into share awards. No account is taken of the effect of share price changes or dividends on the value received from share awards or shares received under them.

4. Approach to remuneration when recruiting Executive Directors

When appointing a new Executive Director, the Remuneration Committee seeks to align the remuneration package for the individual with Metro Bank's Remuneration Policy and takes into account the package as a whole.

The following table outlines the components of remuneration considered as part of the remuneration package for a new Executive Director, along with the approach that would be followed.

Component	Approach
Base salary	Base salary will be determined by virtue of the individual's role, experience and responsibility. External market commentary will also be considered.
Pension	Pension contributions will be set at a level aligned with or less than that available to the majority of the wider workforce.
Benefits	Benefits that are offered to all colleagues will be provided to newly appointed Executive Directors. We may also choose to pay allowances to enable us to hire someone who will need to live away from home in order to be employed by us, which may include assistance with children's education, periodic trips home, spouse and children's travel amongst others.
Variable remuneration	The maximum variable remuneration opportunity for the performance period in which the Executive Director joined would be determined by the Remuneration Policy and the Committee would consider whether it is appropriate to reduce the award, subject to time in role. The maximum variable reward for new joiners will be limited to 200% of base salary (100% in annual bonus and 100% in LTIP).

Our Remuneration Policy continued

4. Approach to remuneration when recruiting Executive Directors continued

Component	Approach
Shareholding requirement	Newly appointed Executive Directors will be given a reasonable timeframe to build up their shareholding to meet the minimum requirements as set out in this policy. Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary, within five years from the date of appointment as executive director. Executive Directors will have a reasonable period to build up to this requirement if it is not met because of exceptional circumstances, for example a significant share price depreciation.
Buy-out	The Committee has the flexibility to make compensatory awards to new Executive Directors, to compensate the Executive Director for benefits they may lose as a result of joining Metro Bank (buy-out). These awards will: • be made up of the same inputs as the normal variable remuneration for Metro Bank colleagues and Executive Directors; • consider the value of the forfeited awards at the time of resignation (using an appropriate valuation methodology); • be in a similar form as the awards which are being lost, where possible; • vest over a similar or longer time period than the awards being lost; and • be subject to comparable service and consider performance conditions and be subject to continued employment. The limits on variable remuneration described on pages 139 and 140 will not apply to these compensatory awards. The flexibility to offer a higher level of variable remuneration to new recruits, through compensatory awards, is required to give the Company flexibility when negotiating with potential new recruits.

5. Remuneration On or After Termination

For each component of pay, the amount paid to an Executive Director on termination will be determined as follows:

Component of pay	Determination
Salary/fees and benefits	The Executive Director is entitled to be given notice of termination of the relevant length and receive their normal base salary and benefits in that time. The Bank has discretion to make a payment in lieu of base salary in respect of any unexpired notice period and may decide to pay this in instalments, subject to reduction if the Executive Director finds alternative employment. Benefits will continue until the last day of contractual employment and the accrued but unused holiday will be paid out. Appropriate outplacement and legal support will be provided where required.
Variable remuneration	Variable remuneration may accrue during a notice period, however (unless decided otherwise by the Remuneration Committee at its discretion) the Executive Director usually has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable remuneration is payable after termination and previous unvested variable reward deferred into share awards will usually lapse. However, if the Executive Director leaves for the reasons detailed in the Deferred Variable Reward Plan and Long Term Incentive Plan Rules (e.g. ill health, retirement with the agreement of the employer, sale of the employing company out of the group, redundancy or death) or in other circumstances at the discretion of the Remuneration Committee, their award under that plan will usually continue on the same terms (subject to reduction and clawback as described in the policy) and usually vest at the normal time provided any performance conditions are met with a time pro rata reduction of LTIP awards. The Committee may, at its discretion, determine that awards may vest, subject to performance, before the normal vesting date. If a participant dies, awards will ordinarily vest, subject to performance, on the date of death unless the Committee decides they should vest on the normal vesting date.
Pension	Pension contributions continue to be made during the notice period. No further payment in lieu of pension or pension contributions can be made after termination. Any benefits will become payable in the normal course in accordance with the rules of the scheme. There is no right to early payment of pension benefits unless this can be done without additional contribution from the Bank.
Post-cessation shareholding requirements	Executive Directors will be required to maintain the lower of the in-employment shareholding requirement of 200% of salary or the level achieved at the cessation date for a period of two years post-cessation.

The Bank's policy is that Executive Directors' contracts can be terminated by either party on giving no more than 12 months' notice.

Additional payments can be made by way of damages for breach of any legal obligation or by way of settlement or compromise of any claim raised by the Executive Director.

The Executive Directors' service contracts and letters of appointment are available for inspection on request at the Company's registered office.

Our Remuneration Policy continued

6. External appointments

Executive Directors are permitted to accept one appointment on a Board or Committee of a listed company, subject to approval of the Board. When reviewing the appropriateness of an external appointment, the Board will consider:

- Any regulatory guidance that may be in place at the time
- Whether the appointment would interfere or conflict with the business of the Company

Any fees received in respect of these appointments can be retained directly by the relevant Executive Director.

Details of external appointments held by our Executive Directors can be found in our governance report on pages 78 and 79.

7. Components of remuneration for all other colleagues

Executive Directors are remunerated broadly in line with the same structures that apply across the wider colleague population. The performance conditions for variable pay awards similar to those for colleagues.

For all colleagues, whether they are on our Executive Leadership Team or not, we offer a simple approach to compensation which supports our unique culture and strategy as well as being aligned to shareholder needs. This is just like our approach to remuneration for our Executive Directors as outlined in this policy.

Both our annual salary increase budget and our annual variable remuneration budget are determined by company performance and affordability.

During the year, the Remuneration Committee will also receive updates on overall pay and conditions for colleagues across the Bank. Ahead of our annual reward review process, the Remuneration Committee will opine on the quantum to be made available for salary increases, annual bonus awards, the Deferred Variable Reward Plan and the Long Term Incentive Plan.

Included in the decision making, they will discuss proposals for the Executive Directors as well as considering metrics such as the CEO pay ratio (page 127) and also the gender pay gap.

Executive Directors are also offered the same benefits that are available to colleagues across the Bank, primarily our pension scheme, private medical insurance, life assurance and our ShareBuy plan.

8. Statement of consideration of employment conditions elsewhere in the Bank

We offer a simple approach to compensation for all colleagues which supports our unique culture and strategy as well as being aligned to shareholder needs. Our approach to remuneration is consistent for all colleagues including our Executive Directors. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, focusing on long term growth and discouraging unnecessary risk-taking.

During the year, the Remuneration Committee receives updates on overall pay and conditions for colleagues across the Bank and this was taken into account when setting the Directors' Remuneration Policy. In particular, the base salary for Executive Directors is limited by reference to colleague pay, and ahead of our annual reward review process, the Remuneration Committee will opine on the quantum to be made available for salary increases, annual bonus awards, the Deferred Variable Reward Plan and the Long Term Incentive Plan.

Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our Designated Non-Executive Director for Workforce Engagement.

9. Statement of consideration of shareholder views

The Committee welcomes shareholders' views on executive remuneration and seeks to maintain an active and open dialogue with investors regarding any changes to the Company's executive pay arrangements. The Directors have regular open discussions with investors and are available for feedback on reward matters.

In the review of the Remuneration Policy, the Committee engaged with shareholders during the year in order that they could express their views on the proposals. The Remuneration Committee takes very seriously the view of shareholders when making any changes to executive remuneration and will continue to acknowledge any feedback in reviewing our policy in future.

10. Components of Remuneration for Non-Executive Directors

Component of pay	Determination
Fees	All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member. Additional fees are paid for added responsibilities such as chairmanship and membership of Committees, or acting as the Senior Independent Director or Designated Non-Executive Director for Workforce Engagement. Fees for Committee chairmanship are paid in addition to any fees for Committee membership. The Non-Executive Chairman receives an annual fee for the performance of his role. This fee is agreed by the Remuneration Committee. Fees for both Non-Executive Directors and the Non-Executive Chairman are paid in cash, subject to the appropriate deductions. The amount payable takes into account: the time commitment and requirements of the role; individual performance and experience; benchmark data from appropriate market sources and the financial performance of the Bank as well as other relevant factors. The basic and additional fees are typically reviewed annually, drawing on external market information for comparable financial services groups and companies. Any increase normally takes effect from April of a given year. The maximum aggregate annual fees that can be paid to the Chairman and Non-Executive Directors are capped at £3,000,000.
Benefits	Non-Executive Directors do not participate in any pension, bonus or long term incentive arrangements or receive any other benefits. Travel and expenses incurred in the normal course of business, e.g. in relation to attendance at Board and Committee meetings, are met by the Bank. Non-Executive Directors are reimbursed for reasonable expenses and any tax arising on those expenses will typically be settled by the Bank.
Fees on recruitment	The fees payable to a new Non-Executive Director will be consistent with the current basic fee structure in place for all Non-Executive Directors and reflect any additional responsibilities such as Chairman or member of Board Committees. The fees payable to a new Non-Executive Chairman will be set with reference to external market data, internal relativity among other Executive and Non-Executive Directors and the requirements of the role.
Letters of appointment	Appointment letters for the Non-Executive Directors provide for a notice period of one month, during which time they are entitled to be paid their normal fees or payment in lieu without liability for compensation. There is no provision for any other early termination compensation and no payment for loss of office.

When appointing any new Non-Executive Directors to the Board, the Nomination Committee will consider regulatory guidance relating to outside appointments and whether the candidate can devote sufficient time to their Board roles.

Directors' report

The Directors have pleasure in presenting their Annual Report for the year ended 31 December 2020. As set out more fully in the Summary of significant accounting policies within note 1 to the financial statements, this report for the consolidated Group has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and includes the Corporate Governance Report set out on pages 76 to 151.

The Directors consider the Annual Report for the year ended 31 December 2020, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Principal activities

Our principal activities during 2020 were the provision of banking and related services. We are a deposit-taking and lending institution with a focus on retail and small and medium-size commercial customers, offering consistent fair pricing and excellent customer service. We're authorised to accept deposits under the Financial Services and Markets Act 2000, have a Consumer Credit Act licence and are members of the Financial Services Compensation Scheme.

Results and dividend

The results for the year are set out in the consolidated statement of comprehensive income on page 164.

No dividend was declared or paid during 2020 (2019: £nil). The Directors do not anticipate declaring a dividend in the near future.

Significant Events

In September 2020, as part of our strategy to enhance returns and ambition to grow unsecured lending, we acquired Retail Money Market Ltd (RateSetter). RateSetter's originating and underwriting capability will enable us to rapidly accelerate this ambition via an existing, scalable platform.

In December 2020 we announced the sale of a portfolio of owner occupied residential mortgages, the transaction completed in February 2021. The portfolio had a gross book value of £3,044 million resulting in a total cash consideration of £3,127 million.

Articles of Association

The Articles of Association can be found on our website: metrobankonline.co.uk.

Share Capital

As at 31 December 2020, our issued share capital was £172.42 comprising 172,420,458 ordinary shares of 0.0001p each. Further details of our called-up share capital, together with details of shares allotted during the year, is shown in note 27 to the financial statements on page 201.

There are no restrictions on the transfer of our share capital and there are no shares or stock which carry specific rights with regards to control of the Group.

The Directors seek annual authority from shareholders to allot new ordinary shares and to disapply pre-emption rights of existing shareholders in accordance with the Investment Association Share Management Guidelines.

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Group's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

Annual General Meeting

Due to COVID-19, following the Government guidelines on restricting movement and gatherings, the details regarding the 2021 Annual General Meeting are yet to be finalised and more information will be published closer to the date of the meeting.

Directors

Details of the Directors who served during the year and continue to serve at the date of approval of the Directors' Report are set out on pages 78 and 79. Stuart Bernau, Roger Farah and Gene Lockhart stepped down as Directors during 2020.

On the 20 April 2020, we announced the appointment of three independent Non-Executive Directors, Anne Grim, Ian Henderson, and Nick Winsor.

On 8 July 2020, we announced the appointment of Robert Sharpe as Chair. Robert has significant experience at Board and Executive level in the retail banking sector. Robert currently acts as Chair at Hampshire Trust Bank and Honeycomb Investment Trust plc. He stepped down from his position as Chair of the Bank of Ireland (UK) in November 2020.

Directors are appointed and replaced in accordance with the Company's Articles, the Companies Act 2006 and the UK Corporate Governance Code. The powers of the Directors are set out in the Company's Articles and the Companies Act 2006.

Directors who served on the Board during the year ended 31 December 2020

	Appointment Date	Resignation Date
Robert Sharpe (independent Chair)	1 November 2020	–
Daniel Frumkin (CEO)	1 January 2020	–
David Arden (CFO)	29 March 2018	–
Stuart Bernau (former NED)	5 March 2010	18 May 2020
Catherine Brown (iNED)	1 October 2018	–
Sally Clark (iNED)	1 January 2020	–
Roger Farah (former iNED)	1 February 2014	13 March 2020
Anne Grim (iNED)	20 April 2020	–
Ian Henderson (iNED)	20 April 2020	–
Gene Lockhart (former NED)	5 March 2010	28 April 2020
Anna (Monique) Melis (iNED)	20 June 2017	–
Sir Michael Snyder (SID)	22 September 2015	–
Paul Thandi (iNED)	1 January 2019	–
Michael Torpey (iNED)	1 September 2019	–
Nick Winsor (iNED)	20 April 2020	–

Directors' interests

Details of the Directors' beneficial interests are set out in the Annual Report on Remuneration on page 131.

Directors' indemnities and Directors' and Officers' liability insurance

Details regarding deeds of indemnity and Directors' and Officers' liability insurance are set out in the Corporate Governance Report on page 87.

Provisions on change of control

The Company's existing share plan contains provisions relating to a change of control. Outstanding options and awards may vest and become exercisable on a change of control subject to the Committee's discretion. As at 31 December 2020, save in respect of provisions of the Company's share plan, there are no other agreements between the Company and its Directors or colleagues providing for compensation for loss of office or employment that occur following a takeover. Certain of the Company's third party supplier agreements may become terminable upon a change of control of the Company.

Major interests in shares

Information provided to the Group by substantial shareholders pursuant to the Disclosure and Transparency Rules (DTR) is published via a Regulatory Information Service.

As at 15 March 2021, being the last practical date before publication of this report, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings.

Shareholder	Ordinary shares held	% of total ordinary shares	Direct/ indirect interest
683 Capital Management	7,050,000	4.09%	Indirect
Spaldy Investments Limited	15,549,496	9.018%	Direct
Spruce House Partnership	15,500,000	8.99%	Direct
Goldman Sachs	16,963,374	9.84%	Indirect

Greenhouse gas emissions

Our energy consumption and associated greenhouse gas emissions during 2020 are set out in the Strategic Report on page 67.

Employee involvement

We encourage employee involvement in the Bank. Increasing colleague awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. During 2020, all employees were eligible to participate in our share option and/or share buy and share pool schemes. More information on our colleagues and how we engaged with them can be found on page 60 of the Strategic Report.

Engagement with stakeholders

The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic in our decision making. More information on our stakeholders, how we engaged with them and how the Board took them into consideration when making decisions are set out in the Strategic Report.

Diversity

Our Diversity and Inclusion policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is not only a key part of a responsible business strategy, but also supports a strong customer experience. We give full and fair consideration to all applications for employment.

Our Board Diversity Policy, which sets out our commitment to diversity and inclusion for the Board can be found on our website www.metrobankonline.co.uk/investor-relations.

Directors' report continued

At Metro Bank we believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, will be a more effective and responsible Board. More information on our performance against our objectives within the policy can be found in the Nomination Committee Report on page 107.

Disabled employees

For all colleagues and candidates we always look to make reasonable adjustments to ensure equity. In the event of colleagues becoming disabled, we make every effort to ensure that their employment continues and that we provide appropriate training and support. Our policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

Modern Slavery

We are committed to supporting the communities in which we operate in order to enable them to develop both socially and economically. Our policy is to conduct all business in an appropriate manner and we have zero tolerance for modern slavery. We continue to be committed to acting professionally and fairly in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

The initiatives and how we have developed them through during 2020 can be found on page 67. We have also appointed a member of the Board as our Modern Slavery Champion who with the CEO will monitor ongoing compliance with the Modern Slavery Policy.

Our Modern Slavery Statement is available at metrobankonline.co.uk.

Internal Control and Risk Management Systems

The Directors confirm that they have undertaken a robust assessment of the emerging and principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems, and details of risk management objectives and policies, are shown in the Risk Report on pages 25 to 55. Details around the processes in place in relation to financial reporting can be found in the Audit Committee report on pages 95 to 96. As a result of normal business activities, we are exposed to a variety of risks – and the principal risks and uncertainties that we face are shown in the Risk Factors and Management Report.

Going concern

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

Viability Statement

Our Viability Statement is set out on pages 54 and 55.

Auditors

Our Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the Annual General Meeting.

Political donations

We made no political donations in the year ending 31 December 2020 (2019: £nil).

Research and development

We continue to invest in our digital offering. During the year, we spent £81 million on intangible assets.

Post balance sheet events

A summary of the key post balance sheet events is set out in note 40 to the financial statements on page 227.

Future developments

Our business and future plans are reviewed in the Strategic Report.

Financial instruments and financial risk management

Information relating to financial instruments and financial risk management can be found on pages 42 to 45 and in note 10 to the financial statements.

Listing Rules disclosures

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found in the following sections of the Report:

Item	Location, where applicable
Detail of long-term incentive schemes	Remuneration Report, and in note 30 to the financial statements.
Contracts of significance	Any contracts of significance or related party transactions can be found in note 36 to the financial statements.
Waived emoluments	Remuneration Report

Corporate Governance Statement

The Corporate Governance Report on pages 76 to 151 in accordance with Rule 7.2 of the Disclosure and Transparency Rules and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

Statement of Directors' responsibilities in respect of the financial statements

Our Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed for the group financial statements and international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Parent Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the information included on our website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Parent Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in pages 78 and 79 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- the Parent Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditors

Each Director in office at the date of this report, and whose name is listed on pages 78 and 79, confirms that to the best of their knowledge:

- there is no relevant audit information of which the Group and Parent Company's auditors are unaware; and
- all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information, and to establish that the Group and Parent Company's auditors are aware of the information, have been taken.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors' Report comprising pages 148 to 151 has been approved by the Board of Directors and signed on its behalf by

Melissa Conway
Company Secretary
23 March 2021

Independent auditors' report
to the members of Metro Bank PLC

Report on the audit of the financial statements

Opinion

In our opinion, Metro Bank PLC's Group (the 'Group') financial statements and Company financial statements (together, the 'financial statements'):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts 2020 (the 'Annual Report'), which comprise: the Consolidated and Company balance sheets as at 31 December 2020; the Consolidated statement of comprehensive income for the year then ended, the Consolidated and Company cash flow statements for the year then ended; the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of reporting units and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the Group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). We performed other procedures including testing entity level controls, information technology general controls, tests of detail and analytical review procedures to mitigate the risk of material misstatement in the non-financially significant components.

Key audit matters

- Determination of allowance for Expected Credit Losses (ECL) on loans and advances (Group and Company)
- Recognition of revenue on loans and advances (Group and Company)
- Carrying values of intangible assets (excluding goodwill) (Group and Company)
- Acquisition of RateSetter (Group and Company)
- Impact of COVID-19 (Group and Company)

Materiality

- Overall Group materiality: £5.2 million (2019: £2.6 million) based on 5% of the average consolidated profit or loss before tax of the last 5 years.
- Overall Company materiality: £5.1 million (2019: £2.7 million) based on 5% of the average consolidated profit or loss before tax of the last 5 years.
- Performance materiality: £3.9 million (Group) and £3.8 million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA), UK tax legislation and the Consumer Credit Act 1974, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of the Audit Committee, management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence with regulators, such as the FCA and the PRA in relation to the Group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;

- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, revenue recognition, the assessment of the carrying value of intangible assets (excluding goodwill), and the acquisition of RateSetter (see related key audit matters below); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The acquisition of RateSetter is a new key audit matter this year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Determination of allowance for Expected Credit Losses (ECL) on loans and advances (Group and Company) Refer to page 30 (Risk report), page 98 (Audit Committee report),and page 205 (Note 31: Expected credit losses). The methodology used to determine the allowance for ECLs requires a number of important assumptions to be made, and the uncertainty in the economic environment caused by Brexit and COVID-19 has required greater use of expert judgement. A number of overlays were required to address specific portfolio considerations, such as geographical and industry concentrations, as well as new market conditions, such as COVID-19 support measures, and changing economic expectations from Brexit and a third UK lockdown, which were not fully reflected in economic forecasts. In addition, model adjustments were applied to reflect known model limitations in the current model methodology. Key assumptions and judgements included the following: • The judgement exercised by management in determining probability of default (PD) – as Metro Bank has relatively limited historic loss data for some portfolios, and the continuing disruption caused by COVID-19; • Judgements exercised by management in determining whether a significant increase in credit risk ('SICR') should be recognised; • The selection of forward-looking economic assumptions used in the models, including management's assumptions to address economic uncertainty, heightened by COVID-19; • The judgements involved in addressing underlying economic uncertainty through the use of post model overlays and the application of these adjustments; and • The measurement of ECL on individually assessed stage 3 loans, including management's estimation of future expected cash flows (for example the timing and value of collateral realisation).	We evaluated the design and implementation of key controls. Where we planned to rely on them, we tested their operating effectiveness and concluded that we could place reliance on the controls for the purposes of our audit. This involved testing of: • Controls over the recording of data into the loan system across each portfolio of loans; • Controls over the recording of collateral within the DPR system (Retail loans); • Model governance and validation controls (including model monitoring process); • Controls governing the watchlist process and the identification of credit impaired loans; • Controls over the performance of periodic credit reviews for commercial loans; and • Controls over the review and approval of provisions applied to individually impaired loans. We engaged the support of credit modelling specialists and performed the following substantive audit procedures in order to assess the performance of the ECL models implemented and the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience. **Probability of default (PD)** We critically assessed the methodology applied in the impairment models, to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested key assumptions and judgements, including those made by management in determining PDs used in the calculation of provisions. **Significant increase in credit risk (SICR)** To test whether judgements exercised in determining whether a SICR has occurred are appropriate, we performed substantive procedures including selecting samples of loans and advances across the Stage 1 and 2 population, forming our own judgements of stage allocation and comparing this to management's conclusions as well as assessing Metro Bank's qualitative and quantitative assessment thresholds. **Forward looking information and multiple economic scenarios** We used resources provided by our economics experts to assess the reasonableness of management's selected economic scenarios and associated scenario weightings, giving specific consideration to the economic uncertainty caused by Brexit and COVID-19. **Post Model Overlays** We critically assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs, evaluating and challenging the methodology and application. **Individually assessed Stage 3 loans** For a sample of Stage 3 credit impaired loans, we: • Critically evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management; • Independently challenged whether the key assumptions used, such as the recovery strategies, expected cash flows, collateral rights and valuations, and ranges of potential outcomes, were appropriate, given the borrower's circumstances. We identified a number of differences through our testing of the ECL calculations. These were considered by management, and addressed to our satisfaction. Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, management judgements and collective and individually assessed ECL to be appropriate and materially compliant with the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue on loans and advances (Group and Company) Refer to page 98 (Audit Committee report) and page 173 (Note 2: Net interest income). The Group's primary source of revenue is interest income arising on loans and advances. The Group recognises interest income using the effective interest rate method which spreads interest as well as transaction costs and integral fees, the most significant of which relate to loan arrangement fees of new lending, over the loans' expected behavioural lives. Interest is generated across multiple portfolios, using information generated from Metro Bank's own systems and those of third party loan portfolio administrators. The determination of the behavioural life over which arrangement fees from the commercial loan and mortgage books is spread is judgemental, as the Group has limited historical experience of the performance of certain portfolios, and there is a greater degree of uncertainty as to customer behaviour due to the current economic circumstances.	We evaluated the design and implementation of key controls over the recognition of revenue on loans and advances, including, with respect to effective interest rate adjustments, the identification of transaction costs and integral fees, determination of their treatment, and the determination and approval of the assumptions used in the estimation of the behavioural lives of loans and advances. Where we planned to rely on controls, we tested their operating effectiveness and concluded that we could place reliance on them for the purposes of our audit. We performed the following substantive audit procedures with respect to the recognition of revenue on loans and advances: • We evaluated management's behavioural life assumptions for new loan portfolios (including BBLs and CBILs); • We evaluated management's assessment of the impact of payment holidays on behavioural life assumptions; • We tested assumptions to supporting documentation, and stressed the estimates applied, to assess whether they were appropriate; • We assessed management's identification of transaction costs and fees which are directly attributable to the lending; • We assessed the estimation of behavioural lives of the loans, over which those amounts are spread; and • We tested key inputs to supporting documentation, and independently reperformed the calculation of interest income arising on loan portfolios on a sample basis. No exceptions arose in the course of our work. Based on the work performed, we found the methodology, judgements and estimates used to be appropriate and materially compliant with the requirements of IFRS 9.

Key audit matter	How our audit addressed the key audit matter
Carrying values of intangible assets (excluding goodwill) (Group and Company) Refer to page 98 (Audit Committee report) and page 189 (Note 15: Intangible assets). The Group capitalises certain spend, in the development of systems and infrastructure designed to support its business strategy, as intangible assets. The economic challenges and uncertainty have resulted in delay to the implementation of the Group's business strategy, and in addition the Group has reported losses for the year. These represent potential indicators of impairment. The Directors have evaluated the intangible assets for impairment, and where relevant estimated the recoverable amounts of those assets. Where the assets do not generate largely independent cash inflows, they have been incorporated into a relevant cash generating unit (CGU) and the recoverable amount of that CGU has been determined. The relevant CGU was considered to be the Bank. The determination of recoverable amounts require management to estimate the higher of value in use, where judgement is required to estimate cash flow projections, long term growth rates, and cash flow discount rates, and the fair value less costs to sell, which also requires judgement given the bespoke nature of some of the assets. The Directors have determined that useful economic lives (UEL) for intangible assets are assessed and assigned on an individual project level as this is the lowest level where a UEL can be assigned. This means that the same UEL will be assigned to all items in a specific project instead of it being assigned on an individual line item basis. Accelerated amortisation is applied to additions to a project so that it will have the same finishing point as the overall project as the UEL of the overall project is the period in which management expects to be able to derive economic benefits.	We evaluated the design and implementation of key controls over the carrying value assessments performed by management. We performed the following substantive audit procedures over the impairment assessments: • Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements, including management's determination of the relevant cash generating units; • For a sample of impaired and unimpaired intangible assets, we obtained and assessed management's analysis by validating assertions made against supporting evidence obtained through specific inquiry of management, review of business plans and IT strategies, and minutes of relevant Board and Committee meetings; • Assessed the recoverable amount estimates against evidence provided by management and performed tests to ensure that management's classification for impaired figures for the project is accurate, and tested the accuracy of the impairment losses recorded; • Obtained management's cash generating unit impairment assessment calculations and tested the forecast cash flows to the latest approved Board plans; and • Evaluated key assumptions, examined corroborating audit evidence and inspected business plans to assess whether they are reasonable and supportable. We have engaged our valuation specialists in assessing the discount rate. We assessed the useful economic lives over which intangible assets are being amortised, against the evidence obtained, with a focus on the underlying business use cases or the purpose to which the asset was being deployed. We identified a number of exceptions through our testing of the specific intangible asset assessments. These were considered by management, and addressed to our satisfaction. Based on the procedures performed, we found that the methodology and judgements used in determining the useful economic lives and amortisation are appropriate and materially compliant with IAS 38. With respect to the carrying value assessment performed in relation to Metro Bank's cash generating unit, we found the key assumptions to be reasonable and supportable, and the assessment to be materially compliant with the requirements of IAS 36.

Key audit matter	How our audit addressed the key audit matter
Acquisition of RateSetter (Group and Company) Refer to page 98 (Audit Committee report), page 171 (Note 1: Basis of preparation and significant accounting policies) and page 224 (Note 37: Business combinations). On 14 September 2020, the Company acquired 100% of Retail Money Market Ltd (RMML) and its subsidiaries (together, RateSetter or RS), a peer-to-peer platform specialising in unsecured lending, for purchase consideration of £12 million cash, consisting of £2.5 million that was paid upon completion, with £0.5 million deferred and £9 million of contingent consideration. Goodwill of £6.6 million arose on the acquisition of RS, recognised at the Group level. 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 certain lending targets being achieved through the RateSetter platform. Acquisitions are unique in nature, and management has limited experience in accounting for acquisitions. There is also judgement involved in determining the valuation of performance based consideration and the accounting treatment of the entity upon consolidation. A key judgment in the acquisition was the determination of the intangible asset valuation, an expert was engaged by management to provide assistance in the fair valuation of the purchase consideration and acquired intangible assets. Judgement was also applied by management in relation to the measurement of assets and liabilities relating to the provision fund (PF), an arrangement set up with investors of RateSetter.	We performed the following substantive audit procedures over the acquisition of RateSetter: • Reviewed the facts and circumstances of the transaction and validated the acquisition and consideration structure as well as management's assessment of the acquirer, acquiree and acquisition date in line with the requirements of IFRS 3; • With the assistance of our technical accounting specialists, we reviewed the accounting policies used by RateSetter and challenged management as to the appropriate policies to use post acquisition; • With the assistance of our valuations experts, we evaluated and tested the key judgements used by management and management's experts in determining the goodwill and intangible asset valuations; • We worked with our credit modelling specialists to critically assess the fair value including incorporation of expected losses for assets and liabilities related to the provision fund as well as independently replicate the material assumptions; and • We reviewed management's receipt factor methodology, which is a best estimate view of future interest payments into the PF. Based on the work performed we concluded that the acquisition was appropriately accounted for. In addition, the valuation of goodwill and intangible assets, and the measurement of the provision fund related assets and liabilities was reasonable and materially compliant with the requirements of IFRSs 3 and 13.

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company) COVID-19 was declared a pandemic by the World Health Organization during Q1 2020. As a result, there have been societal restrictions imposed by the UK Government which, amongst other things, included recommendations for working remotely from home and refraining from socialising in groups. This has had an immediate impact on businesses such as tourism, transport, retail and entertainment. It has also affected supply chains and the production of goods throughout the world, and lower economic activity has resulted in reduced demand for many goods and services. In response, the UK Government has rolled out programmes to support businesses and people such as BBLs and CBILs, both of which the Group participated in, along with providing payment holidays to existing customers. The Company has not experienced any significant operational challenges. All of its stores remained open throughout the pandemic with reduced hours, and other employees have been working remotely since March 2020. The Directors have specifically considered the impact of the COVID-19 pandemic and resulting uncertainty when preparing the financial statements and, where relevant to a key audit matter of this audit report, we have included our considerations therein.	In assessing management's consideration of the impact of COVID-19 on the financial statements, we have undertaken the following procedures: • Considered the impact of COVID-19 on the Group's internal control environment through our audit testing and inquiries of management; • Considered the impact of COVID-19 when performing our fraud risk assessment and testing of management override of controls; • Performed enquiries with the Audit Committee, management, the PRA and the FCA; • Reviewed management's going concern assessment, which considered the impact of COVID-19 on the financial performance of the Group and its Long-Term Plan;. • Assessed the impact of COVID-19 on estimates and the assumptions that underpin them, for example related to expected credit losses and carrying value of intangible assets, as detailed above;and • Evaluated the adequacy of the disclosures made in the financial statements with respect to the impact of COVID-19. Based on the work performed, we concluded that the impact of COVID-19 has been appropriately evaluated and reflected in the preparation of the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group comprises thirteen components of which the largest are: Metro Bank PLC (being the Company), SME Invoice Finance Limited, SME Asset Finance Limited, Retail Money Market LTD and RateSetter Trustee Services Limited. Any components which were considered individually financially significant in the context of the Group's consolidated financial statements (defined as components that represent more than or equal to 15% of the loss before tax of the consolidated Group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances and the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our Group audit, we identified one financially significant component, which is the Company.

We then considered the components in the Group that had either financially significant or unusual account balances which were required to be brought into scope. This was the case for the SME entities, Retail Money Market LTD and RateSetter Trustee Services Limited, where we performed audit procedures over specific account balances. The remaining components, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate and were eliminated from further consideration for specific audit procedures, although they were subject to Group level analytical review procedures.

Independent auditors' report

To the members of Metro Bank PLC continued

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£5.2 million (2019: £2.6 million).	£5.1 million (2019: £2.7 million).
How we determined it	5% of the average consolidated profit or loss before tax of the last 5 years.	5% of the average consolidated profit or loss before tax of the last 5 years.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.	Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.1 million and £5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £3.9 million for the Group financial statements and £3.8 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £260,000 (Group audit) (2019: £132,000) and £248,000 (Company audit) (2019: £133,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment;
- Evaluation of management's financial forecasts and management's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios and assumptions that were used;
- Evaluation of the degree to which the impact of COVID-19 has been reflected in the Group's financial plans and going concern assessment; and
- Substantiation of liquid resources held, and liquidity facilities available to the Group, for example, with the Bank of England.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 July 2009 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. During 2018 the Directors carried out an audit tender and we were subsequently invited to continue to perform the audit of the financial statements, pending formal reappointment at each Annual General Meeting. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2010 to 31 December 2020.

Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 March 2021

Consolidated statement of comprehensive income

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	3	**61.1**	67.4
Fee and commission expense	3	**(1.2)**	(6.4)
Net fee and commission income		**59.9**	61.0
Net gains on sale of assets	4	**73.3**	1.6
Other income	5	**49.7**	44.9
Total income		**432.6**	415.6
General operating expenses	6	**(502.3)**	(380.6)
Depreciation and amortisation	14, 15	**(74.4)**	(76.4)
Impairment and write-offs of property, plant, equipment and intangible assets	14, 15	**(40.6)**	(77.7)
Total operating expenses		**(617.3)**	(534.7)
Expected credit loss expense	31	**(126.7)**	(11.7)
Loss before tax		**(311.4)**	(130.8)
Taxation	9	**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	29	**5.6**	2.7
– fair value changes transferred to the income statement on disposal	29	**(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)	38	**(175.0)**	(123.9)
Diluted (pence)	38	**(175.0)**	(123.9)

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

Consolidated balance sheet
As at 31 December 2020

	Notes	31 December 2020 £'million	31 December 2019 £'million
Assets			
Cash and balances with the Bank of England	11	**2,993**	2,989
Loans and advances to customers	12	**12,090**	14,681
Investment securities held at fair value through other comprehensive income (FVOCI)	13	**773**	411
Investment securities held at amortised cost	13	**2,640**	2,154
Financial assets held at fair value through profit and loss		**30**	–
Property, plant and equipment	14	**806**	856
Intangible assets	15	**254**	168
Prepayments and accrued income	16	**77**	66
Assets classified as held for sale	17	**295**	–
Other assets	18	**2,621**	75
Total assets		**22,579**	21,400
Liabilities			
Deposits from customers	19	**16,072**	14,477
Deposits from central banks	20	**3,808**	3,801
Debt securities	21	**600**	591
Financial liabilities held at fair value through profit and loss		**30**	–
Repurchase agreements		**196**	250
Derivative financial liabilities	22	**8**	8
Lease liabilities	23	**327**	341
Deferred grants	24	**28**	50
Provisions	25	**11**	17
Deferred tax liability	9	**12**	15
Other liabilities	26	**198**	267
Total liabilities		**21,290**	19,817
Equity			
Called-up share capital	27	**–**	–
Share premium	27	**1,964**	1,964
Retained losses	28	**(694)**	(392)
Other reserves	29	**19**	11
Total equity		**1,289**	1,583
Total equity and liabilities		**22,579**	21,400

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

The financial statements on pages 164 to 227 were approved by the Board of Directors on 23 March 2021 and signed on its behalf by:

Robert Sharpe
Chair

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

Consolidated statement of changes in equity

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	27	27	28	29	29	

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

Consolidated cash flow statement
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	14, 15	**41**	78
Interest on lease liabilities	23	**19**	18
Depreciation and amortisation	14, 15	**74**	76
Share option charge	7	**2**	4
Grant income recognised in the income statement	5	**(24)**	(16)
Amounts provided for (net of amounts released)	25	**8**	12
Gain on sale of assets and fair value gains on derivatives		**(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	12	**2,591**	(445)
Changes in deposits from customers	19	**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 of investment securities		**615**	2,193
Purchase of investment securities		**(1,460)**	(618)
Purchase of property, plant and equipment	14	**(29)**	(120)
Purchase and development of intangible assets	15	**(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	27	**–**	375
Cost of shares issued	27	**–**	(16)
Debt issued	21	**–**	350
Cost of debt issued	21	**–**	(8)
Grant (repaid)/received	24	**(50)**	120
Repayment of capital element of leases	23	**(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	11	**2,989**	2,472
Cash and cash equivalents at end of year	11	**2,993**	2,989

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

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

Company balance sheet
As at 31 December 2020

	Notes	31 December 2020 £'million	31 December 2019 £'million
Assets			
Cash and balances with the Bank of England	11	**2,974**	2,983
Loans and advances to customers	12	**11,821**	14,381
Investment securities held at fair value through other comprehensive income	13	**773**	411
Investment securities held at amortised cost	13	**2,640**	2,154
Property, plant and equipment	14	**803**	856
Investment in subsidiaries	39	**59**	15
Intangible assets	15	**209**	162
Prepayments and accrued income	16	**73**	63
Assets classified as held for sale	17	**295**	–
Other assets	18	**2,880**	365
Total assets		**22,527**	21,390
Liabilities			
Deposits from customers	19	**16,072**	14,477
Deposits from central banks	20	**3,808**	3,801
Debt securities	21	**600**	591
Repurchase agreements		**196**	250
Derivative financial liabilities	22	**8**	8
Lease liabilities	23	**325**	341
Deferred grants	24	**28**	50
Provisions	25	**8**	17
Deferred tax liability	9	**8**	15
Other liabilities	26	**180**	262
Total liabilities		**21,233**	19,812
Equity			
Called-up share capital	27	**–**	–
Share premium	27	**1,964**	1,964
Retained losses[1]	28	**(689)**	(397)
Other reserves	29	**19**	11
Total equity		**1,294**	1,578
Total equity and liabilities		**22,527**	21,390

1. The Company loss for the year was £292.1 million (2019: loss of £182.6 million).

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

The financial statements on pages 164 to 227 were approved by the Board of Directors on 23 March 2021 and signed on its behalf by:

Robert Sharpe
Chair

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

Company statement of changes in equity
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**	**(397)**	**(3)**	**14**	**1,578**
Loss for the year	**–**	**–**	**(292)**	**–**	**–**	**(292)**
Other comprehensive income (net of tax) relating to investment securities designated at FVOCI	**–**	**–**	**–**	**6**	**–**	**6**
Total comprehensive loss	**–**	**–**	**(292)**	**6**	**–**	**(286)**
Net share option movements	**–**	**–**	**–**	**–**	**2**	**2**
Balance as at 31 December 2020	**–**	**1,964**	**(689)**	**3**	**16**	**1,294**
Balance as at 1 January 2019	–	1,605	(214)	(3)	10	1,398
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	(397)	(3)	14	1,578
Notes	27	27	28	29	29	

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

Company cash flow statement

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		**(299)**	(131)
Adjustments for:			
Impairment and write-offs of property, plant, equipment and intangible assets		**41**	78
Interest on lease liabilities	23	**19**	18
Depreciation and amortisation		**73**	75
Share option charge		**2**	4
Grant income recognised in the income statement	24	**(24)**	(16)
Amounts provided for		**8**	12
Gain on sale of assets and fair value gains on derivatives		**(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	12	**2,560**	(441)
Changes in deposits from customers	19	**1,595**	(1,184)
Changes in other operating assets		**(2,820)**	(14)
Changes in other operating liabilities		**(23)**	(25)
Net cash inflows/(outflows) from operating activities		**1,062**	(1,635)
Cash flows from investing activities			
Sales of investment securities		**615**	2,193
Purchase of investment securities		**(1,460)**	(618)
Purchase of property, plant and equipment		**(29)**	(120)
Purchase and development of intangible assets		**(81)**	(79)
Acquisition of subsidiary		**(3)**	–
Capital injection into subsidiaries	15	**(33)**	–
Net cash (outflows)/inflows from investing activities		**(991)**	1,376
Cash flows from financing activities			
Shares issued	27	**–**	375
Cost of shares issued	27	**–**	(16)
Debt issued	21	**–**	350
Cost of debt issued	21	**–**	(8)
Grant (repaid)/received	24	**(50)**	120
Repayment of capital element of leases	23	**(30)**	(25)
Net cash (outflows)/inflows from financing activities		**(80)**	796
Net (decrease)/increase in cash and cash equivalents		**(9)**	537
Cash and cash equivalents at start of year	11	**2,983**	2,446
Cash and cash equivalents at end of year	11	**2,974**	2,983

Loss before tax includes:			
Interest received		**397**	483
Interest paid		**175**	174

The accounting policies, notes and information on pages 171 to 227 form part of these financial statements.

Notes to the financial statements

1. Basis of preparation and significant accounting policies

This section sets out the Group's ('our' or 'we') accounting policies which relate to the financial statements as a whole. Where an accounting policy relates specifically to a note then the related accounting policy is set out within that note. All policies have been consistently applied to all the years presented unless stated otherwise.

1.1 General information

Metro Bank plc (the 'Company') together with its subsidiaries (the 'Group') provides retail and commercial banking services in the UK and is a public limited company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Company number 06419578). The registered office is One Southampton Row, London WC1B 5HA.

1.2 Basis of preparation

The consolidated financial statements of the Group and Company comply with international accounting standards in conformity with the requirements of the Companies Act 2006 and have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. They were authorised by the Board for issue on 23 March 2021.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss and other comprehensive income. Fair value is defined as the price that would be received or paid in an orderly transaction between market participants at the measurement date.

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the risk report on pages 30 to 51. Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditor's report.

Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position as well as other principal risks. As part of this process the Directors have considered an updated long-term plan including associated upside and downside scenarios. All scenarios considered incorporate assumptions surrounding the potential impacts of the continuing COVID-19 pandemic on the economy over both the near and longer terms. Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that are available. Under all scenarios considered the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources (including liquidity and capital) to be able to continue to operate for the foreseeable future.

Basis of consolidation

Our consolidated financial statements include the results for all entities which we control (details of our subsidiaries can be found in note 39). Controlled entities are all entities (including structured entities) to which we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over it. An assessment of control is performed on an ongoing basis.

During the year we acquired Retail Money Market Ltd (Company number 07075792) and its subsidiaries which trades under the name RateSetter. Details on the acquisition of Retail Money Market Ltd ('RateSetter') can be found in note 37.

Our controlled entities are consolidated from the date on which we establish control until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control (see note 37 for further details).

Post-acquisition, income and expenses are included in the consolidated income statement on a line-by-line basis in accordance with the accounting policies set out herein, adjusting for any intra-group transactions which are eliminated in full upon consolidation.

In publishing the Company financial statements here together with the Group financial statements, we have adopted the exemption in section 408(3) of the Companies Act 2006 not to present a Company statement of comprehensive income and related notes that form a part of these financial statements.

Notes to the financial statements continued

1. Basis of preparation and significant accounting policies continued

1.3 Functional and presentation currency

These financial statements are presented in pound sterling, which is our functional currency. All amounts have been rounded to the nearest £1 million and £0.1 million for balance sheet and income statement line items respectively, except where otherwise indicated.

1.4 Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Under that method, loss before tax is adjusted for non-cash items and changes in other assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

1.5 Changes in accounting policy and disclosures

There have been no changes to our accounting policies during the year, although additional disclosure has been provided, primarily relating to the acquisition of RateSetter.

1.6 Future accounting developments

At the year-end there are no standards that were in issue but not yet effective, that would have a material impact on the Group, including IFRS 17 'Insurance contracts' and the IASB's Phase 2 amendments in response to issues arising from the replacement of interest rate benchmarks. We have not adopted any standards early within these financial statements.

1.7 Segmental reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is our Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of the Group and allocating resources, owing to our simple structure. Accordingly, the Group has a single operating segment. We operate solely within the UK and, as such, no geographical analysis is required. We are not reliant on any single customer.

1.8 Foreign currency translation

Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

1.9 Critical accounting judgements and estimates

The preparation of financial statements in conformity with IFRS requires us to make both material judgements as well as estimates which although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2020 are appropriate and that these consolidated financial statements therefore present the financial position and results of the Group fairly. The areas involving a higher degree of complexity, judgement or where estimates have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year are:

		Estimate/judgement	Note	Page
Recognition of provisions		Judgement	25	199
Measurement of expected credit loss allowance	Significant increase in credit risk	Judgement	31	210
	Use of post model overlays	Judgement	31	210
	Multiple forward-looking scenarios	Estimate	31	212

Further details can be found within the relevant notes.

2. Net interest income

Accounting policy

We recognise interest income and expense for all interest–bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for purchased or originated credit impaired assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For loans that are credit impaired, interest income is calculated on the carrying amount of the loan net of credit impairment.

Interest income

Group	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

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

Notes to the financial statements continued

3. Net fee and commission income

Accounting policy

Fee and commission income is earned from a wide range of services we provide to our customers. We account for fees and commissions as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Service charges and other fee income	We levy a range of standard charges and fees for account maintenance or specific account services. Where the fee is earned upon the execution of a significant act at a point in time, for example CHAPs payment charges, these are recognised as revenue when the act is completed for the customer. Where the income is earned from the provision of services, for example an account maintenance fee, this is recognised as revenue over time when the service is delivered.
Safe deposit box	Revenue is recognised over the period the customer has access to the box from the date possession is taken. Safe deposit box fees are billed on either a monthly or annual basis with a standard set price payable dependent on the size of box.
ATM and interchange fees	Where we earn fees from our ATMs or from interchange this is recognised at the point the service is delivered.

Expenses that are directly related and incremental to the generation of fee and commission income are presented within fee and commission expense.

As disclosed in note 1, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount and timing of our revenue and cash flows are affected by economic factors.

Group	2020 £'million	2019 £'million
Service charges and other fee income	**22.9**	31.4
Safe deposit box income	**15.0**	13.3
ATM and interchange fees	**23.2**	22.7
Fee and commission income	**61.1**	67.4
Fee and commission expense	**(1.2)**	(6.4)
Total net fee and commission income	**59.9**	61.0

4. Net gains on sale of assets

Group and Company	2020 £'million	2019 £'million
Investment securities held at amortised cost	**4.2**	2.4
Investment securities held at fair value through other comprehensive income	**0.1**	1.7
Loan portfolios	**69.0**	(2.5)
Total gains on sale of assets	**73.3**	1.6

Disposal of investment securities

During the year ended 31 December 2020 some of our investment securities held at amortised cost were unexpectedly called early by the issuers resulting in a gain being recognised on these assets.

Disposal of loan portfolios

On 18 December 2020 we agreed to sell a portfolio of £3.1 billion of loans to NatWest Group plc ('NatWest') of which 90% was de-recognised in 2020 (the remaining 10% of the portfolio was classified as held for sale at 31 December 2020; further information can be found in note 17). The portfolio consisted of owner occupied residential mortgages with a weighted average interest rate of 2.08%. The loans were primarily repayment mortgages with an average remaining fixed-rate term of c.2.5 years and a weighted average current debt to value of c.60%.

The transaction is in line with our strategy to enhance risk-adjusted returns on capital through the ongoing focus on balance sheet optimisation. In addition to increasing our MREL resources, the sale creates additional lending capacity and enables us to rebalance asset mix towards higher yielding assets such as specialist mortgages and unsecured loans.

The sale of loan portfolios is infrequent and only undertaken for very specific purposes. The sale in 2020 was to meet our risk management objectives and was not considered to constitute a change in our business model as outlined in note 12.

5. Other income

Accounting policy	Other income is accounted for as follows:	
	Product or service	**Nature, timing and satisfaction of performance obligations and payment terms**
	Foreign currency transactions	Gains on foreign currency transactions is the spread earned on foreign currency transactions performed for our customers along with any associated fees. It is recognised at the point in time that the exchange is executed.
	Rental income	Rental income is primarily earned from the letting out of surplus space in some of our properties. The revenue is recognised on a straight-line basis over the life of the lease.
	Grant income	Grant income primarily relates to amounts recognised in relation to the amounts drawn down against the Capability and Innovation Fund award (further details of which can be found in note 24). Income is recognised in line with the delivery of the commitments we agreed to as part of the bid.

Group	2020 £'million	2019 £'million
Foreign currency transactions	**24.0**	25.4
Rental income	**0.9**	1.2
Grant income	**23.9**	16.2
Other	**0.9**	2.1
Total other income	**49.7**	44.9

6. General operating expenses

Group	2020 £'million	2019 £'million
People costs (note 7)	**197.6**	170.9
Information technology costs	**48.4**	33.8
Occupancy costs	**34.4**	28.6
Money transmission and other banking-related costs[1]	**46.0**	40.3
Transformation costs	**16.7**	11.5
Remediation costs	**40.8**	26.8
Capability and Innovation Fund (C&I) costs[2]	**21.6**	16.5
Legal and regulatory fees	**5.5**	4.7
Professional fee	**54.1**	11.2
Contractor costs[3]	**5.6**	5.8
Printing, postage and stationery costs	**6.2**	5.6
Travel costs	**1.8**	3.9
Marketing costs	**6.4**	3.5
Business acquisition and integration costs	**5.4**	–
Costs relating to the RBS alternative remedies package	**–**	1.2
Other[1]	**11.8**	16.3
Total general operating expenses	**502.3**	380.6

1. During the year we have reclassified certain costs from other operating expenses to be included within money-transmission and other banking-related costs to better reflect the nature of these costs. The 2019 comparator figures have been updated to reflect these changes.
2. C&I costs represent the non-capitalisable costs of delivering the C&I digital commitments. It includes £3.2 million (2019: £0.9 million) of people costs. These are included within C&I costs rather than people costs to better reflect their nature. In addition to these costs the grant income recognised in note 5 is also used to offset property costs relating to the store commitments delivered.
3. Contractor costs are shown net of both amounts capitalised and amounts included within the transformation costs, remediation costs, C&I costs and costs relating to the RBS alternative remedies package application lines.

Included within legal, regulatory and professional fees is £0.2 million (2019: £0.2 million) in respect of the Financial Services Compensation Scheme (FSCS) levy.

7. People costs

Group	2020 £'million	2019 £'million
Wages and salaries[1]	**166.9**	142.2
Social security costs[1]	**17.9**	14.7
Pension costs[1]	**10.8**	9.8
Equity-settled share-based payments[2]	**2.0**	4.2
Total people costs	**197.6**	170.9

1. Amounts are net of people costs which are capitalised as well as those relating to C&I (see note 6) as these costs will be offset against the C&I grant income in note 5.
2. Included within equity-settled share-based payments is £0.2 million (2019: £0.6 million) in respect of share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. These share awards vest annually until April 2021. These relate to shares held in treasury, rather than share options, and as such do not get recorded in the share option reserve.

During the year £7.2 million (2019: £9.5 million) of people costs were capitalised as part of our intangibles assets (further details can be found in note 15).

The average monthly number of persons employed during the year was 3,850 (2019: 3,681).

Group	2020	2019
Customer-facing	**2,175**	2,125
Non-customer-facing	**1,675**	1,556
Total number of persons employed	**3,850**	3,681

Pension costs

Payments were made amounting to £11.2 million (2019: £10.4 million) to colleagues' individual personal pension plans during the year. This includes pension contributions that were capitalised as well as those relating to colleagues working on C&I which are not included in the figures above.

8. Fees payable to our auditors

Fees payable to our auditors PricewaterhouseCoopers LLP are analysed below:

Group	2020 £'000	2019 £'000
For Metro Bank's statutory audit	**1,923**	1,298
For the statutory audit of Metro Bank's subsidiaries	**183**	60
For all other services[1]	**115**	1,980
Total fees payable to our auditors	**2,221**	3,338

1. Other services consists of independent assurance work relating to CASS, country-by-country reporting and our interim review (in 2019 other services also included regulatory reporting assurance).

9. Taxation

Accounting policy

Current tax

Our current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where we have tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

Deferred tax

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

We recognise a deferred tax asset to the extent that it is probable that future taxable profits will be available against which they can be used and deferred tax liabilities are provided on taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised or the deferred tax liability settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Notes to the financial statements continued

9. Taxation continued

Tax expense

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

Group	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 credit/(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 credit/(expense) and the accounting loss multiplied by the UK corporation tax rate is as follows:

Group	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 – investment 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%)

The effective tax rate for this year is 3.1% (2019: (39.5%)). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

Impact of intangible asset impairment on research and development tax relief
During 2020 we wrote-off £3 million (2019: £68 million) of Intangible assets. This related to the discontinuation of certain work-in-progress or older IT projects. As some of these assets had previously qualified for research and development tax relief we adjust our research and development deferred tax liability to reflect this.

Share based payments
During the period our share price fell from £2.06 to £1.40. In 2019 the share price fell from £16.94 to £2.06. This had the impact of reducing the deferred tax asset held for share options and contributed £1.2m to the 2019 deferred tax charge.

Adjustment in respect of prior years
We have recognised some losses that were previously derecognised in 2019. This is partly offset by an adjustment for fixed assets following the filing of the 2019 corporation tax return.

Derecognition of tax losses carried forward
We derecognised the deferred tax asset for tax losses carried forward as at 31 December 2019, due to the expected impact on our forecast short term profit. This is due to our long term investment in cost, revenue and infrastructure transformation. The current year losses to date for which no deferred tax asset has been recognised is £42.8 million (2019: £11.4 million).

Effect of changes in tax rates
This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate, announced in the Budget on 11 March 2020 and substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 remained at 19%, rather than the previously enacted reduction to 17%. We also removed the impact of the banking tax surcharge from the calculation of deferred taxes.

Factors affecting future tax charge

On the 5 March 2021 the UK government announced that from 1 April 2023, the Corporation Tax main rate will be increase from 19% to 25% for taxable profits over £250,000. Deferred tax balances are reported at the current corporation tax rate of 19% and it is expected this will be substantively enacted over the coming months. The impact of this rate change will be to increase the deferred tax liability held at the balance sheet date by £3.1 million. The government also announced a review of the banking tax surcharge later in 2021.

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.

Notes to the financial statements continued

9. Taxation continued

Group	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)**

Company	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	**9**	**3**	**–**	**–**	**–**	**12**
Deferred tax liabilities	**–**	**(1)**	**–**	**(15)**	**(4)**	**(20)**
Deferred tax liabilities (net)	**9**	**2**	**–**	**(15)**	**(4)**	**(8)**

Group and Company	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)

Unrecognised deferred tax assets

Due to the investment property impairment being unrealised there is an unrecognised deferred tax asset of £3.1 million (31 December 2019: £1.6 million).

We have unused tax losses of £563 million for which no deferred tax asset has been recognised for £107 million. There is no time limit beyond which the losses expire.

10. Financial instruments

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

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk). Further details on these risks can be found within the Risk report on pages 30 to 51.

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

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

Classification of financial instruments

Group	Fair value through profit and loss £'million	Fair value through other comprehensive income £'million	Amortised cost £'million	Total £'million
31 December 2020				
Assets				
Loans and advances to customers	**–**	**–**	**12,090**	**12,090**
Investment securities	**–**	**773**	**2,640**	**3,413**
Financial assets held as fair value through profit and loss	**30**	**–**	**–**	**30**
Assets classified as held for sale	**–**	**–**	**295**	**295**
Liabilities				
Deposits from customers	**–**	**–**	**16,072**	**16,072**
Deposits from central bank	**–**	**–**	**3,808**	**3,808**
Debt securities	**–**	**–**	**600**	**600**
Financial liabilities held as fair value through profit and loss	**30**	**–**	**–**	**30**
Derivative financial liabilities	**8**	**–**	**–**	**8**
Repurchase agreements	**–**	**–**	**196**	**196**

Group	Fair value through profit and loss £'million	Fair value through other comprehensive income £'million	Amortised cost £'million	Total £'million
31 December 2019				
Assets				
Loans and advances to customers	–	–	14,681	14,681
Investment securities	–	411	2,154	2,565
Liabilities				
Deposits from customers	–	–	14,477	14,477
Deposits from central bank	–	–	3,801	3,801
Debt securities	–	–	591	591
Derivative financial liabilities	8	–	–	8
Repurchase agreements	–	–	250	250

10. Financial instruments continued

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 (see note 37). 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 we agreed to purchase the RateSetter back book (see note 40 for further details).

Financial assets pledged as collateral

We have pledged £5,363 million (2019: £5,809 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £1,186 million (2019: £941 million) is made up of high-quality securities and £4,177 million (2019: £4,868 million) is from our own loan portfolio.

This does not include cash balances pledged as collateral which are shown separately within note 18.

11. Cash and balances with the Bank of England

Accounting policy

Cash and balances with the Bank of England consists of both cash on hand and demand deposits, both at other banks as well as the Bank of England. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash if they have a short maturity of three months or less from the date of acquisition and are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within a short period of their maturity.

Where cash is pledged as collateral and as such is not available on demand this is included within other assets within note 18.

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Unrestricted balances with the Bank of England	**2,788**	2,751	**2,788**	2,751
Cash and unrestricted balances with other banks	**146**	178	**127**	172
Money market placements	**59**	60	**59**	60
Total cash and balances with the Bank of England	**2,993**	2,989	**2,974**	2,983

The expected credit loss held against cash and balances with the Bank of England is less than £0.1 million (31 December 2019: less than £0.1 million).

12. Loans and advances to customers

Accounting policy

Loans and advances to customers are classified as held at amortised cost. Our business model is that customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, which is detailed further in note 2. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses (ECL) are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as 'Expected credit loss expense'.

	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 (excluding asset and invoice finance)	**4,874**	**(98)**	**4,776**
Total loans and advances to customers (Company)	**11,970**	**(149)**	**11,821**
Asset and invoice finance	**274**	**(5)**	**269**
Total loans and advances to customers (Group)	**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 (excluding asset and invoice finance)	3,751	(11)	3,740
Total loans and advances to customers (Company)	14,414	(32)	14,382
Asset and invoice finance	301	(2)	299
Total loans and advances to customers (Group)	14,715	(34)	14,681

On 14 September 2020 we acquired RateSetter in line with our strategy of increasing unsecured lending (see note 37 for further details). Prior to the acquisition, RateSetter's business model was a peer-to-peer platform connecting investors and borrowers and therefore does not hold deposits or loans on its balance sheet.

Since acquisition we have resumed lending under the RateSetter brand with all lending being funded by Metro Bank and serviced by RateSetter. As such this lending is on the Company's balance sheet.

12. Loans and advances to customers continued

On 2 February 2021 we agreed to purchase the peer-to-peer loans from the RateSetter investors (see note 40) and these will also sit on the Company's balance sheet. As this purchase was agreed post year end it is not reflected in any of the balances below.

Further information on the movements in gross carrying amounts and ECL can be found in note 31. An analysis of the gross loans and advances by product category is set out below:

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Overdrafts	**73**	77	**73**	77
Credit cards	**10**	11	**10**	11
Term loans	**121**	145	**121**	145
Total consumer lending	**204**	233	**204**	233
Residential owner occupied	**5,051**	8,493	**5,051**	8,493
Retail buy-to-let	**1,841**	1,937	**1,841**	1,937
Total retail mortgages	**6,892**	10,430	**6,892**	10,430
Total retail lending	**7,096**	10,663	**7,096**	10,663
Professional buy-to-let	**1,117**	1,219	**1,117**	1,219
Bounce back loans	**1,353**	–	**1,353**	–
Coronavirus business interruption loans	**114**	–	**114**	–
Other term loans	**2,138**	2,327	**2,138**	2,327
Commercial term loans	**4,722**	3,546	**4,722**	3,546
Overdrafts and revolving credit facilities	**149**	202	**149**	202
Credit cards	**3**	3	**3**	3
Asset and invoice finance	**274**	301	**–**	–
Total commercial lending	**5,148**	4,052	**4,874**	3,751
Gross loans and advances to customers	**12,244**	14,715	**11,970**	14,414
Amounts include:				
Repayable at short notice	**171**	228	**171**	228

13. Investment securities

Accounting policy

Our investment securities may be categorised as amortised cost, FVOCI or FVTPL. Currently all investment securities are non-complex, with cash flows comprising solely payments of principal and interest. We hold some securities to collect cash flows; other securities are held to collect cash flows, and to sell if the need arises (e.g. to manage and meet day-to-day liquidity needs). Therefore, we have a mixed business model and securities are classified as either amortised cost or FVOCI as appropriate. We do not categorise any investment securities as FVTPL.

Investment securities held at amortised cost

Investment securities held at amortised cost consist entirely of debt instruments. They are accounted for using the effective interest method, less any impairment losses.

Investment securities held at FVOCI

Investment securities held at FVOCI consist entirely of debt instruments. Investment securities held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method.

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

Fair value through other comprehensive income

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Sovereign bonds	**386**	283	**386**	283
Residential mortgage-backed securities	**50**	–	**50**	–
Covered bonds	**337**	128	**337**	128
Total investment securities held at FVOCI	**773**	411	**773**	411

Amortised cost

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

Notes to the financial statements continued

14. Property, plant and equipment

Accounting policy

Property, plant and equipment

Our property, plant and equipment primarily consists of investments and improvements in our store network and is stated at cost less accumulated depreciation and any recognised impairment.

We depreciate property, plant and equipment on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures, fittings and equipment	5 years
IT hardware	3 to 5 years

We keep depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment under review to take account of any change in circumstances.

All items of property, plant and equipment are reviewed at the end of each reporting period for indicators of impairment.

Right-of-use assets

Upon the recognition of a lease liability (see note 23 for further details) a corresponding right-of-use (RoU) asset is recognised. This is adjusted for any initial direct costs incurred, lease incentives paid or received and any restoration costs at the end of the lease (where applicable).

The RoU asset is depreciated on a straight-line basis over the life of the lease.

All right-of-use assets are reviewed at the end of each reporting period for indicators of impairment.

Investment property

Investment property is also stated at cost less accumulated depreciation and any recognised impairment. Depreciation is calculated on a consistent basis with that applied to land and buildings as disclosed.

Group	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2020	**18**	**314**	**262**	**26**	**10**	**332**	**962**
Additions	**–**	**6**	**18**	**3**	**2**	**4**	**33**
Recognised in business combinations	**–**	**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**
Depreciation charge for the year	**–**	**11**	**5**	**5**	**4**	**16**	**41**
Recognised in business combinations	**–**	**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**

Group	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 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
Depreciation charge for the year	–	11	4	6	3	16	40
Impairments	7	–	–	–	–	–	7
Disposals	–	–	–	–	–	–	–
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

14. Property, plant and equipment continued

Impairments

During 2020 following the decision to vacate our Old Bailey office we tested the related assets for impairment and recognised an impairment loss in respect of these assets.

Additionally due to the decline in the commercial property market an impairment indicator was identified in relation to our investment property. Our investment property consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. An impairment loss of £2 million was recognised against these assets. At 31 December 2020 our 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 our property, plant and equipment. The assets, which included our 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 of fit out costs to some of our remaining office spaces that have been, or are planned, be stripped out either as a result of these spaces being vacated or refitted to allow future flexible working as well as sites that were abandoned during the year. Additionally write-off includes a number of fixtures, fittings and equipment and IT hardware with a nil book value which are no longer being used.

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.

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

15. Intangible assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however it is tested for impairment at the end of each reporting period.

The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows.

If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

Software includes both purchased items and internally developed systems, which consists principally of identifiable and directly associated internal colleague, contractor and other costs.

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset which we control and which will generate future economic benefits in accordance with IAS 38.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis within the income statement using the following useful economic lives:

Core banking software[1]	up to 20 years
Other banking software	3 to 10 years
Software licences	licence period
Customer contracts	10 years
Brands	5 years

All intangible assets are reviewed at the end of each reporting period for indicators of impairment.

1. Core banking software consists of our central banking transaction platform. The original platform was assessed as having a 20-year life due to it being the central component of our digital infrastructure. It was upgraded during 2019 with the upgrade assessed as having a 15-year life. Our core banking software has been in use since we first opened and given its significance is unlikely to be replaced in the foreseeable future.

Notes to the financial statements continued

15. Intangible assets continued

Group	Goodwill £'million	Brands £'million	Customer contracts £'million	Software £'million	Total £'million
Cost					
1 January 2020	**4**	**–**	**–**	**224**	**228**
Additions	**–**	**–**	**–**	**81**	**81**
Recognised in business combination (see note 37)	**6**	**2**	**–**	**32**	**40**
Write-offs	**–**	**–**	**–**	**(10)**	**(10)**
Deferred grant (see note 23)	**–**	**–**	**–**	**1**	**1**
31 December 2020	**10**	**2**	**–**	**328**	**340**
Amortisation					
1 January 2020	**–**	**–**	**–**	**60**	**60**
Amortisation charge for the year	**–**	**–**	**–**	**33**	**33**
Write-offs	**–**	**–**	**–**	**(7)**	**(7)**
31 December 2020	**–**	**–**	**–**	**86**	**86**
Net book value	**10**	**2**	**–**	**242**	**254**

Group	Goodwill £'million	Brands £'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 (see note 24)	–	–	–	(4)	(4)
31 December 2019	4	–	–	224	228
Amortisation					
1 January 2019	–	–	1	56	57
Amortisation 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:

	2020 £'million
Asset and invoice finance business	**4**
Retail bank	**6**
Total	**10**

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

The recoverable amount of the cash-generating units to which goodwill has been allocated is determined using the value-in-use basis. The following assumptions were used in the assessment:

Assumption	How it has been determined
Projected adjusted profitability	The cash flows are based on our most recent Board-approved long-term plan adjusted for non-cash items over a period of five years. Our long-term plan is based on our best estimate of lending yields, volume growth and cost base over the period.
Projected capital expenditure	The projected capital expenditure (excluding replacement of assets) has been determined on a consistent basis to that used for the long-term plan, which has been calculated based on the spend needed for growth within the limits of what can be afforded.
Funding and capital	The assumption is made that we will be able to remain appropriately capitalised to fund our anticipated growth. We have determined that we will be able to meet the appropriate regulatory requirements, which has been based on an analysis of both our existing and planned capital structure. This is consistent with the assessment undertaken by the Directors in respect of assessing viability.
Discount rate	The retail bank and asset and invoice finance businesses are determined to have the same discount rate which is representative of that of the Group as a whole. The discount rate has been set at the pre-tax weighted average cost of capital for the Group adjusted to reflect the specific risks relating to the business. This discount rate has been compared to industry peers to ensure it is appropriate. The discount rate used was 9.3%.
Long-term growth rate	The long-term growth rate is used to extrapolate the cash flows in perpetuity. We have used the predicted long-term GDP growth rate of the UK economy (the only market both CGUs operate in) of 2.0%.

The key assumptions outlined above may change depending on economic and market conditions although we estimate that reasonable changes to the assumption in any of these factors would not cause the recoverable of either CGU to fall below its carrying amount.

Company	2020 Software £'million	2019 Software £'million
Cost		
1 January	**221**	246
Additions	**81**	79
Write-offs	**(10)**	(100)
Deferred grant (see note 24)	**1**	(4)
31 December	**293**	221
Amortisation		
1 January	**59**	56
Amortisation charge for the year	**32**	35
Write-offs	**(7)**	(32)
31 December	**84**	59
Net book value	**209**	162

16. Prepayments and accrued income

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Prepayments	**30**	29	**26**	26
Accrued income	**46**	34	**46**	34
VAT receivable	**1**	3	**1**	3
Total prepayments and accrued income	**77**	66	**73**	63
Current portion	**77**	66	**73**	63
Non-current portion	**–**	–	**–**	–

17. Assets classified as held for sale

Accounting policy	Non-current assets (including disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of their carrying amount and fair value less costs to sell, unless they are exempt from the measurement criteria.

On 18 December 2020 we 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 from the sale, the carve out did not meet the threshold to be derecognised at year end, however was 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 the amount recognised in note 4.

Further detail of allowances for credit losses on the held for sale loans is provided in note 31.

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 40.

18. Other assets

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Due from other banks[1]	**2,568**	–	**2,568**	–
Cash pledged as collateral	**36**	43	**36**	43
Other[2]	**17**	32	**16**	31
Amounts owed by Group undertakings	**–**	–	**260**	291
Total other assets	**2,621**	75	**2,880**	365
Current portion	**2,595**	48	**2,854**	338
Non-current portion	**26**	27	**26**	27

1. Due from other banks comprises solely of the amount receivable from NatWest in respect of the portion of the loan portfolio that was derecognised 31 December 2020, less amounts already received as at 31 December 2020 (see notes 4 for further details).
2. Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

19. Deposits from customers

The total deposits from customers as at 31 December 2020 is comprised of 56% from retail customers (31 December 2019: 60%) and 44% from commercial customers (31 December 2019: 40%).

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Deposits from retail customers	**8,960**	8,730	**8,960**	8,730
Deposits from commercial customers	**7,112**	5,747	**7,112**	5,747
Total deposits from customers	**16,072**	14,477	**16,072**	14,477

20. Deposits from central banks

Deposits from central banks consists solely of amounts drawn down under the Bank of England's Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME).

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Amounts drawn down under TFS	**3,258**	3,801	**3,258**	3,801
Amounts drawn down under TFSME	**550**	–	**550**	–
Deposits from central banks	**3,808**	3,801	**3,808**	3,801

TFS was closed to further drawdowns in February 2018 and our drawdowns will mature in 2021 and 2022 in the amounts of £2,778 million and £480 million respectively. £550 million of TFS drawings that matured in 2020 were rolled over into TFSME, which will mature in 2024.

21. Debt securities

Accounting policy	Debt securities in issue are recognised initially at fair value, being proceeds less transaction costs. Subsequently, debt securities are measured at amortised cost using the effective interest method.

Name	Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
Fixed Rate Reset Callable Subordinated Notes	26/06/18	GBP	250	5.50%	26/06/2023	26/06/2028
Fixed Rate Reset Senior Non-Preferred Notes	08/10/19	GBP	350	9.50%	08/10/2024	08/10/2025

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**591**	249	**591**	249
Issuances	**–**	350	**–**	350
Costs associated with issuance	**–**	(9)	**–**	(9)
Movements in micro hedging arrangements	**7**	–	**7**	–
Unwind of issuance costs	**2**	1	**2**	1
31 December	**600**	591	**600**	591

In addition to the movements in debt securities set out above we assumed £21 million of external borrowings as part of the acquisition of RateSetter (see note 37), subject to an average interest rate of 7%. This debt was not eligible for regulatory capital purposes and was subsequently refinanced from existing cash resources via a capital contribution (see note 39).

Notes to the financial statements continued

22. Derivatives

Accounting policy

In accordance with our risk management strategy, to the extent not naturally hedged, we use interest rate swaps to manage our exposure to interest rate risk. On adoption of IFRS 9 we chose to continue applying the hedge accounting rules set out in IAS 39 as adopted by the EU (EU-IFRS) as we employ dynamic portfolio hedge accounting of interest rate risk across fixed rate financial assets and fixed rate financial liabilities. Relevant differences between IFRS as issued by the IASB and EU-IFRS specifically relate to our dynamic hedges of non-interest bearing liabilities and fixed rate mortgages.

Where we are using interest rate swaps to hedge the changes in fair value attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply fair value hedge accounting. If there is an effective hedge relationship, the hedged item (such as fixed rate mortgages or non-interest bearing customer deposits) is adjusted for fair value changes in respect of the hedged risk. These fair value changes are recognised in the income statement together with the fair value movements on the hedging instrument (the interest rate swaps).

Where we are using interest rate swaps to hedge the exposure to variability in cash flows attributable to interest rate risk on a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, we apply cash flow hedge accounting. If there is an effective hedge relationship, the effective portion of the movement in fair value of the hedging instrument (the interest rate swap) is recognised in other comprehensive income and taken to the cash flow hedge reserve. The financial hedged item (such as floating rate loans and advances to customers) is accounted for as normal in line with IFRS 9 accounting requirements.

Hedge accounting is discontinued when a hedge ceases to be highly effective, a derivative expires or is sold, the underlying hedged item matures or is repaid, or periodically if a new underlying hedged item or hedging instrument is added to the hedge relationship. Where a fair value hedge is de-designated (either due to becoming ineffective or as part of our dynamic approach to hedge accounting) any hedge adjustments accrued to that point are amortised over the remaining life of the hedged item. When a cash flow hedge is de-designated any accumulated amounts in the cash flow hedge reserve are recycled to profit or loss as and when the hedged forecast cash flows impact the income statement so long as the hedged forecast cash flows are still expected.

At the inception of every hedge, we produce hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

We use derivatives as part of our approach to hedging interest rate and foreign exchange exposure.

Our derivative financial instruments are analysed in the table below.

	31 December 2020				31 December 2019			
	Assets		Liabilities		Assets		Liabilities	
Group and Company	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million	Fair value £'million	Notional contract amount £'million
Interest rate swaps/Designated as hedging instruments	**–**	**–**	**8**	**1,431**	–	–	8	1,712
Foreign currency swaps/Designated as held at fair value through profit and loss	**1**	**127**	**1**	**129**	1	138	1	136
Total	**1**	**127**	**9**	**1,560**	1	138	9	1,848

Hedge accounting

Our hedging strategy is divided into micro hedges, where the hedged item is an identifiable asset or liability, and portfolio hedges, where the hedged item is a portfolio of mortgage assets.

The hedge accounting relationships, which we designate risk components of hedged items are as follows:

- Benchmark interest rate risk as a component of interest rate risk.
- Exchange rate risk for foreign currency financial assets and financial liabilities.

Other risks such as credit risk and liquidity risk are managed separately and are not included in the hedge accounting relationship.

The changes in the designated risk component usually account for the largest portion of the overall change in fair value of the hedged item.

Portfolio fair value hedges

During 2019 we implemented a macro hedging programme as part of which we increased our use of interest rate swaps to manage our interest rate risk. So far the macro hedging programme has been applied to our fixed rate mortgage assets only.

We determine hedged items by analysing portfolios of fixed rate mortgages into repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated appropriately to those repricing time buckets.

The hedge relationship is tested for effectiveness prospectively at the designation date, and retrospectively at each de-designation on a monthly basis. This is done by comparing fair value movements of the designated proportion of the bucketed mortgages, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged mortgages are recognised on the balance sheet as an asset and liability respectively. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the mortgage. Amortisation begins at the date of de-designation.

Micro fair value hedges

We use this hedging strategy on fixed rate assets and liabilities held at fair value through other comprehensive income and amortised cost as well as on our fixed rate debt issuance.

22. Derivatives continued

Hedge ineffectiveness

Hedge ineffectiveness within portfolio fair value hedges of the fixed rate mortgage portfolio can occur due to a number of potential sources, such as:

- non-zero derivative designated in a hedge relationship;
- mismatches between contractual terms such as basis, timing, principal and notionals; or
- change in credit risk of interest rate swaps.

Summary of hedging instruments in designated hedge relationships

The amounts relating to items designated as hedging instruments in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2020				31 December 2019			
	Asset		Liability		Asset		Liability	
Group and Company	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million	Notional contract amount £'million	Carrying amount £'million
Interest rate swaps	**–**	**–**	**1,431**	**8**	–	–	1,712	8
Total derivatives designated as fair value hedges	**–**	**–**	**1,431**	**8**	–	–	1,712	8

Summary of hedged items in designated hedge relationships

The items designated as hedged items in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2020				31 December 2019			
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item	
Group and Company	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million	Assets £'million	Liabilities £'million
Fixed rate mortgages[1]	**663**	**–**	**8**	**–**	994	–	4	–
Fixed rate debt issuance[2]	**–**	**457**	**–**	**7**	–	350	–	–
Fixed rate investment securities at FVOCI[3]	**263**	**–**	**4**	**–**	372	–	4	–
Fixed rate investment securities at amortised cost[4]	**62**	**–**	**2**	**–**	–	–	–	–
Fixed rate loans[5]	**7**	**–**	**1**	**–**	7	–	–	–
Total derivatives designated as fair value hedges	**995**	**457**	**15**	**7**	1,373	350	8	–

1. Hedged item and the cumulative fair value changes are recorded in Loans and advances to customers.
2. Hedged item and the cumulative fair value changes are recorded in Debt securities in issue (see note 21).
3. Hedged items are recorded in Investment Securities held at FVOCI and the cumulative fair value changes are recorded in Other reserves.
4. Hedged item and the cumulative fair value changes, are recorded in Investment Securities held at amortised costs.
5. Hedged item and the cumulative fair value changes are recorded in Loans and advances to customers.

For the purposes of calculating ineffectiveness recognised in the profit or loss, the total accumulated amount of fair value hedge adjustment is used.

Summary of ineffectiveness from designated hedge relationships

An analysis of the hedge ineffectiveness recognised in profit or loss for the designated fair value hedge relationships is set out below:

Group and Company	2020 £'million	2019 £'million
(Loss)/gain arising from fair value hedges		
Hedging instrument	**(0.2)**	(7.2)
Hedged item attributable to the hedged risk	**(0.3)**	7.6
Total ineffectiveness arising from fair value hedges	**(0.5)**	0.4

23. Leases

Accounting policy

At the inception of a contract we assess whether the contract contains a lease.

At the commencement of a lease we recognise a lease liability and right-of-use asset (see note 14 for further details). The lease liability is initially measured as the present value for the future lease payments discounted at the rate implicit in the lease (where available) or our incremental cost of borrowing. Generally we use our deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Where we are reasonably certain to exercise a break in the lease, only the lease payments up until the date of the break are included.

We subsequently remeasure the lease liability when there is a change to an index or rate used or when there is a change in expectation that we will exercise a purchase option or break clause or if we extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right-of-use asset.

Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which is due. This is included within note 6, General operating expenses, under 'occupancy expense'.

We have elected not to recognise a lease liability and right-of-use assets for any leases that have a term of less than 12 months, or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

Lease liabilities

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**341**	328	**341**	328
Additions and modifications	**4**	23	**4**	23
Recognised in business combinations (see note 37)	**3**	–	**–**	–
Disposals	**(9)**	(3)	**(9)**	(3)
Lease payments made	**(31)**	(25)	**(30)**	(25)
Interest on lease liabilities	**19**	18	**19**	18
31 December	**327**	341	**325**	341
Current	**29**	28	**28**	28
Non-current	**298**	313	**297**	313

Right-of-use assets

All of our disclosures relating to right-of-use assets, including our accounting policy, can be found in note 14.

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.

23. Leases continued

Future income due under non-cancellable property leases

We lease out surplus space in some of our properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of VAT.

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

Finance lease receivables

Through our asset finance business we lease a variety of assets to third parties, which typically consist of plant, machinery and vehicles. These rentals typically cover the assets' useful economic life and as such any residual value is minimal. Amounts receivable are classified as loans and advances to customers and are categorised within our asset and invoice finance lending per the breakdown provided in note 12.

	Group					
	31 December 2020			31 December 2019		
Receivable	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million
Within one year	**8**	**(1)**	**7**	7	(1)	6
Due in one to five years	**13**	**(1)**	**12**	13	(1)	12
Due in more than five years	**–**	**–**	**–**	1	–	1
Total	**21**	**(2)**	**19**	21	(2)	19

24. Deferred grants

Accounting policy	Grants are recognised where there is reasonable assurance that we will both receive the grant and will be able to comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the purchase of an asset, it is recognised directly against the cost of the asset.

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**50**	–	**50**	–
Grants received	**–**	120	**–**	120
Released to the income statement	**(23)**	(16)	**(23)**	(16)
Offset against capital expenditure (see note 15)	**1**	(4)	**1**	(4)
Grant returned	**–**	(50)	**–**	(50)
31 December	**28**	50	**28**	50

On 22 February 2019 we were awarded £120 million from the Capability and Innovation Fund (part of the RBS alternative remedies package). Following changes to our strategy, a revised business case was submitted to the BCR (the awarding body). The proposals put forward were accepted by BCR on 25 February 2020 as part of which the public commitments attached to the grant were amended. Full details of our current commitments can be found on BCR's website. As at the 31 December 2020 no provision has been made for the return of any further funds on the basis we are on track to deliver our commitments agreed with BCR.

25. Provisions

Accounting policy

We recognise provisions when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made. The provision is measured at its current present value.

Provision	Description
Customer remediation	We are committed to doing the right thing but occasionally we identify issues that have caused detriment as a result of our actions. Where we have to refund costs to customers we provide for this at the point the obligation arises. The amounts recognised include any associated interest due.
Dilapidations	Dilapidations provisions are recognised in regard to certain properties we lease. The majority of our stores and offices have an automatic right to renewal at the end of the lease under the provisions of the Landlord and Tenant Act 1954 ('the act'). Where this is the case we do not provide for restorations on these sites since we have no intention of vacating at the end of the lease term. For sites that are outside the act, or sites within the act where we think there is a chance we will vacate a site at the end of its lease, a provision is made for dilapidations. The provision is made in line with the underlying obligations contained within the lease.
Onerous contracts	Onerous contract provisions are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits we expect to be received under it. The provision is recognised as the net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
Other provisions	Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business.

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 33.

Critical accounting judgement

Recognition of provisions
A key area of judgement applied in the preparation of these financial statements is determining whether a present obligation exists and where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis as facts change. In the early stages of legal and regulatory matters, it is typically the case that it is not possible to reliably estimate the outcome and in these cases we do not provide for their outcome, however do provide further disclosures outlining the matters in further detail.

Additional information about legal and regulatory matters which constitute contingent liabilities is available in note 33.

Notes to the financial statements continued

25. Provisions continued

Group	2020 Customer remediation £'million	2020 Dilapidations £'million	2020 Onerous contracts £'million	2020 Other provisions £'million	2020 Total £'million	2019 Customer remediation £'million	2019 Dilapidations £'million	2019 Onerous contracts £'million	2019 Other provisions £'million	2019 Total £'million
1 January	**12**	**3**	**–**	**2**	**17**	–	–	–	2	2
Additions	**1**	**–**	**9**	**–**	**10**	12	3	–	–	15
Recognised in business combinations (see note 37)	**–**	**–**	**3**	**–**	**3**	–	–	–	–	–
Released	**–**	**–**	**–**	**(2)**	**(2)**	–	–	–	–	–
Utilised	**(11)**	**–**	**(6)**	**–**	**(17)**	–	–	–	–	–
31 December	**2**	**3**	**6**	**–**	**11**	12	3	–	2	17

All additions have been recognised in the income statement.

Customer remediation

The customer remediation provision primarily relates to non-compliance with requirements to provide SMS warning alerts to customers regarding overdraft charges we identified in 2019. The error was subsequently corrected with affected customers being contacted in the first half of 2020 to put things right. As such the majority of the provision was utilised during the year with a small amount remaining in respect of uncashed cheques. A small amount is also recognised in respect of other immaterial remediation issues.

The provision has been calculated based on the fees originally incorrectly charged. It also includes any interest due from the date the amount was charged through to the estimated date of return. It is anticipated the remaining provision will be utilised within the next 12 months.

Dilapidations

The amounts provided in respect of dilapidations are calculated based on assessments by an independent qualified valuer. They represent the best estimate of the present value to restore the site to the condition required under the lease. As the date restoration is required may be up to 25 years in the future, there is uncertainty in this estimation. Additionally, for sites that are outside the act, should we be successful in reviewing the lease at the end of its term, the provision recognised may not end up being utilised.

Dilapidations included a provision for the restoration of the Old Bailey site we vacated during the year.

Onerous contracts

Onerous contracts primarily relate to the non-rental costs of fulfilling property contracts from which we will no longer benefit (this included costs related to the Old Bailey site). Rental costs on these sites from which we will receive no future economic benefits are represented by an impairment to the right of use asset (see note 14 for further details). In addition an onerous contract provision was recognised as part of our acquisition of RateSetter relating to loans they have lent out under their peer-to-peer model with a negative margin (i.e. the interest the borrower had agree to pay was less than the rate the investor had been matched with).

All of our current onerous contract provisions are anticipated to be utilised within the next 18 months.

26. Other liabilities

	Group 31 December 2020 £'million	Group 31 December 2019 £'million	Company 31 December 2020 £'million	Company 31 December 2019 £'million
Trade creditors	**4**	4	**4**	4
Other taxation and social security costs	**9**	6	**8**	5
Accruals	**101**	93	**98**	92
Deferred income	**7**	10	**7**	10
Grant awaiting repayment (note 24)	**–**	50	**–**	50
Deferred consideration (note 37)	**8**	–	**8**	–
Other liabilities	**69**	104	**55**	101
Total other liabilities	**198**	267	**180**	262
Current portion	**172**	236	**154**	231
Non-current portion	**26**	31	**26**	31

27. Called-up share capital

Accounting policy	On issue of new shares, incremental directly attributable costs are shown in equity as a deduction from the proceeds.

We have a single class of shares. As at 31 December 2020, we had 172.4 million ordinary shares of 0.0001p (31 December 2019: 172.4 million) authorised and in issue.

Called-up ordinary share capital, issued and fully paid

The called-up share capital reserve is used to record our nominal share capital. At 31 December 2020 our called-up share capital was £172.42 (31 December 2019: £172.42).

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

Share premium

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

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

Notes to the financial statements continued

28. Retained losses

Retained losses records our cumulative losses since our formation. The Group's retained earnings also include the accumulated profits of our subsidiaries since they were acquired.

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**(392)**	(209)	**(397)**	(214)
Loss for the year	**(302)**	(183)	**(292)**	(183)
31 December	**(694)**	(392)	**(689)**	(397)

No dividends were paid during the year (2019: none). We do not currently have any distributable reserves and, as such, it is unlikely a dividend will be paid in the foreseeable future.

29. Other reserves

Share option reserve

The share option reserve is used to record movements in relation to share options awarded under our CSOP plans.

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**14**	10	**14**	10
Equity-settled share-based payment charges (note 7)	**2**	4	**2**	4
31 December	**16**	14	**16**	14

Fair value though other comprehensive income (FVOCI) reserves

The FVOCI reserve is used to record changes in the fair value of investment securities designated at FVOCI. When investment securities held at FVOCI are sold, any accumulated gains or losses are transferred to the income statement.

	Group 2020 £'million	Group 2019 £'million	Company 2020 £'million	Company 2019 £'million
1 January	**(3)**	(3)	**(3)**	(3)
Changes in fair value	**6**	2	**6**	2
Fair value changes transferred to the income statement on disposal	**–**	(2)	**–**	(2)
31 December	**3**	(3)	**3**	(3)

Treasury shares

We have a small number of shares held in treasury relating to awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange (see note 7 for further details). These are held by an employee benefit trust, which is consolidated within the Group accounts. The balance on the reserve is less than £0.4 million (31 December 2019: less than £0.2 million) and therefore not been separately disclosed as a component of reserves due to its immaterial size.

30. Share options

Accounting policy

The grant date fair value of options awarded to colleagues is recognised as an expense over the period in which colleagues become unconditionally entitled to the options. The expense (representing the value of the services received by us) is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of the colleague services received in respect of the share options granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period. Graded vesting is applied where relevant.

The fair value of colleague share option plans is calculated at the grant date using a Black-Scholes model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

We offer options to Executive Directors and colleagues under our deferred variable reward plan. The granting of options is designed to provide incentives to all colleagues to deliver long-term returns. No individual has a contractual right to participate in the plan or to receive any guaranteed benefits and the granting of options remains at the discretion of the Remuneration Committee.

Standard share options are granted for no consideration and carry no voting rights. The exercise price of the granted options is equal to the market price at the date of the grant. Options vest in equal tranches over three to seven years and generally have a contractual option term of ten years, with the only vesting condition being the continuing service of the colleague. Options acquired via 'exchange' of some or all of the cash element of a colleague's variable reward vest immediately (this option has not been offered in 2020). All our options are equity settled and we have no legal or constructive obligation to repurchase the shares or settle the options in cash.

The table below summarises the movements in the number of options outstanding and their weighted average exercise price:

	2020		2019	
Group	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	**4,760**	**19.98**	4,104	22.90
Granted	**2,733**	**0.93**	922	7.94
Exercised	**–**	**–**	(3)	12.56
Lapsed	**(323)**	**14.06**	(263)	23.42
Outstanding at 31 December	**7,170**	**12.99**	4,760	19.98
Exercisable at 31 December	**3,468**	**19.74**	2,921	19.75

30. Share options continued

Fair value of options granted

The average share price during 2020 was 114p (2019: 631p). The number of options outstanding at year end was as follows:

Exercise price	2020 Number of options '000	2020 Weighted average remaining contractual life years	2019 Number of options '000	2019 Weighted average remaining contractual life years
£0.93	**2629**	**9.3**	–	–
£7.94	**752**	**8.2**	856	9.2
£9.00	**47**	**0.8**	47	1.8
£10.00	**128**	**1.8**	128	2.8
£12.00	**235**	**2.8**	235	3.8
£13.00	**60**	**3.2**	60	4.2
£13.50	**616**	**3.8**	615	4.8
£14.00	**194**	**n/a**	194	n/a
£16.00	**607**	**n/a**	624	n/a
£20.00	**446**	**5.2**	451	6.2
£32.73	**639**	**6.2**	668	7.2
£35.36	**817**	**7.2**	882	8.2
Total	**7,170**	**7.2**	4,760	6.9

The fair value of the options granted during the year is determined using a Black-Scholes valuation model. The total fair value of options granted in 2020 was £2.3 million (2019: £1.7 million), based on the following assumptions:

Group	2020 share options
Weighted average risk-free interest rate	**0.15% to 0.24%**
Weighted average expected life	**5.5 to 8.5 years**
Weighted average expected volatility	**125%**
Weighted average expected dividend yield	**nil**
Weighted average share price	**£0.93**
Weighted average exercise price	**£0.93**

31. Expected credit losses

Accounting policy

We assess on a forward-looking basis the expected credit losses (ECL) associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information.

Loans and advances

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. Expected credit losses are calculated by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate.

Key model inputs and judgements include:
- Consideration of when a significant increase in credit risk occurs.
- Probability of default (PD), loss given default and exposure at default as well as their modelled impact.
- Macroeconomic scenarios and weightings applied.

Significant increase in credit risk

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

Stage	Description	ECL recognised
Stage 1	Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk (high quality investment securities only) at the reporting date.	**12-month expected credit losses** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is **credit impaired** when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired (POCI) assets	Financial assets that have been purchased and had **objective evidence of being 'non-performing' or 'credit impaired**' at the point of purchase.	**Lifetime expected credit losses** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognised as a loss allowance.

31. Expected credit losses continued

A significant increase in credit risk may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The threshold is set at three times the median PD of the portfolio at origination.
- Qualitative criteria – instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative analysis. In addition instruments classified on the Early Warning List as higher risk, are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance.

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

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

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

A probation period is implemented before transferring a financial instrument to a lower stage (i.e. from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

Probability of default

The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates:

- Credit quality scores.
- Life cycle trends depending on a loan's vintage.
- Factors indicating the quality of the vintage.
- Characteristics of the current and future economic environment.

Loss given default

The loss given default (LGD) represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default.
- Expected haircut applied to the collateral value to reflect a forced sale discount.
- Price index forecasts applied to project collateral values into the future.
- Stress factors based on macroeconomic scenarios.

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued.
- Repayments may be received on mortgages.
- For a revolving product, further drawings may be taken between the current point in time and the point of default.
- Estimations of these factors will be incorporated into our estimate of exposure at default.

PD, LGD and exposure at default are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and exposure at default are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

Macroeconomic scenarios

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

In the normal course of business, we use three scenarios. These represent a 'most likely outcome', (the 'Baseline' scenario) and two, less likely, 'Outer' scenarios on either side of the Baseline scenario, referred to as an 'Upside' and a 'Downside' scenario respectively. The Baseline scenario captures the most likely economic future; the downside scenario presents particular adverse economic conditions; and the upside scenario presents more favourable economic conditions.

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

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

- UK interest rates (five year mortgage rate).
- UK unemployment rates.
- UK HPI changes, year-on-year.
- UK GDP changes, year-on-year.

31. Expected credit losses continued

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index mortgage collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, stock prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to our data.

Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A large number of possible future paths is simulated. The Downside scenario has been set to be worse than 90% of possible future outcomes; the Upside scenario has been set to be better than 90% of possible future outcomes. These assumptions are considered sufficient to capture any material non-linearities.

A simulation process was designed to determine the weighting to apply to each scenario based on the severity of each scenario and the range of possible scenarios for which that scenario was representative.

We recognise that applying the above three scenarios will not always be sufficient to determine an appropriate ECL in all economic environments.

The weightings applied to each scenario at 31 December 2020 and 2019 are:

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

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2020 are as follows:

	2021	2022	2023	2024
Interest rates (%) – five year mortgage rate	Base: 2.2% Upside: 2.4% Downside: 1.7%	Base: 2.8% Upside: 2.9% Downside: 2.3%	Base: 3.3% Upside: 3.7% Downside: 2.6%	Base: 3.6% Upside: 4.2% Downside: 2.7%
UK unemployment (%)	Base: 7.4% Upside: 6.4% Downside: 9.2%	Base: 6.8% Upside: 5.6% Downside: 9.3%	Base: 5.9% Upside: 5.0% Downside: 8.3%	Base: 5.5% Upside: 4.8% Downside: 7.6%
UK house price index – % change year-on-year	Base: (5.0%) Upside: (1.1%) Downside: (9.8%)	Base: (3.2%) Upside: 7.6% Downside: (1.95%)	Base: 5.7% Upside: 7.4% Downside: 4.7%	Base: 5.8% Upside: 5.5% Downside: 6.8%
UK GDP – % change	Base: 6.8% Upside: 10.7% Downside: 1.8%	Base: 5.4% Upside: 3.9% Downside: 7.0%	Base: 2.7% Upside: 2.4% Downside: 3.0%	Base: 1.0% Upside: 1.1% Downside: 1.0%

The assumptions used for the ECL estimate as at 31 December 2019 are as follows:

	2020	2021	2022	2023
Interest rates (%)	Base: 1.0% Upside: 1.0% Downside: 0.0%	Base: 1.8% Upside: 2.0% Downside: 0.7%	Base: 2.3% Upside: 2.6% Downside: 1.1%	Base: 2.9% Upside: 3.3% Downside: 1.6%
UK unemployment (%)	Base: 4.2% Upside: 3.3% Downside: 5.6%	Base: 4.4% Upside: 3.0% Downside: 6.7%	Base: 4.6% Upside: 3.3% Downside: 7.0%	Base: 4.8% Upside: 3.6% Downside: 6.8%
UK house price index – % change year-on-year	Base: 1.4% Upside: 5.8% Downside: (4.0)%	Base: 0.6% Upside: 5.9% Downside: (8.1)%	Base: 1.1% Upside: 2.2% Downside: (1.6)%	Base: 1.1% Upside: 0.1% Downside: 2.7%
UK GDP – % change	Base: 1.0% Upside: 4.5% Downside: (3.9)%	Base: 1.0% Upside: 0.7% Downside: 0.4%	Base: 1.1% Upside: 0.7% Downside: 2.0%	Base: 1.5% Upside: 1.3% Downside: 2.4%

Following the initial four-year projection period, the Upside and Downside scenarios converge to the Baseline scenario. The rate of convergence varies based on the macroeconomic factor, but at a minimum convergence takes place three years from the initial four-year projection period.

We note that the scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

Investment securities and other financial assets

Impairment provisions have been calculated based on our best estimate of expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. These impairment provisions are not material.

Notes to the financial statements continued

31. Expected credit losses continued

Critical accounting judgement

Measurement of the expected credit loss allowance
The measurement of ECL is complex and involves the use of significant judgements. We consider that the following represent key judgements in respect of the measurement of the ECL.

Significant increase in credit risk
IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans as a lifetime ECL is recognised compared to a 12-month ECL for performing loans. This is considered based on a staging approach. Financial assets that have had no significant increase in credit risk since initial recognition, or that have low credit risk at the reporting date, are considered to be performing loans and are classified as 'Stage 1'. Losses are calculated based on our expectation of losses expected on defaults which may occur within the next 12 months. Assets which are considered to have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, are classified as 'Stage 2'. Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to Stage 2, is performed at each reporting period by considering the change in the PD expecting over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

During 2020 we introduced the ability for our customers to request payment deferrals as a result of the COVID-19 pandemic. The use of a payment deferral is not in itself considered to be trigger of a significant increase in credit risk and as such the granting of a COVID-19 related payment deferral does not in itself result in a transfer between stages for the purposes of IFRS 9. Payment deferral is however a potential indicator of an increase risk and has been reflected via a post model overlay.

Use of post model overlays and adjustments
We have applied expert judgement to the measurement of the expected credit loss in the form of post model overlays and adjustments.

Post model adjustments
Post model adjustments (PMAs) refer to increases/decreases in ECL to address known model limitations, either in model methodology or model inputs. These rely on analysis of model inputs and parameters to determine the change required to improve model accuracy. These may be applied at an aggregated level, however they will usually be applied at account level.

Post model overlays
Post model overlays (PMOs) reflect management judgement. These rely more heavily on expert judgement and will usually be applied at an aggregated level. For example, where recent changes in market and economic conditions have not yet been captured in the macroeconomic factor inputs to models (e.g. industry specific stress event).

The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by the Audit Committee (see page 94).

Critical accounting judgement

ECL assessment

We have utilised PMAs and PMOs in the assessment of ECL. These supplement the models to account for where there are limitations in model methodology or data inputs, or where recent changes in market and/or economic conditions are not yet captured.

In 2020 we have developed a number of new models which are being finalised through model validation. These models reflect enhancements that have been made to mitigate previous known model limitations, for example to reflect new products. PMAs have been utilised for the year ended 31 December 2020 to reflect these expected future model enhancements and make up £23 million of the ECL expense (2019: £nil).

PMOs have been applied to account for elements that management consider not fully captured in the macroeconomic forecasts, as well as any uncertainties that exist as a result of COVID-19 and Brexit. These are based on expert judgement and analysis of more severe macroeconomic outlooks where unemployment rates could go as high as 10% and HPI could fall as much as 19%.

In calculating the PMOs we have utilised information such as, impacts from prior economic recessions, banking industry benchmarking and specific commercial industry and sector forecasts, such as for retail and hospitality. This information is then used to form an expert judgement of ECL impact for each of the below PMOs, considering the specific nature and composition, such as geographical and sector concentrations, of our loan portfolios.

PMOs make up £54 million of the ECL expense for the year ended 31 December 2020 (2019: £1.4 million) and comprise:

- Uncertainties to economic forecast – To reflect the additional uncertainty not captured in the scenarios used (2020: £16.5 million; 2019: £nil). Given the December 2020 scenarios were developed prior to 31 December 2020 they do not fully reflect events up until 31 December 2020, i.e. the emergence of the new COVID-19 variant and imposing of stricter lockdown measures, therefore management consider that they do not adequately capture the full economic risk.
- An overlay to reflect the payment deferrals provided to customers – For mortgages and consumer lending a portfolio level overlay has been calculated to reflect the increased risk for customers currently benefiting from COVID-19 payment deferrals (2020: £10.9 million; 2019: £nil).
- An uplift for COVID-19 vulnerable Commercial sectors including restaurants, hospitality and real estate – A portfolio level overlay has been assessed to reflect the increased risk for customers benefiting from temporary COVID-19 support measures operating within sectors which have exhibited stress (2020: £10.6 million; 2019: £nil).
- An assessment of the impacts of Brexit – A limited deal was assumed in the scenarios used. Despite a Brexit deal being agreed, there is still significant uncertainty in the wider UK economy, potential short term disruption, direct customer impacts for customers who buy and sell into the EU as well as indirect customer supply chain impacts. To reflect this additional risk, a portfolio overlay has been calculated for commercial exposures (2020: £8.5 million; 2019: £1.4 million).
- An overlay for losses in respect of government backed lending schemes – This covers the potential cost to recover for CBILS and BBLS as well as the 20% non-guaranteed portion of CBILS (2020: £7.5 million, 2019: £nil).

All PMOs impact the ECL measurement, however not all adjust the staging.

31. Expected credit losses continued

Critical accounting estimate

Measurement of the expected credit loss allowance
We consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

Multiple forward-looking economic scenarios
The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. At 31 December 2020 three main scenarios were applied ('Baseline', 'Upside' and 'Downside').

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

- UK interest rates.
- UK unemployment rates.
- UK HPI changes, year on year.
- UK GDP changes, year on year.

The weightings applied to each scenario at 31 December 2020 and 31 December 2019 are:

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

The weighted ECL differs from the Baseline scenario as reflecting the non-linearity of credit losses which means that the impact of the Downside scenario do not equal the impact of the Upside scenario.

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

Scenario	ECL (£'million)	Variance to reported weighted ECL at 31 December 2020
Weighted	154	–
Baseline	157	2%
Upside	143	(7%)
Downside	161	5%

The sensitivities disclosed above represent example scenarios and may not represent actual scenarios which occur in the future. If one of these scenarios did arise then at that time the ECL would not equal the amount disclosed above, as the amounts disclosed do not take account of the alternative possible scenarios which would be considered at that time. In addition the post model overlays as well as all individually assessed provisions are reported flat against each of the economic scenarios. We also note that the sensitivities disclosed above do not take into account movements in impairment stage allocations that would result under the different scenarios.

Under the current economic circumstances it is very difficult to quantify the estimation of market uncertainty. As an illustration of potential sensitivity, if customers on payment holidays and customers with CBILS and BBLs loans were to recover in full this would result in a reversal to PMOs of £18.4 million.

Expected credit loss expense

Group	2020 £'million	2019 £'million
Retail mortgages	**18**	(3)
Consumer lending	**12**	4
Commercial lending (excluding asset and invoice finance)	**87**	–
Asset and invoice finance	**3**	(1)
Expected credit losses included within gains on sale of assets	**6**	8
Held for sale assets	**1**	–
Write-offs and other movements	**–**	4
Total expected credit loss expense	**127**	12

Investment securities

All investment securities held at FVOCI are deemed to be in Stage 1. Any credit loss allowance is, however, included as part of the revaluation amount in the FVOCI reserve. At 31 December 2020, the loss allowance included within the FVOCI reserve is less than £0.1 million (31 December 2019: £0.2 million).

All investment securities held at amortised cost are deemed to be in Stage 1. The total expected credit loss recognised for these assets at 31 December 2020 is less than £0.1 million (31 December 2019: £0.2 million).

Notes to the financial statements continued

31. Expected credit losses continued

Loss allowance

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

Retail mortgages

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
1 January 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**

	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

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 (see note 17).
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.

Consumer lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 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	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	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

Notes to the financial statements continued

31. Expected credit losses continued

Commercial lending (excluding asset and invoice finance)

Our top 10 commercial exposures total £366 million (2019: £360 million), representing 8% (2019: 10%) of our total commercial lending.

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2020	3,628	72	51	–	3,751	(4)	(1)	(6)	–	(11)	3,624	71	45	–	3,740
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	(80)	(20)	100	–	–	–	1	(1)	–	–	(80)	(19)	99	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	(28)	(29)	–	(57)	–	(28)	(29)	–	(57)
New lending	1,462	199	8	–	1,669	(4)	(13)	(3)	–	(20)	1,458	186	5	–	1,649
Repayments, additional drawdowns and interest accrued	(111)	1	(7)	–	(117)	–	–	–	–	–	(111)	1	(7)	–	(117)
Derecognitions	(391)	(14)	(24)	–	(429)	1	1	2	–	4	(390)	(13)	(22)	–	(425)
Changes to model assumptions	–	–	–	–	–	(8)	(3)	(3)	–	(14)	(8)	(3)	(3)	–	(14)
31 December 2020	**3,843**	**906**	**125**	**–**	**4,874**	**(15)**	**(43)**	**(40)**	**–**	**(98)**	**3,828**	**863**	**85**	**–**	**4,776**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2019	3,970	77	10	–	4,057	(4)	(3)	(3)	–	(10)	3,966	74	7	–	4,047
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	(15)	(9)	24	–	–	–	1	(1)	–	–	(15)	(8)	23	–	–
Net remeasurement due to transfers	–	–	–	–	–	1	(1)	(2)	–	(2)	1	(1)	(2)	–	(2)
New lending	397	2	14	–	413	(1)	–	(2)	–	(3)	396	2	12	–	410
Repayments, additional drawdowns and interest accrued	(143)	(3)	9	–	(137)	–	–	–	–	–	(143)	(3)	9	–	(137)
Derecognitions	(560)	(16)	(6)	–	(582)	–	–	2	–	2	(560)	(16)	(4)	–	(580)
Changes to model assumptions	–	–	–	–	–	1	1	–	–	2	1	1	–	–	2
31 December 2019	3,628	72	51	–	3,751	(4)	(1)	(6)	–	(11)	3,624	71	45	–	3,740

Asset and invoice finance

	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 2020	**301**	**–**	**–**	**–**	**301**	**(2)**	**–**	**–**	**–**	**(2)**	**299**	**–**	**–**	**–**	**299**
Transfers to/(from) Stage 1	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to/(from) Stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers to/(from) Stage 3	**(4)**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**–**	**4**	**–**	**–**
Net remeasurement due to transfers	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**–**	**(1)**	**–**	**(1)**
New lending	**100**	**–**	**1**	**–**	**101**	**(2)**	**–**	**–**	**–**	**(2)**	**98**	**–**	**1**	**–**	**99**
Repayments, additional drawdowns and interest accrued	**(90)**	**–**	**(2)**	**–**	**(92)**	**–**	**–**	**–**	**–**	**–**	**(90)**	**–**	**(2)**	**–**	**(92)**
Derecognitions	**(35)**	**–**	**(1)**	**–**	**(36)**	**–**	**–**	**–**	**–**	**–**	**(35)**	**–**	**(1)**	**–**	**(36)**
Changes to model assumptions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
31 December 2020	**272**	**–**	**2**	**–**	**274**	**(4)**	**–**	**(1)**	**–**	**(5)**	**268**	**–**	**1**	**–**	**269**

	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	295	–	4	–	299	(2)	–	(2)	–	(4)	293	–	2	–	295
Transfers to/(from) Stage 1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to/(from) Stage 3	(2)	–	2	–	–	–	–	–	–	–	(2)	–	2	–	–
Net remeasurement due to transfers	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
New lending	116	–	1	–	117	–	–	–	–	–	116	–	1	–	117
Repayments, additional drawdowns and interest accrued	(60)	–	(3)	–	(63)	–	–	–	–	–	(60)	–	(3)	–	(63)
Derecognitions	(48)	–	(4)	–	(52)	–	–	1	–	1	(48)	–	(3)	–	(51)
Changes to model assumptions	–	–	–	–	–	–	–	1	–	1	–	–	1	–	1
31 December 2019	301	–	–	–	301	(2)	–	–	–	(2)	299	–	–	–	299

31. Expected credit losses continued

Total

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2020	**14,026**	**574**	**115**	**–**	**14,715**	**(9)**	**(5)**	**(20)**	**–**	**(34)**	**14,017**	**569**	**95**	**–**	**14,681**
Transfers to/(from) Stage 1	**122**	**(117)**	**(5)**	**–**	**–**	**(1)**	**1**	**–**	**–**	**–**	**121**	**(116)**	**(5)**	**–**	**–**
Transfers to/(from) Stage 2	**(1,299)**	**1,301**	**(2)**	**–**	**–**	**1**	**(1)**	**–**	**–**	**–**	**(1,298)**	**1,300**	**(2)**	**–**	**–**
Transfers to/(from) Stage 3	**(142)**	**(43)**	**185**	**–**	**–**	**–**	**2**	**(2)**	**–**	**–**	**(142)**	**(41)**	**183**	**–**	**–**
Net remeasurement due to transfers	**–**	**–**	**–**	**–**	**–**	**1**	**(43)**	**(34)**	**–**	**(76)**	**1**	**(43)**	**(34)**	**–**	**(76)**
New lending	**2,139**	**249**	**10**	**–**	**2,398**	**(11)**	**(16)**	**(3)**	**–**	**(30)**	**2,128**	**233**	**7**	**–**	**2,368**
Repayments, additional drawdowns and interest accrued	**(337)**	**(30)**	**(10)**	**–**	**(377)**	**–**	**–**	**–**	**–**	**–**	**(337)**	**(30)**	**(10)**	**–**	**(377)**
Transfer to held for sale	**(289)**	**(7)**	**–**	**–**	**(296)**	**1**	**–**	**–**	**–**	**1**	**(288)**	**(7)**	**–**	**–**	**(295)**
Derecognitions	**(4,045)**	**(115)**	**(36)**	**–**	**(4,196)**	**4**	**2**	**4**	**–**	**10**	**(4,041)**	**(113)**	**(32)**	**–**	**(4,186)**
Changes to model assumptions	**–**	**–**	**–**	**–**	**–**	**(16)**	**(9)**	**–**	**–**	**(25)**	**(16)**	**(9)**	**–**	**–**	**(25)**
31 December 2020	**10,175**	**1,812**	**257**	**–**	**12,244**	**(30)**	**(69)**	**(55)**	**–**	**(154)**	**10,145**	**1,743**	**202**	**–**	**12,090**
Off-balance sheet items															
Commitments and guarantees[1]					**769**					**–**					**769**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2019	13,785	421	58	5	14,269	(9)	(11)	(12)	(2)	(34)	13,776	410	46	3	14,235
Transfers to/(from) Stage 1	217	(210)	(7)	–	–	(2)	2	–	–	–	215	(208)	(7)	–	–
Transfers to/(from) Stage 2	(434)	435	(1)	–	–	–	–	–	–	–	(434)	435	(1)	–	–
Transfers to/(from) Stage 3	(42)	(28)	70	–	–	–	3	(3)	–	–	(42)	(25)	67	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(2)	(8)	–	(8)	2	(2)	(8)	–	(8)
New lending	2,674	79	15	–	2,768	(1)	–	(2)	–	(3)	2,673	79	13	–	2,765
Repayments, additional drawdowns and interest accrued	(484)	(12)	2	–	(494)	–	–	–	–	–	(484)	(12)	2	–	(494)
Derecognitions	(1,690)	(111)	(22)	(5)	(1,828)	–	2	5	2	9	(1,690)	(109)	(17)	(3)	(1,819)
Changes to model assumptions	–	–	–	–	–	1	1	–	–	2	1	1	–	–	2
31 December 2019	14,026	574	115	–	14,715	(9)	(5)	(20)	–	(34)	14,017	569	95	–	14,681
Off-balance sheet items															
Commitments and guarantees					726					–					726

1. Represents undrawn lending facilities. Further details can be found in note 32.

Credit risk exposures

Retail mortgages

£'million	31 December 2020 Stage 1 12-month ECL	31 December 2020 Stage 2 Lifetime ECL	31 December 2020 Stage 3 Lifetime ECL	31 December 2020 POCI Lifetime ECL	31 December 2019 Stage 1 12-month ECL	31 December 2019 Stage 2 Lifetime ECL	31 December 2019 Stage 3 Lifetime ECL	31 December 2019 POCI Lifetime ECL
Up to date	**5,911**	**802**	**47**	**–**	9,873	449	16	–
1 to 29 days past due	**–**	**18**	**8**	**–**	1	21	4	–
30 to 89 days past due	**–**	**43**	**13**	**–**	–	32	10	–
90+ days past due	**–**	**–**	**50**	**–**	–	–	24	–
Gross carrying amount	**5,911**	**863**	**118**	**–**	9,874	502	54	–

Consumer lending

£'million	31 December 2020 Stage 1 12-month ECL	31 December 2020 Stage 2 Lifetime ECL	31 December 2020 Stage 3 Lifetime ECL	31 December 2020 POCI Lifetime ECL	31 December 2019 Stage 1 12-month ECL	31 December 2019 Stage 2 Lifetime ECL	31 December 2019 Stage 3 Lifetime ECL	31 December 2019 POCI Lifetime ECL
Up to date	**149**	**38**	**–**	**–**	213	–	–	–
1 to 29 days past due	**–**	**3**	**–**	**–**	10	–	–	–
30 to 89 days past due	**–**	**2**	**–**	**–**	–	–	–	–
90+ days past due	**–**	**–**	**12**	**–**	–	–	10	–
Gross carrying amount	**149**	**43**	**12**	**–**	223	–	10	–

Commercial lending (excluding asset and invoice finance)

£'million	31 December 2020 Stage 1 12-month ECL	31 December 2020 Stage 2 Lifetime ECL	31 December 2020 Stage 3 Lifetime ECL	31 December 2020 POCI Lifetime ECL	31 December 2019 Stage 1 12-month ECL	31 December 2019 Stage 2 Lifetime ECL	31 December 2019 Stage 3 Lifetime ECL	31 December 2019 POCI Lifetime ECL
Up to date	**3,843**	**863**	**96**	**–**	3,599	–	7	–
1 to 29 days past due	**–**	**21**	**2**	**–**	29	18	4	–
30 to 89 days past due	**–**	**22**	**11**	**–**	–	54	9	–
90+ days past due	**–**	**–**	**16**	**–**	–	–	31	–
Gross carrying amount	**3,843**	**906**	**125**	**–**	3,628	72	51	–

Asset and invoice finance credit risk exposure

£'million	31 December 2020 Stage 1 12-month ECL	31 December 2020 Stage 2 Lifetime ECL	31 December 2020 Stage 3 Lifetime ECL	31 December 2020 POCI Lifetime ECL	31 December 2019 Stage 1 12-month ECL	31 December 2019 Stage 2 Lifetime ECL	31 December 2019 Stage 3 Lifetime ECL	31 December 2019 POCI Lifetime ECL
Up to date	**272**	**–**	**–**	**–**	301	–	–	–
1 to 29 days past due	**–**	**–**	**–**	**–**	–	–	–	–
30 to 89 days past due	**–**	**–**	**–**	**–**	–	–	–	–
90+ days past due	**–**	**–**	**2**	**–**	–	–	–	–
Gross carrying amount	**272**	**–**	**2**	**–**	301	–	–	–

Write-off policy

We write off financial assets (either partially or fully) when there is no realistic expectation of receiving further payment from the customer. Indicators that there is no reasonable expectation of recovery include debt sale to a third party and ceasing enforcement activity. We may write-off financial assets that are still subject to enforcement activity.

Modification of financial assets

We sometimes renegotiate the terms of loans provided to customers with a view to maximising recovery. Restructuring activities include extended payment arrangements or the modification or deferral of payments. During 2020 as part of the response to COVID-19 we offered payment deferrals across our loan portfolio, significantly increasing the amount of payment deferrals offered.

The modifications, including payment deferrals have not led to any material modification gains or losses being recognised.

Notes to the financial statements continued

32. Financial commitments

Accounting policy	To meet the financial needs of our customers, we enter into various irrevocable commitments. These generally consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 31). When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within our loans and advances to customers.

At 31 December 2020, we had undrawn loan facilities of £769 million (2019: £726 million). This includes commitments of £351 million (2019: £296 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

33. Legal and regulatory matters

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

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

PRA and FCA investigations into RWA Adjustment and AIRB Accreditation

We are currently subject to enforcement investigations by both the Prudential Regulation Authority (PRA) and 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 our assessment and reporting of our risk-weighted assets. We are cooperating 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 our share price. We are cooperating 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. We are continuing a review in respect of these matters, together with a review of our sanctions screening and transaction monitoring systems and controls, with the support of external advisers. We continue to engage and fully co-operate with our 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.

34. Offsetting of financial assets and liabilities

Accounting policy

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

During the year ending 31 December 2019 and 31 December 2020 no financial instruments have been offset in the balance sheet with the exception of those relating to derivatives, details of which can be found in note 22.

35. Fair value of financial instruments

Accounting policy

Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which we have access at that date. The fair value of a liability reflects its non-performance risk.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that we have access to at the measurement date. We consider markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- **Level 2 financial instruments** – Those where the inputs that are used for valuation are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, we will classify the instruments as Level 3.
- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as whole.

Group	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 cost	**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 bank	**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**

Notes to the financial statements continued

35. Fair value of financial instruments continued

Group	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 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 cost	2,154	508	1,647	–	2,155
Liabilities					
Deposits from customers	14,477	–	–	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

Cash and balances with the Bank of England, trade and other receivables, trade and other payables, assets classified as held for sale and other assets and liabilities which meet the definition of financial instruments are not included in the tables. Their carrying amount is a reasonable approximation of fair value.

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.

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.

36. Related parties

Key management personnel

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

Group	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 represents the IFRS 2 charge for the year which includes awards granted in prior years that have not yet vested.

Banking transactions with key management personnel

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

Group	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 £1.9 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, we have 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:

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

36. Related parties continued

Deposit balances outstanding at 31 December were as follows:

Group	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

Transactions with Group companies

Details of transactions with Group companies can be found within note 39.

Other transactions with related parties

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

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

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

Group	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

37. Business combinations

Accounting policy

We account 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 deferred or contingent consideration is measured at fair value at the date of acquisition 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 (see note 15 for further details).

Transaction costs are expensed as incurred.

On 14 September 2020 we acquired 100% of Retail Money Market LTD, a peer-to-peer platform specialising in unsecured lending and trading under the RateSetter brand. The acquisition formed part of delivering our strategy to increase our unsecured lending. As part of our acquisition, we started the process of winding down the peer-to-peer business, with no new investors being accepted. In February 2021, we announced the acquisition of the peer-to-peer lending portfolio from investors who had invested through the RateSetter platform (see note 40 for further details).

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 fair value of deferred and contingent consideration (£8 million) has been recognised as a liability at 31 December 2020 (see note 26).

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

	Fair value at 14 September 2020 £'million
Cash and balances with the Bank of England	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)
Financial liabilities held at FVTPL	(29)
Deferred tax liability	(6)
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. We 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.

Revenue and loss contribution

RateSetter contributed income of £3.2 million and a loss of £6.7 million to the Group for the period from 14 September 2020 to 31 December 2020.

38. Loss per share

Basic loss per share is calculated by dividing the loss 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 loss per share has been calculated by dividing the loss attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we made a loss during both 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 loss 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)

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

39. Investment in subsidiaries

The Group had the following subsidiaries at 31 December 2020:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
SME Invoice Finance Limited[1]	UK	Invoice financing and factoring	100	–
SME Asset Finance Limited[1]	UK	Asset finance	–	100
RDM Factors Limited[1]	UK	Dormant	–	100
Retail Money Market LTD[2]	UK	Peer to peer lending	100	–
RateSetter Trustee Services Limited[2]	UK	Peer to peer lending	–	100
RateSetter Asset Management Limited[2]	UK	Dormant	–	100
RateSetter Motor Limited[2]	UK	Holding company	–	100
Security Trustee Services Limited[2]	UK	Holding company	–	100
APNL Limited[2]	UK	Dormant	–	100
Vehicle Credit Limited[3]	UK	Motor Finance	–	100
Vehicle Stocking Limited[3]	UK	Motor Finance	–	100
Vehicle Stocking A Limited[3]	UK	Dormant	–	100

1. Registered address One Southampton Row, London, W21B 5HA.
2. Registered address 6th Floor, 55 Bishopsgate, London, EC2N 3AS.
3. Registered address No.1, Osiers Business Centre, Leicester, LE19 1DX.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company do not differ from the proportion of ordinary shares held.

We are currently in the process of winding up a number of the subsidiaries.

Investment in subsidiaries

	Company 2020 £'million	Company 2019 £'million
1 January	**15**	15
Cost of subsidiaries acquired (See note 37)	**11**	–
Capital injections into subsidiaries post acquisition	**33**	–
31 December	**59**	15

RateSetter is subject to its own regulatory capital requirements. These requirements are determined by the Financial Conduct Authority and relate to its peer-to-peer lending business (which is in run-off). As part of the acquisition agreement, RateSetter distributed shares in an Australian associate, Plenti (formally RateSetter Australia) to its shareholder. The distribution took RateSetter below its minimum capital requirements and meant a capital injection was required post acquisition. The capital injection has provided RateSetter with sufficient capital and liquidity to meet both its current capital requirements, absorb future losses for the short term and to extinguish external debt (see note 21 for further details).

Transactions between the Company and Group subsidiaries

	Company 2020 £'million	Company 2019 £'million
Interest on inter-Company loan with SME Asset/Invoice Finance	**6.7**	7.4
Servicing fees paid to RateSetter	**0.5**	–

	Company 2020 £'million	Company 2019 £'million
Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance	**260**	291

The expected credit loss recognised within the Company's financial statements in respect of the inter-Company loan facility is less than £0.1 million (31 December 2019: less than £0.1 million).

The transactions above are eliminated upon consolidation.

40. Post balance sheet events

Completion of sale of residential mortgage portfolio

On 2 February 2021 we 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 (see notes 4 and 17). 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 we 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.

Country-by-country reporting

Metro Bank and its subsidiaries only operate with the United Kingdom ('UK') and are all UK registered entities. The Company, Metro Bank, is a credit institution for the purposes of CRD IV and is therefore within the scope of CBCR. Our activities are disclosed within note 1 to the financial statements.

For the purposes of CBCR, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	3,850
Turnover (£'million)	432.6
Loss before tax (£'million)	311.4
Tax credit (£'million)	9.7
Corporation tax paid (£'million)	–

No public subsidies were received during the year.

Independent auditors' report

to the directors of Metro Bank Plc

Report on the audit of the country-by-country information

Opinion

In our opinion, Metro Bank Plc's country-by-country information for the year ended 31st December 2020 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31st December 2020 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 1 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's going concern assessment;
- Evaluation of management's financial forecasts and management's stress testing of liquidity and regulatory capital, including the severity of the stress scenarios and assumptions that were used;
- Evaluation of the degree to which the impact of COVID-19 has been reflected in the Group's financial plans and going concern assessment; and
- Substantiation of liquid resources held, and liquidity facilities available to the Group, for example, with the Bank of England.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report
to the directors of Metro Bank Plc continued

Reporting on other information
The other information comprises all of the information in the Country-by-Country Report other than the country-by-country information and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the country-by-country information does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the country-by-country information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the country-by-country information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the country-by-country information or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the country-by-country information and the audit
Responsibilities of the directors for the country-by-country information
The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in note 1, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the country-by-country information
It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA), UK tax legislation and the Consumer Credit Act 1974, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as Companies Act 2006 and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed included:
- Enquiries of the Audit Committee, management, internal audit and the Group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence with regulators, such as the FCA and the PRA in relation to the Group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;

- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, revenue recognition, the assessment of the carrying value of intangible assets (excluding goodwill), and the acquisition of RateSetter (see related key audit matters below); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described in the section below and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the company's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Darren Meek.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 March 2021

Other disclosures
(Unaudited)

Reconciliation of statutory balance sheet to risk-weighted assets

	31 December 2020		
	Financial statements £'million	Average risk density	Risk-weighted assets £'million
Cash and balances with the Bank of England	**2,993**	**1%**	**32**
Loans and advances to customers	**12,090**	**42%**	**5,068**
Investment securities held at fair value through other comprehensive income	**773**	**5%**	**39**
Investment securities held at amortised cost	**2,640**	**12%**	**328**
Financial assets held at fair value through profit and loss	**30**	**–**	**–**
Property, plant and equipment	**806**	**100%**	**806**
Intangible assets	**254**	**30%**	**75**
Prepayments and accrued income	**77**	**81%**	**62**
Assets classified as held for sale	**295**	**36%**	**105**
Deferred tax asset[1]	**–**	**n/a**	**2**
Other assets	**2,621**	**22%**	**567**
Total assets	**22,579**	**31%**	**7,084**
Off-balance sheet assets			**167**
Credit risk (excluding counterparty credit risk)			**7,251**
CRR			**7**
Market risk			**14**
Operational risk			**685**
Total risk-weighted assets			**7,957**

1. In the consolidated balance sheet per the financial statements, deferred tax is shown as a net figure with the deferred tax liability, however from a regulatory perspective the deferred tax asset and liability are treated separately.

	31 December 2019		
	Financial statements £'million	Average risk density	Risk-weighted assets £'million
Cash and balances with the Bank of England	2,989	1%	38
Loans and advances to customers	14,681	47%	6,967
Investment securities held at fair value through other comprehensive income	411	3%	13
Investment securities held at amortised cost	2,154	18%	383
Property, plant and equipment	856	100%	856
Intangible assets	168	–	–
Prepayments and accrued income	66	94%	62
Deferred tax asset	–	n/a	7
Other assets	75	100%	75
Total assets	21,400	39%	8,401
Off-balance sheet assets			190
Credit risk (excluding counterparty credit risk)			8,591
CRR			5
Market risk			5
Operational risk			546
Total risk-weighted assets			9,147

Alternative performance measures
(Unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry.

These alternative performance measures have been defined below:

Cost of risk
Expected credit loss expense divided by average gross loans for the year.

	2020 £'million	2019 £'million
Expected credit loss expense (note 31)	**126.7**	11.7
Average gross lending	**14,675**	15,048
Cost of risk	**0.86%**	0.08%

Cost of deposits
Interest expense on customer deposits divided by the average deposits from customers for the year.

	2020 £'million	2019 £'million
Interest on customer deposits (note 2)	**99.1**	112.4
Average deposits from customer	**15,262**	14,450
Cost of deposits	**0.65%**	0.78%

Loan-to-deposit ratio
Loans and advances to customers expressed as a percentage of total deposits. It is a commonly used ratio within the banking industry to assess liquidity.

	2020 £'million	2019 £'million
Loans and advances to customers (note 12)	**12,090**	14,681
Deposits from customer (note 19)	**16,072**	14,477
Loan-to-deposit ratio	**75%**	101%

Net interest margin
Net interest income as a percentage of average interest-earning assets.

	2020 £'million	2019 £'million
Net interest income (note 2)	**249.7**	308.1
Average interest-earning assets	**20,550**	20,355
Net interest margin	**1.22%**	1.51%

Alternative performance measures
(Unaudited) continued

Underlying loss

Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business.

The following items are considered to be non-underlying:

Non-underlying item	Description	Reason for exclusion
Listing Share Awards	Share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. These share awards vest annually until April 2021.	The awards were one-off in nature as they directly related to our listing on the London Stock Exchange and are distinct from the annual share options we grant. Once the last tranche of share awards has vested in 2021 there will be no ongoing cost to the business.
Impairment and write-offs of PPE and intangible assets	The costs associated with non-current assets that are no longer being used by and/or generate future economic benefit for the business.	The impairments and write-offs relating to PPE and intangible assets is removed as they distort comparison between years. This is on the basis that the write-offs and impairments relate to specific events and triggers which are not consistent between years.
C&I fund costs	These costs include the amounts spent in relation to the RBS alternative remedies package. This includes both the costs of the successful bid to the C&I Fund as well as costs incurred preparing for the incentivised switching scheme. In addition, it includes the costs spent delivering the commitments and the associated income that is offset against it.	The bid to BCR for the alternative remedies package, as well as the fulfilment of the commitments, is considered a one-off event.
Remediation costs	Remediation costs comprise of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to sanctions compliance. It also includes amounts in respect of customer remediation.	The remediation costs are felt to be time limited and will disappear once the investigations have concluded. As such are removed to allow greater comparability between periods.
Transformation costs	Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme.	The transformation costs are seen as a non-recurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent year-on-year distortion.
Business acquisition and integration costs	The costs associated with acquiring and integrating RateSetter.	We acquire businesses infrequently and the costs are not anticipated to be recurring.
Mortgage portfolio sale	The gain on sale and associated costs of the £3.1 billion mortgage portfolio sale.	The sale of loan portfolios is generally not considered in line with our business model. Given the infrequency of sales and the quantum of the gain it has been removed in order to prevent year-on-year distortion.

A reconciliation from statutory loss before tax to underlying loss before tax is set out below.

Year ended 31 December 2020	Statutory basis £'million	Listing Share Awards £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	C&I fund costs £'million	Transformation costs £'million	Remediation costs £'million	Business acquisition and integration costs £'million	Mortgage portfolio sale £'million	Underlying basis £'million
Net interest income	249.7	–	–	0.6	–	–	–	–	250.3
Net fee and commission income	59.9	–	–	–	–	–	–	–	59.9
Net gains on sale of 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)	–	22.7	16.7	40.8	5.4	5.3	(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)	40.6	22.7	16.7	40.8	5.4	5.3	(486.0)
Expected credit loss expense	(126.7)	–	–	–	–	–	–	–	(126.7)
Loss before tax	**(311.4)**	(0.2)	40.6	0.0	16.7	40.8	5.4	(63.7)	(271.8)

Year ended 31 December 2019	Statutory basis £'million	Listing Share Awards £'million	Impairment and write-off of property, plant, equipment and intangible assets £'million	C&I fund costs £'million	Transformation costs £'million	Remediation costs £'million	Underlying basis £'million
Net interest income	308.1	–	–	–	–	–	308.1
Net fee and commission income	61.0	–	–	–	–	–	61.0
Net gains on sale of assets	1.6	–	–	–	–	–	1.6
Other income	44.9	–	–	(15.5)	–	–	29.4
Total income	**415.6**	–	–	(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)

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

Shareholder information

Registered and other offices
The Company's registered office and head office is:

One Southampton Row
London
WC1B 5HA

Telephone: 0345 08 08 500/0345 08 08 508
Website: www.metrobankonline.co.uk

Registrars
The Company has appointed Equiniti Limited to maintain its register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited[1,2]
Aspect House
Spencer Road
Lancing, West Sussex BN99 6DA
Telephone: 0371 384 2311
International callers: +44 121 415 7095

1. Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.
2. Lines are open from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

2021 Financial Calendar
Annual General Meeting – 18 May 2021

Unsolicited mail
The Company is required by law to make its share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:
Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT
Website: www.mpsonline.org.uk

Annual General Meeting

Due to COVID-19, following the Government guidelines on restricting movement and gatherings, the details regarding the 2021 Annual General Meeting are yet to be finalised and more information will be published closer to the date of the meeting. The safety of our colleagues and shareholders is of the utmost importance to the Board.

Forward-looking statements

This annual report contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this annual report are based on the Company's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance.

No assurances can be given that the forward-looking statements in this annual report will be realised. The Company undertakes no obligation to release the results of any revisions to any forward-looking statements in this annual report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and the Company disclaims any such obligation.

Shareholder profile by size of holding as at 31 December 2020

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2020	Percentage of total
1–1,000	349	44.29%	105,548	0.06%
1,001–5,000	125	15.86%	299,185	0.17%
5,001–10,000	70	8.88%	527,757	0.31%
10,001–50,000	95	12.06%	2,323,440	1.35%
50,001–100,000	37	4.70%	2,641,135	1.53%
100,001–500,000	59	7.49%	14,179,726	8.22%
500,001–1,000,000	18	2.28%	12,283,251	7.13%
1,000,001 and above	35	4.44%	140,060,416	81.23%
Total	**788**	**100.00%**	**172,420,458**	**100.00%**

Shareholder profile by category as at 31 December 2020

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2020	Percentage of issued share capital
Private shareholders	353	44.80%	1,229,766.00	0.71%
Banks	4	0.51%	104,783.00	0.06%
Nominees and other institutional investors	431	54.69%	171,085,909.00	99.23%
Total	**788**	**100.00%**	**172,420,458.00**	**100.00%**

It should be noted that many private investors hold their shares through nominee companies and therefore the percentage of shares held by private shareholders may be higher than that shown.

Notes

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