INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2022

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Forward-looking statements

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

COMPANY INFORMATION

About Metro Bank

Metro Bank services 2.6 million customer accounts and is celebrated for its exceptional customer experience. It is the highest rated high street bank for overall service quality and best bank for service in-store for personal and business customers, in the Competition and Market Authority's Service Quality Survey in February 2022. This year it has been awarded "Best Mortgage Provider of the Year" in 2022 MoneyAge Mortgage Awards, "Best Business Credit Card" in 2022 Moneynet Personal Finance Awards and "Best Current Account for Overseas Use" by Forbes 2022. It was "Banking Brand of The Year" at the Moneynet Personal Finance Awards 2021 and received the Gold Award in the Armed Forces Covenant's Employer Recognition Scheme 2021.

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

Board of Directors

Chair
Robert Sharpe N*

Non-Executive Directors

Catherine Brown N O R*

Monique Melis A N

Paul Thandi N R

Ian Henderson A O*

Anne Grim R

Nick Winsor O

Michael Torpey A* O

(A) Member of the audit committee
(N) Member of the nomination committee
(O) Member of the risk oversight committee
(R) Member of the remuneration committee
* **Chair of the committee**

Executive Directors

Daniel Frumkin – Chief Executive Officer

Company Secretary

Melissa Conway

Registered Office
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London
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Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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SE1 2RT

Registered Number

6419578

www.metrobankonline.co.uk

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

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

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

SUMMARISED INTERIM RESULTS

	Half year to 30 June 2022	Half year to 31 December 2021	Change	Half year to 30 June 2021	Change
Profit and loss					
Underlying loss before tax[1]	**(£48.0m)**	(£61.3m)	(22%)	(£110.0m)	(56%)
Statutory loss before tax	**(£60.2m)**	(£106.2m)	(43%)	(£138.9m)	(57%)
Total income (statutory)	**£236.5m**	£222.2m	6%	£196.3m	20%
Total operating expenses (statutory)	**£278.8m**	£320.6m	(13%)	£320.6m	(13%)
Net interest margin	**1.73%**	1.51%	22 bps	1.28%	45 bps
Average cost of deposits	**0.14%**	0.17 %	(3 bps)	0.31%	(17 bps)
	30 June 2022	**31 December 2021**	**Change**	**30 June 2021**	**Change**
Balance sheet					
Customer deposits	**£16,514m**	£16,448m	0%	£16,620m	(1%)
Customer loans	**£12,364m**	£12,290m	1%	£12,325m	0%
Loan to deposit ratio	**75%**	75%	0 pps	74%	1 pps
Total assets	**£22,555m**	£22,587m	0%	£23,013m	(2%)
Asset quality					
Coverage ratio	**1.36%**	1.36%	0 bps	1.33%	3 bps
Cost of risk (annualised)	**0.29%**	0.12%	17 bps	0.24%	5 bps
Capital ratios					
Common Equity Tier 1 (CET1) ratio	**10.6%**	12.6%		13.9%	
Regulatory leverage ratio[2]	**4.3%**	4.4%		4.9%	
MREL ratio	**18.3%**	20.5%		21.7%	
Customer metrics					
Customer accounts	**2.6m**	2.5m		2.4m	
Stores	**76**	78		77	

1. Underlying loss before tax is an alternative performance measure and excludes impairment and write-off of property, plant & equipment (PPE) and intangible assets, net Banking Competition Remedies Limited (BCR) costs, transformation costs, remediation costs, business acquisition and integration costs and net income resulting from the mortgage portfolio sale when comparing to our statutory loss. A reconciliation between the Groups statutory to underlying results for the half year to 30 June 2022 can be found on page 51.
2. The PRA Policy Statement 21/21 took affect from 1 January 2022 which required the exclusion of certain central bank claims from the total exposure measure. Had the central bank exposures been included the Leverage Ratio would have been 3.8%.

BUSINESS REVIEW

The first six months of 2022 mark a turning point in our transformation journey. The delivery of our strategic priorities over the past two years combined with a slow return towards a more normalised interest rate environment are seeing us meaningfully advance toward achieving sustainable profitability.

This progress clearly demonstrates the value of our proposition and underlines our commitment to becoming the UK's best community bank. Our continued reign as the highest rated high street bank for service combined with our low cost and stable deposit base shows that even in a rising rate environment our model continues to resonate; with customers willing to trade price for service. This approach continues to set us apart from our peers and will see us deliver long term value for all stakeholders.

Progress against strategic priorities

During the six month period to 30 June 2022 we recognised an underlying loss before tax of £48.0 million (half year to 30 June 2021: loss of £110.0 million, half year to 31 December 2021: loss of £61.3 million) which reflects the continued momentum in revenue as well as our disciplined approach to costs. We have also made strong progress in reducing statutory loss before tax for the period, which fell to £60.2 million (half year to 30 June 2021: loss of £138.9 million, half year to 31 December 2021: loss of £106.2 million) as we addressed legacy challenges and continue to finalise our transformation programme.

Revenue

Underlying revenue for the first six months continued its upwards trend to £236.2 million from £218.1 million in the second half of 2021 (half year to 30 June 2021: £179.8 million) as a result of the rebalancing of our lending portfolio as well as higher interest rates over the first six months of the year.

The Metro Bank business model has always been built for a normalised interest rate environment and the continued rise in the Bank of England base rates to 1.25% now sees it at a level we have not seen in our 12 year history. On lending, we are seeing these increases flow through to our front book pricing as well as variable rates, and this trend will continue as older fixed rate balances continue to attrite. At the same time as increasing lending yields we have held cost of deposits broadly flat, as current accounts make up 47% of our deposit base and higher yielding fixed rate balances continue to fall. These factors have driven a 45bps increase in net interest margin to 1.73% (half year to 30 June 2021: 1.28%, half year to 31 December 2021: 1.51%).

The rebalancing of our lending portfolio continued over the first half of 2022 and strong originations of RateSetter personal loans saw our gross consumer term lending exceed £1 billion for the first time. Credit standards are set high given our focus on prime customers leading to non-performing loans comprising only 2.75% of the portfolio. Consumer lending now makes up 10% of our portfolio and is a larger component of book than professional buy-to-let mortgages. Whilst residential mortgage lending remained broadly flat over the first six months of the year it remains the largest constituent of our lending at 54% (31 December 2021: 54%) and the first six months of the year has seen us replace older balances with higher-yielding specialist products.

Alongside this we continued to issue government backed lending schemes, growing Recovery Loan Scheme balances by £200 million since the start of the year. These continue to provide a strong return on risk-adjusted returns in line with our wider strategy as well as supporting our customers during this uncertain period.

Our revenue for the period has also benefited from an increase in investment yields, particularly noticeable in gilt pricing. This is allowing us to generate an increased return from the excess liquidity we carry. This additional liquidity also affords us the opportunity to quickly accelerate mortgage lending in the future, post successful AIRB accreditation, without having to aggressively grow deposits.

Fee income remained flat as customer activity was impacted by lockdowns and other social restrictions earlier in the year, with moderate customer accounts growth of 0.1 million during the first six months of the year. We continue to invest in initiatives to expand fee income and aim to see growth in the second half of 2022, although we are mindful of the economic outlook and the effects this has on consumer confidence which is a driver.

Costs

Underlying operating expenses fell 3% year-on-year to £266.3 million (half year to 30 June 2021: £275.2 million; half year to 31 December 2021: £271.6 million) despite inflationary pressures, reflecting the actions we have taken over the past

couple of years to reduce both short term run-rate and longer-term growth. Our underlying cost income remains on a clear downward trajectory, reducing to 113% for the period, down from 125% in the half year to 31 December 2021 and 153% for the half year to 30 June 2021. On a statutory basis we are also seeing a reduction in costs following the conclusion of a large number of transformation initiatives and closure of legacy remediation issues. For example, we concluded the matter with US Office of Foreign Assets Control (OFAC) in relation to Cuba and Iran without fine or penalty.

We recognised an expected credit loss expense of £17.9 million for the period, which largely reflects the change in the shape of our lending towards unsecured. Although this shift naturally incurs a higher cost of risk than some other areas of lending, we remain focused on the prime segments of the market and our observed levels of losses remain low. We do however continue to adopt a cautious economic outlook given that 2022 has seen heightened levels of global insecurity including the Russian invasion of Ukraine. As a solely focused UK bank we have no direct exposure to Ukraine or Russia, however like the majority of the customers and communities we serve, we are exposed to second order impacts, noticeably the increase in inflation that has in part resulted from the conflict. We have applied management overlays to our expected credit loss calculation to reflect these risks, offsetting the release of COVID-19 related adjustments.

The current inflationary environment is the highest we have witnessed in a generation however a tight cost discipline has helped us weather this headwind. A clear example of this is the action we have undertaken over the past couple of years to take advantage of the depressed commercial property market to buy the freeholds to a number of our stores. This saw us buy out the majority of our inflation linked leases with us now having only two sites remaining where rent is subject to inflation linked increases. The total number of freehold stores is now 28 representing 37% of our portfolio.

The largest increased in costs we have encountered is in relation to wage price inflation with the market for talent remaining fiercely competitive in particular in head-office and customer facing roles, and we provided colleagues on average with an above inflation increase in our pay review, effective 1 April 2022. This increase was offset by a reduction in change spend which as guided fell back during the period.

Infrastructure

The first half of 2022 has continued to see us develop our physical and digital infrastructure, although the pace has slowed as we return to normalised levels from the elevated investment we undertook in the first two years of our turnaround plan. The focus of change continues to be centred on enhancing our propositions and expanding our capacity to allow us to absorb the anticipated rate of balance sheet growth we envisage over the coming years.

The start of the year saw us open our newest store in Leicester, which is trading in line with expectations. We have also seen the continued recovery of the rest of our stores post-pandemic as footfall returns to the high street. It has been particularly pleasing to see the strong performance of our store in Bradford which we opened during 2021; this was designed with a significantly lower build cost than our previous stores, although retains distinct Metro Bank characteristics. The fact it is performing both in line with the rest of the estate demonstrates that significant savings can be achieved without compromising what our customers love about us. This should therefore allow us to deliver a significantly higher return on investment for future stores as we look to grow into new markets.

Alongside our physical footprint, we continue to invest in expanding our product offering with investment in building our motor finance proposition, which will be launched later in the year under the RateSetter brand. This builds upon the strong demand for prime unsecured lending and continues to leverage the skills and capabilities of the RateSetter acquisition.

As well as customer facing investments we are continuing to invest in back office infrastructure, with noticeable investments in financial crime. Protecting our customers and our communities from financial crime will continue to be an area of investment as we seek to remain ahead of this evolving landscape.

The first six months of the year saw continued progress on our AIRB application for residential mortgages. This remains a key strategic priority for us as it provides the potential to gain greater capital efficiencies and allow us to be more competitive in the mortgage market. We continue to engage with the PRA in respect of the application with the ambition of achieving accreditation in the near term, although the timing of any approval remains uncertain.

Balance Sheet optimisation

The balance sheet optimisation actions we have taken to date, noticeable our shift in lending mix, are now starting to bear fruit, with the effects clearly showing in our revenue growth.

Following the successful entry into the consumer unsecured market through RateSetter, we believe the motor finance product can also generate strong risk adjusted returns. However, given the uncertain economic outlook we retain a cautious approach to our roll-out and, as with our unsecured lending, will ensure that we target the prime end of the market.

Our RateSetter proposition has been highly effective in allowing to quickly and efficiently transition into higher yielding assets. The quick turnover of balances due to the short duration of lending also allows us to take advantage of rising interest rates as old balances attrite and are replaced with higher yielding front book loans. This approach will also allow us to quickly pivot back toward a focus on mortgage lending should rates to return to more normalised levels and appropriate risk-adjusted returns be made following successful AIRB accreditation.

Internal and External Communications

2022 has seen a positive start to the year in respect of our continued communications agenda. We undertook a brand campaign targeted at small businesses which showcased our incredible colleagues. The campaign was highly targeted, focused on Cardiff, Kingston, Clapham, Oxford and Manchester allowing us to maximise our impact in these important markets whilst containing costs. We have been able to track and measure the success of the campaign and have been pleased with the impact we have seen this deliver.

Colleagues and leadership

The key to our success remains our colleagues. The start of 2022 has seen the market for talent remain fiercely competitive and as such we remain focused on retaining and attracting colleagues through ensuring Metro Bank is a place that people want to join and can thrive whilst here.

In June we had the opportunity to celebrate colleagues from around the business at our AMAZE award ceremony; the first time we have been able to host the event since 2018 due to the pandemic. This provided a fantastic platform for us to be able to remind ourselves of the great work we undertake in serving our communities and how we go above and beyond to ensure we create and maintain FANS.

We also announced early this month that we have appointed James Hopkinson as our new Chief Financial Officer. James will be joining us in early September and we look forward to welcoming him at this exciting juncture. James joins us from ClearBank where he was Chief Financial Officer for the past few years and before that he spent almost 20 years at Standard Chartered in a variety of senior roles.

During the second half of the year, executive committee members Richard Lees, Cheryl McCuaig and Jessica Myers will be leaving the Bank. I would like to take the opportunity to extend my thanks to them for all their efforts and their contribution to my leadership team. They have provided immense support in helping get us to this stage of our turnaround journey and I wish them all the best in their future endeavours.

The first six months also saw Sally Clarke step down from the Board to pursue other opportunities and I thank her for her contribution over the past two years. Nick Winsor will become the designated NED for workforce engagement, a crucial role in helping maintain our colleague centric approach. Over the coming months our Chair, Robert Sharpe, will evaluate whether any further changes are required to committee compositions as a result of Sally's departure to maintain a strong and robust governance structure.

Capital

Capital remains the largest constraint on the business and we continue to utilise regulatory buffers. As we advance towards profitability this will allow us to return to growing our risk weighted assets, utilise some of our excess liquidity and maintain our positive momentum on income growth.

In June 2022 the PRA reduced our Pillar 2A requirements from 1.11% to 0.50% and the Resolution Directorate of the Bank of England agreed for our binding MREL requirement to be set as the lower of 18% and two times the sum of Pillar 1 and Pillar 2A. These changes had the effect of reducing our minimal MREL requirements (excluding buffers) to 17.0%, and reflect the credit quality of our lending portfolio as well as the strength of our balance sheet.

We are currently working on the implementation of a holding company which we are required to have in place by 26 June 2023, which is in line with the call date of our Tier 2 bond. Under the terms of the Bank of England's December 2021 MREL Policy Statement, the operating company issued Tier 2 bond will lose MREL eligibility upon the holding company implementation. Management will work with regulators, debt holders and advisers with a view to addressing this MREL eligibility aspect before the implementation of the holding company. Our Senior Non-Preferred bond includes an option for the issuer to be substituted to the holding company once it is established and so will remain fully MREL eligible.

Outlook

Thanks to the hard work of our colleagues through unprecedented times, we have reached an inflection point and can clearly demonstrate our trajectory back towards profitability. Although we continue to have significant work to do, with the momentum in the business I expect to achieve monthly breakeven during the first quarter of 2023.

We remain resolutely focused on the delivery of our strategic priorities and I would like to thank all of our stakeholders – our customers, colleagues, shareholders and regulators – for their continued support.

Daniel Frumkin
Chief Executive Officer
27 July 2022

FINANCE REVIEW

The continued momentum we have seen in the business is reflected in our results for the first six months of the year with underlying loss before tax decreasing from £110.0 million to £48.0 million from the same period in 2021 (half year to 31 December 2021: £61.3 million). On a statutory basis losses before tax reduced to £60.2 million for the same period (half year to 30 June 2021: £138.9 million, half year to 31 December 2021: £106.2 million) as a result of the continued reduction in non-underlying items as we close out legacy remediation projects and finalise our transformation agenda.

The results were underpinned by strong income growth combined with a reduction in costs helping to drive positive operating jaws. Net interest income grew to £180.8 million (half year to 30 June 2021: £133.3 million, half year to 31 December 2021: £162.0 million) driven by actions taken on lending mix, rising base rates and a continued low-cost deposit base. Net interest Margin of 1.73% (half year to 30 June 2021: 1.28%, half year to 31 December 2021: 1.51%) also continued to increase as a result of these factors although it remains diluted by the excess liquidity we continue to hold.

We ended the period with CET1 capital ratio of 10.6% and an MREL ratio of 18.3%. These compare to the regulatory minima including buffers (excluding any confidential buffer) of 7.3% for CET1, 8.9% for Tier 1 and 19.5% for MREL.

Income statement review

Table 1: Summary income statement

	Half year to 30 June 2022 (unaudited) £'million	Half year to 31 December 2021 (unaudited) £'million	Half year to 30 June 2021 (unaudited) £'million	Year-on-year growth
Net interest income	**180.8**	162.0	133.3	36%
Net fee, commission and other income	**55.7**	59.0	54.8	
Net gains on sale of assets	**-**	1.2	8.2	
Total income	**236.5**	222.2	196.3	20%
General operating expenses	**(233.2)**	(263.3)	(272.8)	(15%)
Depreciation and amortisation	**(37.4)**	(39.9)	(40.3)	
Impairment and write-off of PPE and intangible assets	**(8.2)**	(17.4)	(7.5)	
Expected credit loss expense	**(17.9)**	(7.8)	(14.6)	
Loss before tax	**(60.2)**	(106.2)	(138.9)	(57%)
Taxation	**(1.5)**	(0.9)	(2.2)	
Loss after tax	**(61.7)**	(107.1)	(141.1)	(56%)

Net interest income

Net interest income for the period was £180.8 million up from £162.0 million in the second half of 2021 and £133.3 million for the same period last year. This has been driven by increasing yield on our front book lending and repricing of variable rate products as base rates continued to rise alongside the continued rebalancing of our lending portfolio as we continue to execute on our strategic priorities.

2022 has seen four base rate rises, from 0.25% to 1.25%, following the increase from the historic low of 0.1% in December 2021. Further base rates are expected in the second half of the year and although the market remains fiercely competitive we should continue to see a strong pass through of these increases into our front book loan pricing.

At the same time our focus on retail and business current accounts should help to insulate the impact of these rate rises on our costs of deposits. Cost of deposits for the first six months of 2022 was 0.14%, three basis points down from the cost in the second half of 2021 (half year to 30 June 2021: 0.31%, half year to 31 December 2021: 0.17%).

Net interest income has also benefited from increases in the returns from the treasury portfolio where the impact of rate rises often filters through more quickly than in our lending portfolio, noticeably through the balances we hold at the Bank of England.

Finally, we have continued to see the incremental impacts of the actions we have taken in respect of our store lease portfolio to reduce the interest expense we recognise on IFRS 16 lease liabilities. The interest expense on lease liabilities has fallen

from £8.8 million in the six months to 30 June 2021 to £8.3 million for the same period this year. This is largely as a result of the continued actions we took last year to purchase the freeholds of some of our stores. Alongside this, the disposal of our lease on a site at the Old Bailey, previous remeasurement of lease liabilities in respect of the stores announced for closure, the slowed pace of new store growth and continued maturation of the existing lease portfolio should all continue to push this expense down going forward.

Fee, commission and other income

Subdued customer activity in the first half of the year led underlying net fee and other income to remain broadly flat at £55.3 million (half year to 30 June 2021: £46.7 million, half year to 31 December 2021: £54.8 million). Growth in service charges, driven by continued current account growth, offset depressed foreign exchange volumes, with income from safe deposit boxes, interchange fees and ATMs remaining stable.

Operating expenses

Underlying operating expenses slightly decreased to £266.3 million from £271.6 million in the second half of 2021 and down from £275.2 million in the first six months of 2021. The reduction reflects the benefits realised from our transformation programme aided by a reduction in change expenditure, offset slightly by an increase from wage inflation.

Statutory costs also were down, falling 12% to £233.2 million from £263.3 million in the final six months of 2021 (half year to June 2021: £272.8 million), as a result of a marked reduction in transformation costs, reflecting where we are in our journey. Similarly, remediation costs have sharply reduced as we continue to close out legacy issues. Offsetting this was a £8.2 million write-off on intangible assets, although this item was capital neutral.

Expected credit loss expense

We recognised an expected credit loss expense of £17.9 million for the period (half year to 30 June 2021: £14.6 million, half year to 31 December 2021: £7.8 million), reflecting the change in make-up of the lending portfolio as well as our cautious macroeconomic outlook. Despite the worsening economic outlook, the credit performance of our portfolio during the first half of 2022 has remained stable with both non-performing loans and arrears both reducing in the first half of the year.

Whilst the portfolio continues to be resilient, we continue to adopt a cautious outlook given the macro-economic uncertainties and as such retain a material level of management overlay within our expected credit loss assessment.

Balance sheet review

Table 2: Summary balance sheet

	30 June 2022 (unaudited) £'million	31 December 2021 (audited) £'million	Growth
Assets			
Cash and balances with the Bank of England	**2,862**	3,568	(20%)
Loans and advances to customers	**12,364**	12,290	1%
Investment securities held at fair value through other comprehensive income	**781**	798	(2%)
Investment securities held at amortised cost	**5,393**	4,776	13%
Financial assets held at fair value through profit and loss	**2**	3	(33%)
Property, plant and equipment	**749**	765	(2%)
Intangible assets	**227**	243	(7%)
Prepayments and accrued income	**80**	68	18%
Other assets	**97**	76	28%
Total assets	**22,555**	22,587	-
Liabilities			
Deposits from customers	**16,514**	16,448	-
Deposits from central banks	**3,800**	3,800	-
Debt securities	**577**	588	(2%)
Repurchase agreements	**166**	169	(2%)
Derivative financial liabilities	**8**	10	(20%)
Lease liabilities	**264**	269	(2%)
Deferred grant	**19**	19	-
Provisions	**14**	15	(7%)
Deferred tax liability	**12**	12	-
Other liabilities	**212**	222	(5%)
Total liabilities	**21,586**	21,552	-
Total equity	**969**	1,035	(7%)

Deposits

Deposits of £16,514 million at 30 June 2022 were broadly flat compared to £16,448 million at 31 December 2021. Given the amount of excess liquidity we carry we have continued to focus on deposit quality and pricing rather than volume. This manifested itself in the high proportion of current accounts, which made up 47% of total customer deposits as at 30 June 2022 (31 December 2021: 44%).

Lending

Net lending remained flat during the first six months ending the period at £12,364 million (31 December 2021: £12,290 million). However, we continued to shift our lending mix as legacy balances ran off and capital was redeployed into more capital efficient lending. Consumer lending, primarily in the form of term lending delivered under the RateSetter brand, now makes up 10% of total lending balances up from 6% a year ago and 7% at year end. Term lending now makes up a larger proportion of lending than professional buy-to-let mortgages, reflecting our transition away from this area of the market to focus on lending which is more relationship driven.

We also continued to grow Recovery Loan Scheme lending during the first six months of the year to over £357 million, up from £157 million at last year end. This lending benefits from an 80% guarantee and as such aligns with our aim of improving returns on regulatory capital at the same time as being able to support small and medium sized trading businesses during a difficult time. Balances on the closed government backed lending schemes continued to attrite, reflecting the maturity of this portfolio; the majority of these loans are now entering the second year of their five year term.

Property, plant & equipment and intangibles

Non-current assets and intangible asset balances continued to decrease during the period. Property, plant and equipment ended the first half of the year at £749 million, down from £765 million at year end, as additions continue to fall. The opening of our store in Leicester was the only planned store opening of the year and as such we should continue to see asset balances decrease in the second half.

Intangible assets also continued to decrease reflecting the slowing pace of investment, which was lower than amortisation charges recognised, reflecting where we are in our transformation journey. Although the rate of intangible additions has slowed, we continue to invest in enhancing our proposition and expanding our capacity to allow us to efficiently scale the balance sheet in the years ahead. This has seen us focus on such areas as our AIRB application and continued investment in financial crime as well as new propositions including auto-financing.

Capital

Our CET1, Tier 1 and MREL ratios at 30 June 2022 were 10.6%, 10.6% and 18.3% respectively, compared to the regulatory minimum of 4.8%, 6.4% and 17.0%, respectively, (excluding buffers). The MREL requirement of 17.0% reflects the reduction of our Pillar 2A requirements from 1.11% to 0.50% and the move to our binding MREL requirement being the lower of 18% and two times the sum of Pillar 1 and Pillar 2A, which were announced in June 2022. Including buffers (excluding any confidential buffer, where applicable) our CET1, Tier 1 and MREL requirements are 7.3%, 8.9% and 19.5% respectively.

Our capital ratios were impacted in 2022 from changes in relation to the capital treatment of software assets. On 1 January 2022 the capital treatment of software assets reverted to the previous treatment of being deducted from capital, following changes implemented by the PRA.

We continue to operate within our publicly disclosed MREL buffers and will continue to do so for a period of time. The continued delivery of our strategic priorities will expect us to see a return above these requirements in the medium term.

Risk weighted assets ended the period at £7,702 million (31 December 2021: £7,454 million) reflecting the continued change in asset mix. We continue to optimise our risk weighted assets to ensure we are maximising our return on regulatory capital and remain committed to achieving AIRB accreditation which would free up risk-weighted assets and allow us to grow lending further.

Liquidity and wholesale funding

Our liquidity position continues to be strong, owing to our conservative lending approach. We ended 30 June 2022 with a Liquidity Coverage Ratio (LCR) of 257%, which continues to be significantly in excess of regulatory requirements. This is also reflected in the maintenance of a robust loan to deposit ratio which remained stable at 75% as at 30 June 2022 (31 December 2021: 75%). As we grow our regulatory capital, these elevated levels of liquidity will allow us to continue to grow lending without having to aggressively expand our deposit base.

We maintained our level under the Bank of England's Term Funding Scheme (TFSME) at £3.8 billion, also contributing to our liquidity. As this cost of funding is linked to the base rate, this has led to a noticeable increase in the cost of this funding during the period, rising from £2.1 million in the second half of 2021 to £13.1 million in the first half of this year (half year to 30 June 2021: £1.9 million). The cost of servicing the TFSME now exceeds the total interest expense paid on customer deposits. Although the use of this funding source is NIM dilutive, however, it is still overall income accretive as it is deployed into high quality securities which have also seen an increase in yield, in addition to the liquidity benefit it provides.

Going concern

These condensed consolidated interim financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has the resources to continue to operate for a period of at least twelve months from when the interim financial statements are authorised for issue. In making this assessment, the Directors considered a wide range of information relating to present and future conditions, including future projections of profitability, liquidity and capital resources as well as factoring in the uncertainties relating to the economic outlook.

RISK REVIEW

As at 30 June 2022, there had been no significant change to the business model, risk management framework or risk appetites we outlined in our 2021 Annual Report and Accounts. We have reassessed 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. The principal risk categories remain the same to those outlined in the 2021 Annual Report and Accounts.

A detailed description of our principal risks and uncertainties to which we are exposed, along with our approach to mitigating these risks, is set out in the Risk Report which can be found on pages 52 to 92 of our 2021 Annual Report and Accounts. These risks consist of:

- **Credit risk** - The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.
- **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.
- **Liquidity and Funding risk** - The risk that we fail to meet our short-term obligations as they fall due or 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).
- **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.
- **Financial crime** - 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.
- **Regulatory risk** - The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.
- **Conduct risk** - The risk that our behaviours or actions result in unfair outcomes or detriment to customers and/ or undermines market integrity.
- **Model risk** - The risk of potential loss, poor strategic decision making and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the assumptions, development, implementation or use of such models.
- **Capital risk** - The risk that we fail to meet minimum regulatory capital (and MREL) requirements.
- **Strategic risk** - The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders.
- **Legal risk** - The risk of loss, including to reputation, which can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law applies to the Directors, the business, its relationships, processes, products and services.

Further information on credit, liquidity, operational and conduct risks are outlined on pages 14 to 20.

Credit risk

Despite the challenging economic environment, the credit performance of our portfolio during the first half of 2022 has remained stable. Non-performing loans and early arrears have both reduced in the first half of the year and we have observed a reduction in commercial exposures under our Early Warning and Close Monitoring processes. We have observed modest growth in the balance sheet overall with originations in retail mortgages offsetting the reduction in our legacy acquired portfolios, and strong organic growth in consumer lending through the RateSetter platform. Whilst the portfolio continues to show resilience, we have retained a prudent level of management overlay within our expected credit loss assessment, reflecting the high level of macroeconomic uncertainty, following the Russian invasion of Ukraine, and the high inflation environment and cost of living pressures.

Total loans and advances to customers have increased by £76 million to £12.5 billion during the first half of 2022. This is reflective of our strategic focus with 43% growth in consumer balances which now contributes to 10.0% of total loans and advances to customers (31 December 2021: 7.0%). Retail mortgages and commercial balances remained relatively unchanged. However, whilst net commercial balances are relatively stable, there has been a change in composition which reflects our strategic growth of asset finance and invoice finance and new RLS lending, offset by repayments in BBLS and commercial real estate.

Expected credit losses

The below table provides a breakdown of IFRS 9 Expected credit losses (ECL) stock in the period by portfolio.

Table 3: Expected credit loss allowances

	30 June 2022 £'million	**31 December 2021 £'million**	**Change £'million**
Retail mortgages	**18**	19	(1)
Consumer lending	**56**	42	14
Commercial lending	**97**	108	(11)
Total expected credit loss allowances	**171**	169	2

Expected credit losses (ECL) have increased during the year by £2 million to £171 million (2021: £169 million, 2020: £154 million) predominantly driven by originations in consumer lending, offset by repayments in commercial, particularly on some large single named cases. Management overlays are broadly flat compared to year end due the addition of overlays to reflect continued macroeconomic uncertainty following the Russian invasion of Ukraine and the high inflation and cost of living pressures offsetting releases of those relating to COVID-19 uncertainty.

Non-performing loans

The below table provides information on non-performing loans by portfolio.

Table 4: Non-performing loans

	30 June 2022 (unaudited)		31 December 2021 (unaudited)	
	NPLs £'million	**NPL ratio %**	NPLs £'million	NPL ratio %
Retail mortgages	**101**	**1.50%**	114	1.70%
Consumer lending	**32**	**2.53%**	21	2.36%
Commercial lending	**212**	**4.73%**	327	6.75%
Total	**345**	**2.75%**	462	3.71%

NPLs have reduced to £345 million (2021: £462 million). This decrease is primarily driven by repayments and write-offs in commercial, particularly on a small number of large commercial single name cases, and BBLS where the bank has successfully claimed against the government guarantee. NPLs for mortgages have also moderately reduced primarily driven by customers returning to contractual repayments. The NPL ratio for consumer lending has increased slightly to 2.5% (2021: 2.4%) driven by maturation of the portfolio, in line with expectations, following strong growth through the RateSetter platform.

Cost of risk

The below table provides information on the Cost of Risk (CoR). CoR is the credit impairment charge expressed as a percentage of average gross lending.

Table 5: Cost of risk

	Half year to 30 June 2022 annualised (unaudited) %	Full year 31 December 2021 (unaudited) %
Cost of risk	**0.29%**	0.18%

The change in overall cost of risk (CoR) is primarily driven by increased lending in consumer lending which now equates to 10% of the bank's portfolio and carries a higher CoR than retail mortgages and commercial. The decrease in CoR for consumer lending is the result of new originations through the RateSetter platform and the reduction in the legacy consumer portfolio.

In retail mortgages, the increase in CoR is driven by the deterioration in the majority of the macroeconomic factors feeding into the IFRS 9 models offset by improvements in the HPI forecast reflecting the continued increase in observed house prices. The increase in CoR for commercial is also driven by deterioration in macroeconomic scenarios.

Retail mortgage lending

Mortgage balances have increased slightly in the first six months of 2022 to £6,785 million (31 December 2021: £6,723 million) with originations offsetting the reduction in our legacy acquired portfolios.

Despite the challenging economic environment, the credit performance of the portfolio during the first half of 2022 has remained stable. DTV has increased slightly by 1% to 56% as at 30 June 2022 (31 December 2021: 55%) and the total ECL stock position has reduced by £1 million to £18 million (31 December 2021: £19 million). Arrears are stable with a moderate improvement observed in non-performing loans (30 June 2022: 1.5%; 31 December 2021: 1.7%).

Origination volumes have been strong in the first half of the year at £675 million in (half year to 31 December 2021: £510 million) and we have continued to adjust our credit policy and lending criteria in late 2021 and early 2022. Additional controls have been implemented to support these changes to ensure the credit risk profile remains within appetite.

Table 6: Retail mortgage lending by DTV banding

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Less than 50%	**1,863**	**536**	**2,399**	1,907	524	2,431
51-60%	**787**	**416**	**1,203**	767	415	1,182
61-70%	**1,112**	**607**	**1,719**	1,092	564	1,656
71-80%	**806**	**241**	**1,047**	805	188	993
81-90%	**362**	**2**	**364**	400	3	403
91-100%	**47**	**3**	**50**	51	3	54
More than 100%	**-**	**3**	**3**	-	4	4
Total retail mortgage lending	**4,977**	**1,808**	**6,785**	5,022	1,701	6,723

Table 7: Residential mortgage lending by repayment type

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Interest	**2,017**	**1,723**	**3,740**	2,113	1,620	3,733
Capital and interest	**2,960**	**85**	**3,045**	2,909	81	2,990
Total retail mortgage lending	**4,977**	**1,808**	**6,785**	5,022	1,701	6,723

Table 8: Residential mortgage lending by geographic exposure

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Greater London	**1,802**	**1,035**	**2,837**	2,130	1,048	3,178
South East	**1,251**	**338**	**1,589**	1,157	283	1,440
South West	**432**	**83**	**515**	434	82	516
East of England	**470**	**120**	**590**	309	69	378
North West	**238**	**60**	**298**	264	62	326
West Midlands	**204**	**67**	**271**	190	61	251
Yorkshire and the Humber	**170**	**31**	**201**	139	34	173
East Midlands	**152**	**39**	**191**	140	25	165
Wales	**100**	**17**	**117**	110	20	130
North East	**62**	**9**	**71**	62	10	72
Scotland	**96**	**9**	**105**	87	7	94
Total retail mortgage lending	**4,977**	**1,808**	**6,785**	5,022	1,701	6,723

The geographic distribution of our retail mortgages customer balances is set out above. All of our loan exposures which are secured on property are secured on UK-based assets. Our current retail mortgages portfolio is concentrated within London and the South-East, which is representative of our original customer base and store footprint. We are expanding our footprint over time which will reduce the geographical concentration of lending.

Consumer lending

Consumer balances have increased to £1.27 billion as at June 2022 (31 December 2021: £890 million) driven by strong growth through the RateSetter platform.

The majority (84%) of the portfolio now comprises new lending through the RateSetter platform. The performance of this portfolio is aligned with expectations, with moderate increases in arrears and non-performing loans in line with the growth of the book and normal portfolio maturation.

The total stock position has increased in 2022 by £14.6m to £56.0 million as at 30th June 2022. This relates to the new originations through the RateSetter platform and the expected maturation of the book, partially offset by the reduction in the legacy portfolio, and a post model overlay to reflect the uncertainty due to high inflation.

The total ECL coverage position for consumer has reduced slightly to 4.4% as a result of the continued growth in new lending in the first half of the year (31 December 2021: 4.7%).

Commercial lending

Table 9: Summary of commercial lending

	30 June 2022 (unaudited) £'million	31 December 2021 (audited) £'million
Professional buy-to-let	**853**	950
Other term loans	**1,638**	1,791
Non-Government backed commercial term loans	**2,491**	2,741
Bounce back loans	**984**	1,304
Coronavirus business interruption loans	**145**	165
Recovery loan scheme	**357**	157
Government backed commercial term loans	**1,486**	1,626
Total commercial term loans	**3,977**	4,367
Overdrafts and revolving credit facilities	**110**	156
Credit cards	**4**	3
Asset and invoice finance	**390**	320
Total commercial lending	**4,481**	4,846

Our commercial lending remains largely comprised of term loans secured against property and Government supported lending. In addition, commercial lending includes facilities secured by other forms of collateral (such as debentures and guarantees), and Asset Finance and Invoice Finance.

Our commercial balances have decreased from £4,846 million to £4,481 million in the first six months of 2022. This reflects the business strategy to reduce our Portfolio Buy to Let and Real Estate lending, and reductions in bounce back loans. New commercial business over 2022 includes RLS lending to support customers impacted by COVID-19, with government supported RLS lending balances increasing to £357 million as of 30 June 2022.

Commercial customers are managed through an early warning categorisation where there are early signs of financial difficulty, thereby allowing timely engagement and appropriate corrective action to be taken. Early Warning categories support our IFRS 9 stage classification. Total lending in Early Warning categories has fallen since December 2021.

Table 10: Commercial term lending (exc. BBLS) by DTV banding

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Less than 50%	**295**	**836**	**1,131**	306	770	1,076
51-60%	**209**	**377**	**586**	232	483	715
61-70%	**242**	**193**	**435**	282	158	440
71-80%	**86**	**51**	**137**	112	63	175
81-90%	**9**	**37**	**46**	8	30	38
91-100%	**6**	**29**	**35**	6	27	33
More than 100%	**6**	**617**	**623**	4	582	586
Total commercial term lending	**853**	**2,140**	**2,993**	950	2,113	3,063

As of June 2022, 76% of property secured lending had a DTV of 80% or less, reflecting the prudent risk appetite historically applied. Lending with DTV >100% includes loans which benefit from additional forms of collateral, such as debentures. The value of this additional collateral is not included in the DTV or the estimation of expected credit losses but does provide an additional level of credit risk mitigation. The guarantees supporting CBILS and RLS lending is not included in the debt to value assessment, and DTV >100% also includes government backed lending where the facility does not also benefit from property collateral. The increase in DTV>100% in 2022 reflects the increase in lending under the government's recovery loan scheme.

Table 11: Commercial term lending (exc. BBLS) by industry exposure

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Real estate (rent, buy and sell)	**853**	**807**	**1,660**	950	837	1,787
Hospitality	**-**	**359**	**359**	-	361	361
Health & Social Work	**-**	**243**	**243**	-	225	225
Legal, Accountancy & Consultancy	**-**	**208**	**208**	-	206	206
Retail	**-**	**139**	**139**	-	136	136
Real estate (management of)	**-**	**8**	**8**	-	46	46
Construction	**-**	**94**	**94**	-	88	88
Recreation, cultural and sport	**-**	**87**	**87**	-	85	85
Investment and unit trusts	**-**	**12**	**12**	-	17	17
Education	**-**	**19**	**19**	-	9	9
Real estate (development)	**-**	**8**	**8**	-	6	6
Other	**-**	**156**	**156**	-	97	97
Total commercial term lending	**853**	**2,140**	**2,993**	950	2,113	3,063

We manage credit risk concentration to individual borrowing entities and sectors. Our credit risk appetite includes limits for individual sectors where we have higher levels of exposure.

The sector profile for commercial term lending is broadly consistent with the position as at 31 December 2021. There has been an overall reduction in commercial real estate of approximately 7%.

Table 12: Commercial term lending (exc. BBLS) by repayment type

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Interest	**809**	**259**	**1,068**	897	230	1,127
Capital and interest	**44**	**1,881**	**1,925**	53	1,883	1,936
Total commercial term lending	**853**	**2,140**	**2,993**	950	2,113	3,063

Table 13: Commercial term lending (exc. BBLS) by geographic exposure

	30 June 2022 (unaudited)			31 December 2021 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Greater London	**554**	**1,102**	**1,656**	676	1,186	1,862
South East	**169**	**365**	**534**	160	390	550
South West	**24**	**159**	**183**	28	151	179
East of England	**58**	**150**	**208**	39	71	110
North West	**18**	**168**	**186**	18	150	168
West Midlands	**9**	**96**	**105**	9	84	93
Yorkshire and the Humber	**3**	**23**	**26**	3	17	20
East Midlands	**11**	**34**	**45**	9	27	36
Wales	**3**	**12**	**15**	4	12	16
North East	**3**	**20**	**23**	3	17	20
Northern Ireland	**1**	**3**	**4**	1	2	3
Scotland	**-**	**8**	**8**	-	6	6
Total commercial term lending	**853**	**2,140**	**2,993**	950	2,113	3,063

Liquidity and funding risk

Our liquidity position continues to be strong, with our LCR standing at 257% as at 30 June 2022 (31 December 2021: 281%). This reflects our capital position and our conservative approach to lending.

We ended the period with a loan to deposit ratio of 75% (31 December 2021: 75%) and we continue to be deposit funded with no reliance on the wholesale markets although we continue to have access to, and have made use of, the Bank of England's TFSME both of which provide us with additional cost-efficient liquidity without creating reliance as a primary source of funding. Although the use of this funding is NIM dilutive, it is still overall income accretive as it is deployed into high quality securities which have also seen an increase in yield, in addition to the liquidity benefit it provides.

Capital risk

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

Our CET1 capital ratio decreased to 10.6% at 30 June 2021 from 12.6% as at 31 December 2021. This was primarily due to the losses incurred during the period as well as the changes in relation to the capital treatment of software assets. On 1 January 2022 the capital treatment of software assets reverted to the previous treatment of being deducted from capital, following changes implemented by the PRA.

Capital remains the largest constraint on the business and we continue to operate within our publicly disclosed MREL buffers and will continue to do so for a period of time. The continued delivery of our strategic priorities and a return to profitability will allow us to return above these requirements in the medium term.

In June 2022 the PRA reduced our Pillar 2A requirements from 1.11% to 0.50% and the Resolution Directorate of the Bank of England agreed for our binding MREL requirement to be set as the lower of 18% and two times the sum of Pillar 1 and Pillar 2A. These changes had the effect of reducing our minimal MREL requirements (excluding buffers) to 17.0%, and reflect the credit quality of our lending portfolio as well as the strength of our balance sheet.

We are currently working on the implementation of a holding company which we are required to have in place by 26 June 2023, which is in line with the call date of our Tier 2 bond. Under the terms of the Bank of England's December 2021 MREL Policy Statement, the operating company issued Tier 2 bond will lose MREL eligibility upon the holding company implementation. Management will work with regulators, debt holders and advisers with a view to addressing this MREL eligibility aspect before the implementation of the holding company. Our Senior Non-Preferred bond includes an option for the issuer to be substituted to the holding company once it is established and so will remain fully MREL eligible.

Risk weighted assets ended the period at £7,702 million (31 December 2021: £7,454 million) reflecting the continued change in asset mix. We continue to optimise our risk weighted assets to ensure we are maximising our return on regulatory capital and remain committed to achieving AIRB accreditation which would free up risk-weighted assets and allow us to grow lending further.

Table 14: Capital resources

	30 June 2022 (unaudited) £'million	31 December 2021 (audited) £'million
Ordinary share capital	**-**	-
Share premium	**1,964**	1,964
Retained earnings	**(1,004)**	(942)
Other reserves	**9**	13
Intangible assets	**(227)**	(243)
Other regulatory adjustments	**74**	144
Total Tier 1 capital (CET1)	**816**	936
Debt securities (Tier 2)	**249**	249
Total Tier 2 capital	**249**	249
Total regulatory capital	**1,065**	1,184

Operational risk

Fraud risk

We continue to work hard in a constantly evolving environment to minimise the impact of fraud. Across the industry there has been a notable increase in Authorised Push Payment fraud which has driven a significant rise in fraud losses. The overall level of fraud-related losses has increased but this is in proportion to the increase seen across the industry. Across the entire fraud landscape, we have taken significant steps to mitigate the risk to both the Bank and our customers, including but not limited to; enhanced fraud screening capability, implementation of Secure Customer Authentication and changes to core fraud detection tools to help better identify scams. We are also providing support to vulnerable customers who have been victims of fraud and are seeking to raise customer awareness of evolving fraud tactics via a range of initiatives as well as training our front-line colleagues.

Cyber threat

The impact which a successful cyber-attack could have on our customers remains a very significant focus of attention, as we both manage our current IT systems and plan to deliver new technology for the future, recognising the changing cyber landscape and the increased focus on digital capabilities. This is mitigated by ongoing investment in our cyber and information security infrastructure, enabling us to make constant improvements to our monitoring, control and response capabilities to protect customer data and minimise the risk of disruption. We have refined our objectives and principles and realigned our work plan to the global standard NIST Cyber Security Framework (CSF), allowing us to measure our maturity and benchmark more easily against peer organisations. The outcomes observed from simulated cyber-attacks undertaken by our cybersecurity teams provided further indication of improvements.

Operational resilience

We have identified and mapped our Important Business Services, set impact tolerances for the disruption of each service, carried out preliminary scenario testing to identify vulnerabilities and prepared a self-assessment of our resilience. Work to address our vulnerabilities and show that we can meet impact tolerances for each Important Business Service is well underway. Additionally, we have identified and assessed the materiality of our third party relationships and continue to apply this increased emphasis on operational resilience when assessing these relationships. All material supplier contracts since 1st April 2021 are compliant with the PRA requirements. This will enhance our capability to proactively prevent, respond to, recover and learn from operational resilience events and to minimise the impact to customers where these do occur.

Conduct risk

We continue to focus on the steps being taken to consistently demonstrate and evidence the consideration of customer outcomes as a key part of decision-making processes. We have taken significant steps to begin to address areas of conduct risk (particularly where there is elevated risk of customer detriment) and continue to invest funding and resource into these areas, including the identification and ongoing management of vulnerable customers, complaints management and retail arrears management.

Emerging risks

We consider emerging risks to be evolving threats which cannot yet be quantified, with the potential to significantly impact our 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 Risk Oversight Committee and 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.

The emerging risk classifications reported in our 2021 Annual Report and Accounts have been retained. Talent has been added as an emerging risk, reflecting the importance of training and retaining a resilient talent pool. Additionally, the emerging risks relating digitalisation and climate change have already been shaping the future regulatory environment prior to the pandemic, but the pandemic has accelerated them – the former by increasing regulators' expectations around the need for resilient systems and controls in the face of a faster adoption of digitised solutions. And the latter around new obligations concerning reporting, disclosures and governance on all aspects of sustainability, where the pandemic has been a catalyst for the awareness of the importance of sustainable – or resilient – operations.

EMERGING RISKS	TREND	DESCRIPTION	MITIGATING ACTIONS
EXTERNAL			
MACROECONOMIC ENVIRONMENT	➚	Along with COVID-19's long-term effects and scope, the recent geopolitical tensions in Europe due to the Russia-Ukraine conflict has had a substantial impact on both domestic and international markets. There is also the spectre of rising ransomware attacks emanating from Russian State-sponsored cyber-criminals targeting UK infrastructure. Inflation and the gradually rising interest rates have also had a significant impact on the cost of living in the UK. Furthermore, there is lingering uncertainty over the ability of economies and society to adapt to future variants of existing viruses or new strains. An increase in restrictions could, therefore, pose a range of social, economic, and technological risks.	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.
REGULATORY CHANGE	➔	The regulatory landscape continues to evolve, with the requirement to respond to ongoing prudential and conduct driven initiatives.	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.
DIGITALISATION	➚	COVID-19 has accelerated the digitalisation of the banking industry and will continue 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.	Our strategy is now 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 continuing with our investment and digital development in the near term to position us for the future.
CLIMATE CHANGE & ESG	➚	Unlike in the past where this risk revolved mainly around climate risk, the current, broader definition of ESG risk acknowledges the uncertainty around the exact nature and impact of climate change on our strategy, performance, and operating model, as well as capturing the increased focus on how we report the impact of its activities on the environment and on social challenges as well as the broader governance surrounding such risks.	Work continues to build our capability and enhance our policies and processes to ensure these risks are identified, measured, monitored and managed. We are committed to working together with customers, colleagues and communities to support the transition to a Net Zero economy by 2050, in line with the UK government's ambitions and actions. We have also set a target to make our own operations Net Zero by 2030 and to build our own resilience by embedding climate-related impacts in lending and investment decisions.

EMERGING RISKS	TREND	DESCRIPTION	MITIGATING ACTIONS
INTERNAL			
TECHNOLOGY & CYBER RESILIENCE	➔	COVID-19 has highlighted the extent to which technology underpins our ability to serve its customers, as well as promoting a hybrid approach to work for our employees. Progressive deployment of new technologies will change our risk profile, including increased supplier risks, evolved data risks, and enhanced cost risks where new technologies are running in parallel with existing architecture. Due to digital asset and transaction innovation, future digital customer proposition and market landscape will become more competitive and uncertain.	Our IT resilience programme has continued to deliver strategic enhancements throughout 2022. We are investing in flexible, resilient cloud-based solutions and working with our strategic technology partners to simplify and streamline. Where technology disruption does arise, we continue to undertake detailed analysis of the underlying causes and rapidly take action to prevent recurrence. We continue to invest in our cyber security and resilience capabilities in response to these rapidly evolving threats. Key areas of focus relate to access controls, network security, disruptive technology and the denial of service capability. Progress has continued in patching and upgrading our IT platforms and we operate advanced technology solutions to detect and prevent criminal attacks. We actively participate in the sharing of threat information with other organisations, helping to ensure the continued availability of our exceptional service offering whilst also making banking safer for all.
TALENT	➚	Technological change, coupled with fast-changing customer requirements, places inordinate pressure on the resilience of our personnel as well as its system, further exacerbated by the transition to digitalisation.	We are investing sensibly in talent acquisition and retention, together with more learning and development programmes to keep colleagues' skills in line with the demands of the marketplace and give them the time to take advantage of those opportunities. We are also looking at new, flexible work arrangements, location strategies, and different ways of measuring colleague contributions to the success of the Bank.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Directors confirm to the best of their knowledge these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' giving a true and fair view of the assets, liabilities, financial position and profit or loss as and as required by DTR 4.2.7R and DTR 4.2.8R, namely:

- An indication of important events that have occurred during the first six months ended 30 June 2022 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months ended 30 June 2022 and any material changes in the related-party transactions described in the last annual report.

Signed on its behalf by:

Robert Sharpe	Daniel Frumkin
Chairman	**Chief Executive Officer**

INDEPENDENT REVIEW REPORT TO METRO BANK PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Metro Bank PLC's condensed consolidated interim financial statements (the "interim financial statements") in the interim report of Metro Bank PLC for the 6 month period ended 30 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2022;
- the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Basis for conclusion

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

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the interim report, including the interim financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
27 July 2022

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the half year to 30 June 2022[1]

	Note	**Half year to 30 June 2022 £'million**	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Interest income	2	**239.7**	211.5	194.2
Interest expense	2	**(58.9)**	(49.5)	(60.9)
Net interest income		**180.8**	162.0	133.3
Net fee and commission income		**39.5**	36.9	32.7
Net gains on sale of assets		**-**	1.2	8.2
Other income		**16.2**	22.1	22.1
Total income		**236.5**	222.2	196.3
General operating expenses	3	**(233.2)**	(263.3)	(272.8)
Depreciation and amortisation	7,8	**(37.4)**	(39.9)	(40.3)
Impairment and write offs of PPE and intangible assets	7,8	**(8.2)**	(17.4)	(7.5)
Total operating expenses		**(278.8)**	(320.6)	(320.6)
Expected credit loss expense		**(17.9)**	(7.8)	(14.6)
Loss before tax		**(60.2)**	(106.2)	(138.9)
Tax expense	5	**(1.5)**	(0.9)	(2.2)
Loss for the period		**(61.7)**	(107.1)	(141.1)
Other comprehensive expense for the period				
Items which will be reclassified subsequently to profit or loss where specific conditions are met:				
Movements in respect of investment securities held at fair value through other comprehensive income (net of tax):				
- changes in fair value		**(6.7)**	(6.9)	(1.2)
- changes in fair value transferred to the income statement on disposal		**-**	0.1	(0.4)
Total other comprehensive expense		**(6.7)**	(6.8)	(1.6)
Total comprehensive loss for the period		**(68.4)**	(113.9)	(142.7)
Earnings per share				
Basic earnings per share (pence)	12	**(35.8)**	(62.1)	(81.8)
Diluted earnings per share (pence)	12	**(35.8)**	(62.1)	(81.8)

1. A reconciliation between our statutory and underlying results can be found on page 51.

CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

As at 30 June 2022

	Note	**30 June 2022 £'million**	31 December 2021 £'million	30 June 2021 £'million
Assets				
Cash and balances with the Bank of England		**2,862**	3,568	5,111
Loans and advances to customers	6	**12,364**	12,290	12,325
Investment securities held at FVOCI		**781**	798	1,198
Investment securities held at amortised cost		**5,393**	4,776	3,165
Financial assets held at fair value through profit and loss		**2**	3	5
Property, plant and equipment	7	**749**	765	786
Intangible assets	8	**227**	243	253
Prepayments and accrued income		**80**	68	75
Other assets		**97**	76	95
Total assets		**22,555**	22,587	23,013
Liabilities				
Deposits from customers		**16,514**	16,448	16,620
Deposits from central banks		**3,800**	3,800	3,800
Debt securities		**577**	588	596
Repurchase agreements		**166**	169	212
Derivative financial liabilities		**8**	10	8
Lease liabilities	9	**264**	269	310
Deferred grants	10	**19**	19	22
Provisions		**14**	15	5
Deferred tax liabilities	5	**12**	12	13
Other liabilities		**212**	222	280
Total liabilities		**21,586**	21,552	21,866
Equity				
Called up share capital	11	**-**	-	-
Share premium account	11	**1,964**	1,964	1,964
Retained earnings		**(1,004)**	(942)	(835)
Other reserves		**9**	13	18
Total equity		**969**	1,035	1,147
Total equity and liabilities		**22,555**	22,587	23,013

The notes on pages 30 to 50 form part of the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27 July 2022 and were signed on its behalf by:

Robert Sharpe
Chairman

Daniel Frumkin
Chief Executive Officer

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the half year to 30 June 2022

	Note	**Half year to 30 June 2022 £'million**	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Reconciliation of loss before tax to net cash flows from operating activities:				
Loss before tax		**(60)**	(106)	(139)
Adjustments for:				
Impairment and write offs of property, plant and equipment and intangible assets	7,8	**8**	17	8
Interest on lease liabilities	9	**8**	8	9
Depreciation and amortisation	7,8	**37**	40	40
Share option award charges	4	**2**	1	1
Grant income recognised in the income statement		**-**	(4)	(7)
Amounts provided for		**-**	5	-
Gain on sale of assets		**-**	(1)	(8)
Accrued interest on and amortisation of investment securities		**3**	4	1
Changes in operating assets and liabilities				
Changes in loans and advances to customers		**(74)**	35	(235)
Changes in deposits from customers		**66**	(172)	548
Changes in operating assets		**(35)**	30	2,817
Changes in operating liabilities		**(28)**	(115)	77
Net cash (outflows)/inflows from operating activities		**(73)**	(258)	3,112
Cash flows from investing activities				
Net purchase of investment securities		**(607)**	(1,216)	(953)
Purchase of property, plant and equipment		**(1)**	(42)	-
Purchase and development of intangible assets	8	**(12)**	(13)	(26)
Net cash outflows from investing activities		**(620)**	(1,271)	(979)
Cash flows from financing activities				
Repayment of capital element of leases	9	**(13)**	(14)	(15)
Net cash outflows from financing activities		**(13)**	(14)	(15)
Net (decrease)/increase in cash and cash equivalents		**(706)**	(1,543)	2,118
Cash and cash equivalents at start of period		**3,568**	5,111	2,993
Cash and cash equivalents at end of period		**2,862**	3,568	5,111

Loss before tax includes:				
Interest received		**235**	206	203
Interest paid		**65**	52	74

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the half year to 30 June 2022

	Called-up Share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance at 1 January 2022	**-**	**1,964**	**(942)**	**(5)**	**18**	**1,035**
Loss for the period	**-**	**-**	**(62)**	**-**	**-**	**(62)**
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	**-**	**-**	**-**	**(6)**	**-**	**(6)**
Total comprehensive expense	**-**	**-**	**(62)**	**(6)**	**-**	**(68)**
Net share option movements	**-**	**-**	**-**	**-**	**2**	**2**
Balance at 30 June 2022	**-**	**1,964**	**(1,004)**	**(11)**	**20**	**969**
Balance at 1 July 2021	-	1,964	(835)	1	17	1,147
Loss for the period	-	-	(107)	-	-	(107)
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	(6)	(1)	(7)
Total comprehensive expense	-	-	(107)	(6)	(1)	(114)
Net share option movements	-	-			2	2
Balance at 31 December 2021	-	1,964	(942)	(5)	18	1,035
Balance at 1 January 2021	-	1,964	(694)	3	16	1,289
Loss for the period	-	-	(141)	-	-	(141)
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	(2)	-	(2)
Total comprehensive expense	-	-	(141)	(2)	-	(143)
Net share option movements	-	-	-	-	1	1
Balance at 30 June 2021	-	1,964	(835)	1	17	1,147

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

1.1 General information

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

1.2 Basis of preparation

The condensed consolidated interim financial statements of Metro Bank and its subsidiaries for the six months ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 27 July 2022.

These condensed consolidated interim financial statements for the six months ended 30 June 2022 have been prepared in accordance with UK adopted International Accounting Standards (IAS 34 Interim Financial Reporting) and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. Whilst the change from IFRS as adopted by EU to UK-adopted IAS constitutes a change in accounting framework, there is no impact on recognition, measurement or disclosure from this transition.

In the year to 31 December 2022 our annual financial statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board.

The comparative financial information as at and for the periods ending 31 December 2021 and 30 June 2021 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2021 has been delivered to the Registrar of Companies.

The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

Going concern

The Directors have adopted the going concern basis in preparing these condensed consolidated interim financial statements. This assessment has been reached after assessing the Group's principal risks, which remain unchanged from those disclosed in the risk report of the 2021 Annual Report and Accounts. As with the assessment undertaken at the year end the Directors placed additional consideration on capital risk given that the Group continues to utilise its regulatory buffers. Further details on the Group's capital risk can be found on page 19.

In reaching their conclusion the Directors reviewed an updated central projection to reflect the changes in outlook since the full year. The projection remains in line with the delivery of the Group's strategic priorities as outlined within the 2021 Annual Report and Accounts and on which an update is provided within the Business Review section of this report. As well as considering the Group's central forecast the Directors considered associate scenarios and sensitivities which included severe but plausible downside risks. These scenarios and sensitivities focused on areas where the greatest level of judgement had been applied in the forecast assumptions. On top of this consideration was given to the possibility of a worsened economic environment over the forecast period leading to an increase in expected credit losses, costs as well as a reduction in income.

Under all scenarios considered, the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources to be able to continue to operate for a period of at least twelve months from when the interim financial statements are authorised for issue. In the most severe scenarios this would require making reasonable adjustments to the Group's operating plans, including slowing down the pace of future originations to limit risk weighted asset growth.

The Directors did not deem there to be any material uncertainties with regards to the assessment on going concern.

1. Basis of preparation and accounting policies (continued)

Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2021.

Future accounting developments

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

1.3 Critical accounting judgements

In our 2021 Annual Report and Accounts we identified the following critical accounting judgements:

- Recognition of provisions
- Measurement of the expected credit loss allowance - significant increase in credit risk
- Measurement of the expected credit loss allowance - use of post model overlays and adjustments

Following the conclusion of matters with the US Office of Foreign Assets Control (OFAC) in relation to Cuba and Iran without fine or penalty, the recognition of provisions is no longer considered a critical accounting judgement.

Further details on the remaining critical accounting judgements are set out below. No new critical accounting judgements have been identified during the period.

Measurement of the expected credit loss allowance -significant increase in credit risk

IFRS 9 requires accounts to be allocated into one of three stages. Stage 3 reflects accounts in default. Stage 2 are the accounts which have shown a significant increase in credit risk since origination (SICR), and Stage 1 is everything else. IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. For loans in Stage 2 and Stage 3 a lifetime ECL is recognised compared to a 12-month ECL for performing loans (Stage 1).

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 is performed at each reporting period by considering the change in the Probability of Default (PD) over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date to that at initial recognition, considering reasonable and supportable information, including information about past events, current conditions, and future economic conditions.

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. Financial instruments that are classified in Early Warning List 1 and 2 will be reported in Stage 2. The IFRS 9 standard also provides a rebuttable presumption which states that financial instruments falling 30 DPD due on contractually defined payments are to be considered as having deteriorated significantly since origination.	**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, this includes customers who are categorised as Early Warning List 3.	**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.

1. Basis of preparation and accounting policies (continued)

In light of the classification outline on page 31, our stage allocation criteria must include:

- A relative measure of creditworthiness deterioration since origination.
- An absolute measure of creditworthiness deterioration since origination.

There are two main criteria driving the SICR assessment identified as follows:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is determined when 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, different thresholds are used 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.

There are additional SICR rules utilised across portfolios. These rules, as well as more granular detail of both quantitative and qualitative criteria, are captured within the IFRS 9 model methodology and are approved as part of the annual model review process at Model Governance and Model Oversight Committees. The low credit risk exemption allowed under IFRS 9 has not been applied across the retail mortgage or consumer portfolios to identify SICR.

Measurement of the expected credit loss allowance -use of post model overlays and adjustments

We have applied Post Model Adjustments (PMAs) and Post Model Overlays (PMOs) in the assessment of ECL. PMAs supplement the models to account for where there are limitations in model methodology or data inputs and PMOs accounts for downsides risks which are not fully captured through the economic scenarios. The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by our Model Governance, Impairment Committee and Audit Committee.

PMAs and PMOs are defined as follows:

- Post model adjustments (PMAs): 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 (PMOs): 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.

Given the ongoing economic uncertainty, we continue to maintain prudent levels of PMOs. The level of PMAs/PMOs has remained stable during 2022 with the total percentage of ECL stock comprised of PMAs/PMOs remaining at 26.4% (2021: 26.3%).

PMAs contribute £7.9 million of ECL stock as at 30 June 2022 (31 December 2021: £9.1 million) and are held in anticipation of IFRS 9 commercial models planned for implementation in the second half of 2022.

- IFRS 9 commercial secured LGD model (30 June 2022: £7.6 million; 31 December 2021: £9.8 million).
- IFRS 9 commercial business loans lifetime PD model scope extended to commercial revolving facilities (30 June 2022: (£0.5) million; 31 December 2021: (£0.7) million).
- IFRS 9 commercial fixed term EAD model (30 June 2022: £0.8 million; 31 December 2021: £nil).

PMOs have been reassessed during the period to ensure an appropriate level of ECL to account for the high level of macroeconomic uncertainty, following the Russian invasion of Ukraine, high inflation environment and cost of living pressures.

1. Basis of preparation and accounting policies (continued)

PMOs make up £37.1 million of the ECL stock for the half year ending 30 June 2022 (31 December 2021: £35.0 million) and comprise of:

- **High inflation environment and cost-of-living risks** – Management overlay has been introduced in the period to reflect high inflation and cost of living pressures, which are not fully captured through the economic scenarios and IFRS 9 models (30 June 2022: £29.6 million; prior period COVID-19 overlays of £28.7 million have been released). This reflects the associated risks across retail mortgage, consumer, and commercial portfolios.
- **Climate change impact** – An expert judgement overlay raised in 2021 has been maintained for 30 June 2022 and reflects the impact of climate change on property values for the mortgage and commercial portfolios (30 June 2022: £5.1 million; 31 December 2021: £5.1 million).
- **Concentration risk adjustment** – An overlay raised in 2021 has been maintained for the first half of 2022 to reflect Metro Bank's geographical concentration risk on the retail mortgage and commercial property portfolios (30 June 2022: £1.2 million; 31 December 2021: £1.2 million).
- **Commercial impairment calculation enhancements** – An overlay of £1.2 million raised in anticipation of refinements to the impairment calculation for the commercial portfolio in the second half of 2022 (30 June 2022: £1.2 million; 31 December 2021: £nil).

1.4 Critical accounting estimates

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 forecasted 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 line with our approved IFRS 9 models, macroeconomic scenarios provided by Moody's Analytics are used in the assessment of provisions. The use of an independent supplier for the provision of scenarios helps to ensure that the estimates are unbiased. Since the inception of COVID-19, the macroeconomic scenarios are assessed and reviewed monthly to ensure appropriateness and relevance to the ECL calculation. The weightings of these scenarios reflect the latest UK economic outlook. The selection of scenarios and the appropriate weighting to apply are considered and discussed internally and proposed recommendations for use in the IFRS 9 models are made to the monthly Impairment Committee (designated Executive Risk Committee for impairments) for formal approval.

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.

Scenarios and probability weights used as at 30 June 2022 are as follows are as follows:

Scenario weighting	**Half year to 30 June 2022**	Half year to 31 December 2021	Half year to 30 June 2021
Baseline	**40%**	40%	40%
Upside	**20%**	20%	20%
Downside	**30%**	30%	30%
Severe Downside	**10%**	10%	10%

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

- Baseline scenario (40% weight): Reflects the projection of the median, or '50%' scenario, meaning that in the assessment there is an equal probability that the economy might perform better or worse than the baseline forecast.
- Upside scenario (20% weight): This above-baseline scenario is designed so there is a 10% probability the economy will perform better than in this scenario, broadly speaking, and a 90% probability it will perform worse.
- Downside scenario (30% weight): In this recession scenario, in which a deep downturn develops, there is a 90% probability the economy will perform better, broadly speaking, and a 10% probability it will perform worse.
- Severe Downside scenario (10% weight): In this recession scenario, in which a deep downturn develops, there is a 96% probability the economy will perform better, broadly speaking, and a 4% probability it will perform worse.

1. Basis of preparation and accounting policies (continued)

The following variables are the key drivers of ECL:

- UK interest rate (five-year mortgage rate)
- UK unemployment rate
- UK HPI change, year-on-year (adjusted in the downside scenarios for regional concentration)
- UK GDP change, year-on-year

Macroeconomic scenarios impact the ECL calculation through varying the probability of Default (PD) and Loss Given Default (LGD). We use UK HPI to index mortgage collateral which has a direct impact on LGD. A wide range of potential metrics were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. This included variables which impact economic output, interest rates, inflation, stock prices, borrower income and the UK housing market. Statistical methods were then used to choose the subset of drivers which had the greatest significance and predictive fit to our data.

Macroeconomic variable	Scenario	2023	2024	2025	2026
UK five year mortgage interest rates (%)	Baseline	3.6%	4.0%	4.1%	4.2%
	Upside	3.9%	4.2%	4.3%	4.3%
	Downside	2.3%	2.8%	3.0%	3.1%
	Severe Downside	2.2%	2.8%	2.9%	3.0%
Unemployment (%)	Baseline	4.4%	4.6%	4.7%	4.8%
	Upside	3.7%	3.8%	4.0%	4.2%
	Downside	7.1%	7.4%	7.2%	6.6%
	Severe Downside	8.4%	8.1%	8.2%	7.7%
House price index (YoY%)[1]	Baseline	2.9%	4.8%	2.2%	0.9%
	Upside	13.1%	4.6%	(1.8%)	(2.5%)
	Downside	(8.8%)	0.3%	3.7%	4.4%
	Severe Downside	(15.7%)	(0.5%)	3.3%	3.0%
UK GDP (YoY%)	Baseline	1.6%	1.4%	1.2%	1.0%
	Upside	2.7%	1.2%	1.0%	1.2%
	Downside	(2.2%)	2.9%	1.7%	0.9%
	Severe Downside	(4.0%)	2.6%	2.9%	1.3%

The period-end assumptions used for the ECL estimate as at 31 December 2021 are as follows:

Macroeconomic variable	Scenario	2022	2023	2024	2025
UK five year mortgage interest rates (%)	Baseline	2.7%	3.3%	3.7%	4.1%
	Upside	3.0%	3.6%	4.2%	4.6%
	Downside	2.3%	2.8%	3.1%	3.1%
	Severe Downside	2.1%	2.6%	2.9%	3.1%
Unemployment (%)	Baseline	4.7%	4.4%	4.4%	4.5%
	Upside	3.9%	3.3%	3.5%	3.8%
	Downside	6.2%	6.6%	6.5%	6.3%
	Severe Downside	7.2%	7.5%	7.2%	7.1%
House price index (YoY%)[1]	Baseline	3.4%	6.0%	5.2%	3.7%
	Upside	14.2%	8.5%	4.8%	2.1%
	Downside	(12.8%)	(8.1%)	(1.9%)	4.4%
	Severe Downside	(16.3%)	(10.3%)	(2.5%)	4.3%
UK GDP (YoY%)	Baseline	3.9%	3.1%	1.4%	1.0%
	Upside	7.7%	1.7%	1.2%	1.1%
	Downside	(2.3%)	5.7%	2.4%	1.7%
	Severe Downside	(3.9%)	5.4%	2.2%	1.8%

1. The HPI economic forecast has been stressed on the downside and more severe downside scenarios to reflect Metro Bank's geographical concentration risk.

1. Basis of preparation and accounting policies (continued)

Key assumptions underpinning the baseline June 2022 scenarios:

- The U.K. economic outlook has darkened following Russia's invasion of Ukraine and the resulting increase in energy and food commodity prices, as well as the exacerbation of global supply-chain disruptions. The pace of growth remains subdued for the remainder of the year.
- Global oil prices remain elevated for several months before they start reducing to prior levels. European natural gas and electricity prices remain high for the next 12 months.
- Global supply-chain bottlenecks ease but fail to abate by the end of the year.
- U.K. headline CPI inflation continues to increase in the coming months owing to higher energy, food, and manufactured goods prices. Higher wages and strong services demand add to the price pressures, ensuring inflation remains far above target throughout 2022.
- Volatility in financial markets remains contained despite the tightening financial conditions, and the U.K. government bonds do not lose their risk-free status.

The June 2022 base case macroeconomic estimates and assumptions reflect a more negative economic outlook compared to December 2021, with the exception of HPI. Deterioration has been observed in the majority of the macroeconomic factors in the course of 2022, such as Unemployment rate, GDP, CPI and Wage Growth, and reflect the rising inflation and cost of living pressures exacerbated as a result of the war in Ukraine. The HPI forecast has improved since the start of the year reflecting the continued increase in observed house prices. A comparison of the base case macroeconomic estimates across the forecast period between 31 December 2021 and 30 June 2022 is shown in the tables above. Following the initial four-year projection period, the Upside, Downside and Severe 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 different.

We have also assessed the IFRS 9 ECL sensitivity impact at a total portfolio level, by applying a 100% weighting to each of the four chosen scenarios.

Scenario	ECL £'million	Variance to reported weighted ECL at 30 June 2022
Weighted	171	100%
Baseline	155	(9%)
Upside	144	(16%)
Downside	193	13%
Severe Downside	223	31%

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

1.5 Operating segments

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

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

2. Net interest income

Interest income

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Cash and balances held with the Bank of England	**9.5**	2.1	2.3
Loans and advances to customers	**208.0**	195.9	182.2
Investment securities held at amortised cost	**21.9**	11.5	9.1
Investment securities held at FVOCI	**0.3**	2.0	0.6
Total interest income	**239.7**	211.5	194.2

Interest expense

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Deposits from customers	**12.4**	14.6	25.5
Deposits from central banks	**13.1**	2.1	1.9
Repurchase agreements	**0.8**	1.1	1.1
Debt securities	**25.0**	23.8	23.6
Lease liabilities	**7.6**	7.9	8.8
Total interest expense	**58.9**	49.5	60.9

3. General operating expenses

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
People costs	**119.9**	117.5	121.5
Information technology costs	**29.9**	29.9	27.3
Occupancy expenses	**15.0**	16.7	16.2
Money transmission and other banking related costs[1]	**24.5**	24.2	26.4
Transformation costs	**1.0**	7.1	1.8
Remediation costs	**3.0**	20.5	25.4
Capability & Innovation fund (C&I) costs	**0.3**	2.3	5.8
Legal and Regulatory fees	**3.3**	3.2	3.4
Professional Fees	**20.2**	22.7	27.4
Contractor costs	**-**	-	2.1
Printing, postage and stationery costs	**3.1**	3.2	2.4
Travel costs	**0.8**	0.6	0.5
Marketing and advertising costs	**3.5**	3.2	1.5
Business acquisition and integration costs	**-**	0.1	2.3
Other[1]	**8.7**	12.1	8.8
Total general operating expenses	**233.2**	263.3	272.8

1. During the second half of 2021 we reclassified certain costs from money transmission and other banking related costs to other costs to better reflect their nature. The half year to 30 June 2021 comparator figure has been updated to reflect this changes.

4. People costs

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Wages and salaries	**99.2**	98.1	103.1
Social security costs	**11.5**	10.8	11.2
Pension costs	**6.8**	6.9	6.5
Equity-settled share based payments	**2.4**	1.7	0.7
Total people costs	**119.9**	117.5	121.5

5. Taxation

Tax expense for the period

The components of tax expense for the six months ended 30 June 2022, 31 December 2021 and 30 June 2021 are:

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
Current tax			
Current tax	**-**	(0.5)	-
Adjustment in respect of prior years	**-**	0.7	(0.1)
Total current tax credit/(expense)	**-**	0.2	(0.1)
Deferred tax			
Origination and reversal of temporary differences	**(0.9)**	1.1	2.3
Effect of changes in tax rates	**(0.6)**	(1.0)	(4.4)
Adjustment in respect of prior periods	**-**	(1.2)	-
Total deferred tax expense	**(1.5)**	(1.1)	(2.1)
Total tax expense	**(1.5)**	(0.9)	(2.2)

Reconciliation of the total tax expense

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

A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate for the half year ended 30 June 2022, 31 December 2021 and 30 June 2021 are as follows:

	Half year to 30 June 2022 £'million	**Effective tax rate %**	Half year to 31 December 2021 £'million	Effective tax rate %	Half year to 30 June 2021 £'million	Effective tax rate %
Loss before tax	**(60.2)**		(106.2)		(138.9)	
Tax credit at statutory income tax rate of 19%	**11.4**	**19.0%**	20.2	19.0%	26.4	19.0%
Tax effects of:						
Non-deductible expenses - depreciation on non-qualifying fixed assets	**(0.9)**	**(1.5%)**	(1.9)	1.8%	(0.8)	(0.6%)
Non-deductible expenses – investment property impairment	**-**	**-**	(1.8)	1.7%	-	-
Non-deductible expenses – remediation	**(0.5)**	**(0.8%)**	(2.5)	2.4%	(4.6)	(3.3%)
Non-deductible expenses - other	**0.5**	**0.8%**	-	-	(0.1)	(0.1%)
Impact of intangible asset impairment on R&D deferred tax liability	**0.2**	**0.3%**	1.1	(1.0%)	1.9	1.4%
Share based payments	**(0.1)**	**(0.2%)**	(0.1)	0.1%	(0.2)	(0.1%)
Adjustment in respect of prior years	**-**	**-**	(0.5)	0.5%	(0.1)	-
Losses for the period for which no deferred tax asset has been recognised	**(11.5)**	**(19.1%)**	(14.4)	13.6%	(20.3)	(14.6%)
Derecognition of tax losses arising in prior years	**-**	**-**	-	-	-	-
Effect of changes in tax rates	**(0.6)**	**(0.9%)**	(1.0)	0.9%	(4.4)	(3.2%)
Tax expense reported in the consolidated income statement	**(1.5)**	**(2.4%)**	(0.9)	(0.8%)	(2.2)	(1.5%)

Effective tax rate

The effective tax rate for the period is (2.4%) (half year to 30 June 2021: (1.5%); half year to 31 December: (0.8%)). This has been calculated by applying the effective tax rate which is expected to apply to the Group for the half year ended 30 June 2022 using rates substantively enacted by 30 June 2022 as required by IAS34 'Interim Financial Reporting'.

5. Taxation (continued)

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.

An increase in the UK corporation rate from 19% to 25% for taxable profits over £250,000 (effective 1 April 2023) was substantively enacted on 24 May 2021.

Losses for which no deferred tax asset has been recognised

The tax effected value of losses for which no deferred tax asset has been recognised is £11.5 million (half year to 30 June 2021: £20.3 million). This is due to our long term investment in cost, revenue and infrastructure transformation impacting the Bank's profits in the short term.

Deferred tax

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

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

	Unused tax losses £'million	Investment securities & impairments £'million	Property, plant & equipment £'million	Intangible assets £'million	Total £'million
30 June 2022					
Deferred tax assets	**12**	**4**	**-**	**-**	**16**
Deferred tax liabilities	**-**	**3**	**(24)**	**(7)**	**(28)**
Deferred tax liabilities (net)	**12**	**7**	**(24)**	**(7)**	**(12)**
At 1 January 2022	**13**	**5**	**(23)**	**(7)**	**(12)**
Income statement	**(1)**	**-**	**(1)**	**-**	**(2)**
Other comprehensive income	**-**	**2**	**-**	**-**	**2**
At 30 June 2022	**12**	**7**	**(24)**	**(7)**	**(12)**
31 December 2021					
Deferred tax assets	13	3	-	-	16
Deferred tax liabilities	-	2	(23)	(7)	(28)
Deferred tax liabilities (net)	13	5	(23)	(7)	(12)
At 1 July 2021	13	3	(21)	(8)	(13)
Income statement	-	-	(2)	1	(1)
Other comprehensive income	-	2	-	-	2
At 31 December 2021	13	5	(23)	(7)	(12)
30 June 2021					
Deferred tax assets	13	3	-	-	16
Deferred tax liabilities	-	-	(21)	(8)	(29)
Deferred tax liabilities (net)	13	3	(21)	(8)	(13)
At 1 January 2021	12	2	(16)	(10)	(12)
Income statement	1	-	(5)	2	(2)
Other comprehensive income	-	1	-	-	1
At 30 June 2021	13	3	(21)	(8)	(13)

5. Taxation (continued)

Unrecognised deferred tax assets

The Group had total unused tax losses of £918.2 million for which a deferred tax asset of £217.6 million has not been recognised as we continue to be loss making in the short term. The impact of recognising the deferred tax asset in the future would be material although tax benefits would be spread over a number of years. In addition the 50% corporate loss restriction in place extends the timeline over which the Bank can offset losses against future profits. This will be reassessed for the year ending 31 December 2022 in light of actual performance against management forecasts and prevailing market conditions. There is no time limit beyond which these losses expire.

Due to an investment property impairment being unrealised there is an unrecognised deferred tax asset of £2.6 million (30 June 2021: £3.1 million).

6. Loans and advances to customers

	30 June 2022		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Retail mortgages	**6,785**	**(18)**	**6,767**
Consumer lending	**1,269**	**(56)**	**1,213**
Commercial lending	**4,481**	**(97)**	**4,384**
Total loans and advances to customers	**12,535**	**(171)**	**12,364**

	31 December 2021		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	6,723	(19)	6,704
Consumer lending	890	(42)	848
Commercial lending	4,846	(108)	4,738
Total loans and advances to customers	12,459	(169)	12,290

	30 June 2021		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	6,815	(15)	6,800
Consumer lending	704	(42)	662
Commercial lending	4,972	(109)	4,863
Total loans and advances to customers	12,491	(166)	12,325

6. Loans and advances to customers (continued)

Loans and advances to customers by category

	30 June 2022 £'million	31 December 2021 £'million	30 June 2021 £'million
Residential owner occupied	**4,977**	5,022	5,028
Retail buy-to-let	**1,808**	1,701	1,787
Total retail mortgages	**6,785**	6,723	6,815
Overdrafts	**70**	66	71
Credit cards	**16**	13	11
Term loans	**1,183**	811	622
Total consumer lending	**1,269**	890	704
Total retail lending	**8,054**	7,613	7,519
Professional buy-to-let	**853**	950	1,037
Bounce back loans	**984**	1,304	1,394
Coronavirus business interruption loans	**145**	165	162
Recovery loan scheme	**357**	157	-
Other term loans	**1,638**	1,791	1,963
Commercial term loans	**3,977**	4,367	4,556
Overdrafts and revolving credit facilities	**110**	156	133
Credit cards	**4**	3	3
Asset and invoice finance	**390**	320	280
Total commercial lending	**4,481**	4,846	4,972
Total gross loans to customers	**12,535**	12,459	12,491

Credit risk exposures

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

Retail mortgages

	30 June 2022			
	Stage 1 £'million	**Stage 2 £'million**	**Stage 3 £'million**	**POCI[1] £'million**
Up to date	**5,420**	**1,226**	**27**	**-**
1 to 29 days past due	**1**	**18**	**10**	**-**
30 to 89 days past due	**-**	**19**	**14**	**-**
90+ days past due	**-**	**-**	**50**	**-**
Gross carrying amount	**5,421**	**1,263**	**101**	**-**

1. Purchase or originated credit impaired

	31 December 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	5,544	1,010	38	-
1 to 29 days past due	2	27	9	-
30 to 89 days past due	-	26	16	-
90+ days past due	-	-	51	-
Gross carrying amount	5,546	1,063	114	-

6. Loans and advances to customers (continued)

	30 June 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	5,917	751	32	-
1 to 29 days past due	1	17	10	-
30 to 89 days past due	-	18	17	-
90+ days past due	-	-	52	-
Gross carrying amount	5,918	786	111	-

Consumer lending

	30 June 2022			
	Stage 1 £'million	**Stage 2 £'million**	**Stage 3 £'million**	**POCI £'million**
Up to date	**1,089**	**133**	**2**	**-**
1 to 29 days past due	**3**	**2**	**-**	**-**
30 to 89 days past due	**-**	**10**	**4**	**-**
90+ days past due	**-**	**-**	**26**	**-**
Gross carrying amount	**1,092**	**145**	**32**	**-**

	31 December 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	786	71	2	-
1 to 29 days past due	-	2	-	-
30 to 89 days past due	-	9	3	-
90+ days past due	-	-	16	1
Gross carrying amount	786	82	21	1

	30 June 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	641	34	1	-
1 to 29 days past due	1	1	-	-
30 to 89 days past due	-	8	1	-
90+ days past due	-	-	16	1
Gross carrying amount	642	43	18	1

Commercial lending

	30 June 2022			
	Stage 1 £'million	**Stage 2 £'million**	**Stage 3 £'million**	**POCI £'million**
Up to date	**3,646**	**510**	**89**	**-**
1 to 29 days past due	**8**	**46**	**17**	**-**
30 to 89 days past due	**-**	**56**	**14**	**-**
90+ days past due	**-**	**3**	**92**	**-**
Gross carrying amount	**3,654**	**615**	**212**	**-**

6. Loans and advances to customers (continued)

	31 December 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	3,727	656	118	-
1 to 29 days past due	12	46	2	-
30 to 89 days past due	-	78	23	-
90+ days past due	-	-	184	-
Gross carrying amount	3,739	780	327	-

	30 June 2021			
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million
Up to date	3,985	765	165	-
1 to 29 days past due	1	8	2	-
30 to 89 days past due	-	27	10	-
90+ days past due	-	-	9	-
Gross carrying amount	3,986	800	186	-

Loss allowance

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

Retail mortgages

	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**
Balance at 1 January 2022	**5,546**	**1,063**	**114**	**-**	**6,723**	**(2)**	**(12)**	**(5)**	**-**	**(19)**	**5,544**	**1,051**	**109**	**-**	**6,704**
Transfers to/from stage 1[1]	**199**	**(189)**	**(10)**	**-**	**-**	**(3)**	**2**	**1**	**-**	**-**	**196**	**(187)**	**(9)**	**-**	**-**
Transfers to/from stage 2[1]	**(343)**	**346**	**(3)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(343)**	**346**	**(3)**	**-**	**-**
Transfers to/from stage 3[1]	**(3)**	**(10)**	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(10)**	**13**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**	**-**	**2**	**(1)**	**-**	**-**	**1**	**2**	**(1)**	**-**	**-**	**1**
New lending[3]	**511**	**147**	**-**	**-**	**658**	**(3)**	**(2)**	**-**	**-**	**(5)**	**508**	**145**	**-**	**-**	**653**
Repayments, additional drawdowns and interest accrued	**(57)**	**(13)**	**(1)**	**-**	**(71)**	**-**	**-**	**-**	**-**	**-**	**(57)**	**(13)**	**(1)**	**-**	**(71)**
Derecognitions[4]	**(432)**	**(81)**	**(12)**	**-**	**(525)**	**1**	**-**	**1**	**-**	**2**	**(431)**	**(81)**	**(11)**	**-**	**(523)**
Changes to assumptions[5]	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**-**	**3**	**-**	**3**	**-**	**-**	**3**
Balance at 30 June 2022	**5,421**	**1,263**	**101**	**-**	**6,785**	**(5)**	**(10)**	**(3)**	**-**	**(18)**	**5,416**	**1,253**	**98**	**-**	**6,767**

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

	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
Balance at 1 July 2021	5,918	786	111	-	6,815	(4)	(6)	(5)	-	(15)	5,914	780	106	-	6,800
Transfers to/from stage 1	(7)	7	-	-	-	(1)	2	(1)	-	-	(8)	9	(1)	-	-
Transfers to/from stage 2	(189)	189	-	-	-	-	-	-	-	-	(189)	189	-	-	-
Transfers to/from stage 3	(10)	(5)	15	-	-	-	-	-	-	-	(10)	(5)	15	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	(1)	-	-	-	1	(1)	-	-	-
New lending	349	156	-	-	505	-	(3)	-	-	(3)	349	153	-	-	502
Repayments, additional drawdowns and interest accrued	(39)	(6)	(1)	-	(46)	-	-	-	-	-	(39)	(6)	(1)	-	(46)
Derecognitions	(476)	(64)	(11)	-	(551)	-	-	1	-	1	(476)	(64)	(10)	-	(550)
Changes to assumptions	-	-	-	-	-	2	(4)	-	-	(2)	2	(4)	-	-	(2)
Balance at 31 December 2021	5,546	1,063	114	-	6,723	(2)	(12)	(5)	-	(19)	5,544	1,051	109	-	6,704

6. Loans and advances to customers (continued)

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	5,911	863	118	-	6,892	(5)	(17)	(4)	-	(26)	5,906	846	114	-	6,866
Transfers to/from stage 1	369	(352)	(17)	-	-	(7)	6	1	-	-	362	(346)	(16)	-	-
Transfers to/from stage 2	(280)	288	(8)	-	-	1	(1)	-	-	-	(279)	287	(8)	-	-
Transfers to/from stage 3	(9)	(21)	30	-	-	-	1	(1)	-	-	(9)	(20)	29	-	-
Net remeasurement due to transfers	-	-	-	-	-	6	-	-	-	6	6	-	-	-	6
New lending	545	77	-	-	622	(1)	(1)	-	-	(2)	544	76	-	-	620
Repayments, additional drawdowns and interest accrued	(92)	(11)	(1)	-	(104)	-	-	-	-	-	(92)	(11)	(1)	-	(104)
Derecognitions	(526)	(58)	(11)	-	(595)	1	1	-	-	2	(525)	(57)	(11)	-	(593)
Changes to assumptions	-	-	-	-	-	1	5	(1)	-	5	1	5	(1)	-	5
Balance at 30 June 2021	5,918	786	111	-	6,815	(4)	(6)	(5)	-	(15)	5,914	780	106	-	6,800

Consumer lending

£'million	**Gross carrying amount**					**Loss allowance**					**Net carrying amount**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2022	**786**	**82**	**21**	**1**	**890**	**(18)**	**(8)**	**(16)**	**-**	**(42)**	**768**	**74**	**5**	**1**	**848**
Transfers to/from stage 1	**16**	**(16)**	**-**	**-**	**-**	**(2)**	**2**	**-**	**-**	**-**	**14**	**(14)**	**-**	**-**	**-**
Transfers to/from stage 2	**(108)**	**108**	**-**	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**(107)**	**107**	**-**	**-**	**-**
Transfers to/from stage 3	**(9)**	**(4)**	**13**	**-**	**-**	**-**	**2**	**(2)**	**-**	**-**	**(9)**	**(2)**	**11**	**-**	**-**
Net remeasurement due to transfers	**-**	**-**	**-**	**-**	**-**	**1**	**(5)**	**(9)**	**-**	**(13)**	**1**	**(5)**	**(9)**	**-**	**(13)**
New lending	**583**	**10**	**2**	**-**	**595**	**(10)**	**(1)**	**(1)**	**-**	**(12)**	**573**	**9**	**1**	**-**	**583**
Repayments, additional drawdowns and interest accrued	**(93)**	**(26)**	**(2)**	**(1)**	**(122)**	**-**	**-**	**-**	**-**	**-**	**(93)**	**(26)**	**(2)**	**(1)**	**(122)**
Derecognitions	**(83)**	**(9)**	**(2)**	**-**	**(94)**	**4**	**1**	**1**	**-**	**6**	**(79)**	**(8)**	**(1)**	**-**	**(88)**
Changes to assumptions	**-**	**-**	**-**	**-**	**-**	**4**	**1**	**-**	**-**	**5**	**4**	**1**	**-**	**-**	**5**
Balance at 30 June 2022	**1,092**	**145**	**32**	**-**	**1,269**	**(20)**	**(9)**	**(27)**	**-**	**(56)**	**1,072**	**136**	**5**	**-**	**1,213**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 July 2021	642	43	18	1	704	(20)	(5)	(17)	-	(42)	622	38	1	1	662
Transfers to/from stage 1	(6)	6	-	-	-	1	(1)	-	-	-	(5)	5	-	-	-
Transfers to/from stage 2	(2)	2	-	-	-	-	-	-	-	-	(2)	2	-	-	-
Transfers to/from stage 3	(1)	(1)	2	-	-	-	-	-	-	-	(1)	(1)	2	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	-	(1)	-	(1)	-	-	(1)	-	(1)
New lending	185	42	7	-	234	1	(4)	(6)	-	(9)	186	38	1	-	225
Repayments, additional drawdowns and interest accrued	(9)	(3)	-	-	(12)	-	-	-	-	-	(9)	(3)	-	-	(12)
Derecognitions	(23)	(7)	(6)	-	(36)	1	1	6	-	8	(22)	(6)	-	-	(28)
Changes to assumptions	-	-	-	-	-	(1)	1	2	-	2	(1)	1	2	-	2
Balance at 31 December 2021	786	82	21	1	890	(18)	(8)	(16)	-	(42)	768	74	5	1	848

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	149	43	12	-	204	(6)	(9)	(10)	-	(25)	143	34	2	-	179
Transfers to/from stage 1	14	(14)	-	-	-	(2)	2	-	-	-	12	(12)	-	-	-
Transfers to/from stage 2	(4)	4	-	-	-	-	-	-	-	-	(4)	4	-	-	-
Transfers to/from stage 3	(1)	(2)	3	-	-	-	2	(2)	-	-	(1)	-	1	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	-	(1)	-	-	1	-	(1)	-	-
New lending	512	24	5	1	542	(17)	(3)	(3)	-	(23)	495	21	2	1	519
Repayments, additional drawdowns and interest accrued	(11)	(6)	(1)	-	(18)	-	-	-	-	-	(11)	(6)	(1)	-	(18)
Derecognitions	(17)	(6)	(1)	-	(24)	-	1	1	-	2	(17)	(5)	-	-	(22)
Changes to assumptions	-	-	-	-	-	4	2	(2)	-	4	4	2	(2)	-	4
Balance at 30 June 2021	642	43	18	1	704	(20)	(5)	(17)	-	(42)	622	38	1	1	662

6. Loans and advances to customers (continued)

Commercial lending

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2022	**3,739**	**780**	**327**	**-**	**4,846**	**(27)**	**(29)**	**(52)**	**-**	**(108)**	**3,712**	**751**	**275**	**-**	**4,738**
Transfers to/from stage 1	**164**	**(163)**	**(1)**	**-**	**-**	**(6)**	**6**	**-**	**-**	**-**	**158**	**(157)**	**(1)**	**-**	**-**
Transfers to/from stage 2	**(135)**	**137**	**(1)**	**-**	**1**	**1**	**(1)**	**-**	**-**	**-**	**(134)**	**136**	**(1)**	**-**	**1**
Transfers to/from stage 3	**(98)**	**(108)**	**206**	**-**	**-**	**-**	**4**	**(4)**	**-**	**-**	**(98)**	**(104)**	**202**	**-**	**-**
Net remeasurement due to transfers	**-**	**-**	**-**	**-**	**-**	**3**	**(4)**	**-**	**-**	**(1)**	**3**	**(4)**	**-**	**-**	**(1)**
New lending	**427**	**54**	**2**	**-**	**483**	**(7)**	**(2)**	**(1)**	**-**	**(10)**	**420**	**52**	**1**	**-**	**473**
Repayments, additional drawdowns and interest accrued	**(180)**	**(25)**	**(5)**	**-**	**(210)**	**-**	**-**	**-**	**-**	**-**	**(180)**	**(25)**	**(5)**	**-**	**(210)**
Derecognitions	**(263)**	**(60)**	**(316)**	**-**	**(639)**	**1**	**1**	**22**	**-**	**24**	**(262)**	**(59)**	**(294)**	**-**	**(615)**
Changes to assumptions	**-**	**-**	**-**	**-**	**-**	**2**	**(8)**	**4**	**-**	**(2)**	**2**	**(8)**	**4**	**-**	**(2)**
Balance at 30 June 2022	**3,654**	**615**	**212**	**-**	**4,481**	**(33)**	**(33)**	**(31)**	**-**	**(97)**	**3,621**	**582**	**181**	**-**	**4,384**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 July 2021	3,986	800	186	-	4,972	(21)	(37)	(51)	-	(109)	3,965	764	134	-	4,863
Transfers to/from stage 1	63	(63)	-	-	-	(2)	2	-	-	-	61	(61)	-	-	-
Transfers to/from stage 2	(173)	174	(1)	-	-	-	-	-	-	-	(173)	174	(1)	-	-
Transfers to/from stage 3	(163)	(3)	166	-	-	-	1	(1)	-	-	(163)	(2)	165	-	-
Net remeasurement due to transfers	-	-	-	-	-	(1)	(6)	(6)	-	(13)	(1)	(6)	(6)	-	(13)
New lending	299	(1)	1	-	299	(3)	4	(1)	-	-	296	3	-	-	299
Repayments, additional drawdowns and interest accrued	(26)	(22)	-	-	(48)	-	-	-	-	-	(26)	(22)	-	-	(48)
Derecognitions	(247)	(105)	(25)	-	(377)	1	4	8	-	13	(246)	(101)	(17)	-	(364)
Changes to assumptions	-	-	-	-	-	(1)	2	-	-	1	(1)	2	-	-	1
Balance at 31 December 2021	3,739	780	327	-	4,846	(27)	(29)	(52)	-	(108)	3,712	751	275	-	4,738

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2021	4,115	906	127	-	5,148	(19)	(44)	(40)	-	(103)	4,096	863	86	-	5,045
Transfers to/from stage 1	126	(121)	(5)	-	-	(5)	5	-	-	-	121	(116)	(5)	-	-
Transfers to/from stage 2	(124)	130	(6)	-	-	1	(2)	1	-	-	(123)	128	(5)	-	-
Transfers to/from stage 3	(18)	(78)	96	-	-	-	2	(2)	-	-	(18)	(76)	94	-	-
Net remeasurement due to transfers	-	-	-	-	-	4	(4)	(11)	-	(11)	4	(4)	(11)	-	(11)
New lending	267	59	5	-	331	(3)	(6)	-	-	(9)	264	53	5	-	322
Repayments, additional drawdowns and interest accrued	(141)	(9)	(13)	-	(163)	-	-	-	-	-	(141)	(9)	(13)	-	(163)
Derecognitions	(239)	(87)	(18)	-	(344)	2	4	4	-	10	(237)	(83)	(14)	-	(334)
Changes to assumptions	-	-	-	-	-	(1)	8	(3)	-	4	(1)	8	(3)	-	4
Balance at 30 June 2021	3,986	800	186	-	4,972	(21)	(37)	(51)	-	(109)	3,965	764	134	-	4,863

7. Property, plant and equipment

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Right of use assets £'million	Total £'million
Cost							
1 January 2022	**18**	**280**	**341**	**24**	**1**	**295**	**959**
Additions	**-**	**-**	**1**	**-**	**-**	**-**	**1**
Write-offs	**-**	**(10)**	**-**	**(2)**	**-**	**-**	**(12)**
30 June 2022	**18**	**270**	**342**	**22**	**1**	**295**	**948**
Accumulated depreciation							
1 January 2022	**12**	**68**	**28**	**19**	**-**	**67**	**194**
Charge for the period	**-**	**6**	**3**	**1**	**-**	**7**	**17**
Write-offs	**-**	**(10)**	**-**	**(2)**	**-**	**-**	**(12)**
30 June 2022	**12**	**64**	**31**	**18**	**-**	**74**	**199**
Net book value at 30 June 2022	**6**	**206**	**311**	**4**	**1**	**221**	**749**
Cost							
1 July 2021	18	300	290	25	11	330	974
Additions	-	4	37	-	1	(4)	38
Disposals	-	-	-	-	-	(29)	(29)
Write-offs	-	(10)	-	(1)	(11)	(2)	(24)
Transfers	-	(14)	14	-	-	-	-
31 December 2021	18	280	341	24	1	295	959
Accumulated depreciation							
1 July 2021	13	72	23	18	8	54	188
Charge for the period	(1)	8	2	1	1	11	22
Impairments	-	-	-	-	-	6	6
Disposals	-	-	-	-	-	(4)	(4)
Write-offs	-	(9)	-	-	(9)	-	(18)
Transfers	-	(3)	3	-	-	-	-
31 December 2021	12	68	28	19	-	67	194
Net book value at 31 December 2021	6	212	313	5	1	228	765
Cost							
1 January 2021	18	292	298	25	11	330	974
Additions	-	8	(8)	-	-	-	-
30 June 2021	18	300	290	25	11	330	974
Accumulated depreciation							
1 January 2021	12	66	21	15	7	47	168
Charge for the period	1	6	2	3	1	7	20
30 June 2021	13	72	23	18	8	54	188
Net book value at 30 June 2021	5	228	267	7	3	276	786

8. Intangible assets

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2022	**10**	**2**	**336**	**348**
Additions	**-**	**-**	**12**	**12**
Write-offs	**-**	**-**	**(16)**	**(16)**
30 June 2022	**10**	**2**	**332**	**344**
Accumulated amortisation				
1 January 2022	**-**	**-**	**105**	**105**
Charge for the period	**-**	**-**	**20**	**20**
Write-offs	**-**	**-**	**(8)**	**(8)**
30 June 2022	**-**	**-**	**117**	**117**
Net book value at 30 June 2022	**10**	**2**	**215**	**227**
Cost				
1 July 2021	10	2	355	367
Additions	-	-	13	13
Write-offs	-	-	(32)	(32)
31 December 2021	10	2	336	348
Accumulated amortisation				
1 July 2021	-	-	114	114
Charge for the period	-	-	18	18
Impairment			(1)	(1)
Write-offs	-	-	(26)	(26)
31 December 2021	-	-	105	105
Net book value at 31 December 2021	10	2	231	243
Cost				
1 January 2021	10	2	328	340
Additions	-	-	26	26
Deferred grant (see note 10)	-	-	1	1
30 June 2021	10	2	355	367
Accumulated amortisation				
1 January 2021	-	-	86	86
Charge for the period	-	-	20	20
Impairment	-	-	8	8
30 June 2021	-	-	114	114
Net book value at 30 June 2021	10	2	241	253

9. Lease liabilities

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
At beginning of the period	**269**	310	327
Additions and modifications	**-**	(6)	-
Disposals	**-**	(29)	(11)
Lease payments made	**(13)**	(14)	(15)
Interest on lease liabilities	**8**	8	9
At the end of the period	**264**	269	310

10. Deferred grants

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
At beginning of the period	**19**	22	28
Released to the income statement	**-**	(3)	(7)
Offset against capital expenditure (see note 8)	**-**	-	1
At the end of the period	**19**	19	22

Our only deferred grant relates to amounts awarded in relation to the Capability and Innovation Fund which formed part of the RBS alternative remedies programme. The programme was aimed to increase competition in the UK business banking marketplace.

As part of the grant we are subject to delivering a number of public commitments. These commitments can be found on BCR's (the awarding body) website. As at 30 June 2022 we are currently on track with the delivery of these commitments.

11. Share capital

As at 30 June 2022 we had 172.4 million ordinary shares of 0.0001 pence (31 December 2021: 172.4 million, 30 June 2021: 172.4 million) in issue.

Called up ordinary share capital (issued and fully paid)

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
At beginning of the period	**-**	-	-
At end of the period	**-**	-	-

Share premium

	Half year to 30 June 2022 £'million	Half year to 31 December 2021 £'million	Half year to 30 June 2021 £'million
At beginning of the period	**1,964**	1,964	1,964
At end of the period	**1,964**	1,964	1,964

12. Earnings per share

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

	Half year to 30 June 2022	Half year to 31 December 2021	Half year to 30 June 2021
(Loss) attributable to ordinary equity holders (£'million)	**(61.7)**	(107.1)	(141.1)
Weighted average number of ordinary shares in issue (thousands)	**172,421**	172,421	172,420
Basic earnings per share (pence)	**(35.8)**	(62.1)	(81.8)

Diluted EPS has been calculated by dividing the loss attributable to our ordinary equity holders by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we were loss making during the six month periods to 30 June 2022 31 December 2021 and 30 June 2021, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS.

	Half year to 30 June 2022	Half year to 31 December 2021	Half year to 30 June 2021
(Loss)/profit attributable to ordinary equity holders (£'million)	**(61.7)**	(107.1)	(141.1)
Weighted average number of ordinary shares in issue (thousands)	**172,421**	172,421	172,420
Diluted earnings per share (pence)	**(35.8)**	(62.1)	(81.8)

13. Fair value of financial instruments

	Carrying value £'million	**Quoted market price Level 1 £'million**	**Using observable inputs Level 2 £'million**	**With significant unobservable inputs Level 3 £'million**	**Total fair value £'million**
30 June 2022					
Assets					
Loan and advances to customers	**12,364**	**-**	**-**	**12,498**	**12,498**
Investment securities held at FVOCI	**781**	**743**	**38**	**-**	**781**
Investment securities held at amortised cost	**5,393**	**3,685**	**1,482**	**53**	**5,220**
Financial assets held at FVTPL	**2**	**-**	**-**	**2**	**2**
Liabilities					
Deposits from customers	**16,514**	**-**	**-**	**16,377**	**16,377**
Deposits from central banks	**3,800**	**-**	**-**	**3,800**	**3,800**
Debt securities	**577**	**447**	**-**	**-**	**447**
Derivative financial liabilities	**8**	**-**	**-**	**8**	**8**
Repurchase agreements	**166**	**-**	**-**	**166**	**166**

31 December 2021					
Assets					
Loan and advances to customers	12,290	-	-	12,356	12,356
Investment securities held at FVOCI	798	760	38	-	798
Investment securities held at amortised cost	4,776	2,977	1,710	60	4,747
Financial assets held at FVTPL	3	-	-	3	3
Liabilities					
Deposits from customers	16,448	-	-	16,452	16,452
Deposits from central banks	3,800	-	-	3,800	3,800
Debt securities	588	495	-	-	495
Derivative financial liabilities	10	-	10	-	10
Repurchase agreements	169	-	-	169	169

13. Fair value of financial instruments (continued)

	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
30 June 2021					
Assets					
Loan and advances to customers	12,325	-	-	12,287	12,287
Investment securities held at FVOCI	1,198	1,198	-	-	1,198
Investment securities held at amortised cost	3,165	1,480	1,632	64	3,176
Financial assets held at FVTPL	5	-	-	5	5
Liabilities					
Deposits from customers	16,620	-	-	16,663	16,663
Deposits from central banks	3,800	-	-	3,800	3,800
Debt securities	596	503	-	-	503
Derivative financial liabilities	8	-	-	8	8
Repurchase agreements	212	-	-	212	212

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 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 at fair value through profit and loss relate to the loans and advances previously assumed by the RateSetter provision fund. Following the purchase of the RateSetter back book from peer-to-peer investors in April 2021 the provision fund ceased to have liability for further claims which resulted in a net release of £18 million of assets and liabilities held at fair value through profit and loss.

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.

14. Legal proceedings and regulatory matters

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

The only contingent liability which we have, which could potentially have a material impact, is the FCA's enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA on these matters and their enquiries remain at a relatively early stage.

The inclusion of these enquiries does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain and based on the facts currently known, it is not possible to predict the outcome or reliably estimate any financial impact. As such, at the reporting date no provision has been made within the financial statements.

15. Post balance sheet events

There have been no material post balance sheet events.

END OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

RECONCILIATION OF STATUTORY TO UNDERLYING RESULTS (UNAUDITED)

Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business. Details of the item that are considered to be non-underlying and their reasons for exclusion can be found on page 225 of our 2021 Annual Report and Accounts.

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

Half year to 30 June 2022	Statutory basis £'million	Impairment and write offs of PPE and intangible assets £'million	Net BCR costs £'million	Transformation costs £'million	Remediation costs £'million	Underlying basis £'million
Interest income	**239.7**	-	-	-	-	**239.7**
Interest expense	**(58.9)**	-	0.1	-	-	**(58.8)**
Net interest income	**180.8**	-	0.1	-	-	**180.9**
Net fee and commission income	**39.5**	-	-	-	-	**39.5**
Net gains on sale of assets	**-**	-	-	-	-	**-**
Other income	**16.2**	-	(0.4)	-	-	**15.8**
Total income	**236.5**	-	(0.3)	-	-	**236.2**
General operating expenses	**(233.2)**	-	0.3	1.0	3.0	**(228.9)**
Depreciation and amortisation	**(37.4)**	-	-	-	-	**(37.4)**
Impairment and write offs of property, plant & equipment and intangible assets	**(8.2)**	8.2	-	-	-	**-**
Total operating expenses	**(278.8)**	8.2	0.3	1.0	3.0	**(266.3)**
Expected credit loss expense	**(17.9)**					**(17.9)**
Loss before tax	**(60.2)**	8.2	-	1.0	3.0	**(48.0)**

Details of our other alternative performance measures including the methodology used to calculating them can be found on page 224 of our 2021 Annual Report and Accounts.