Annual Report and Accounts 2023

Building resilience

Whilst 2023 has had its challenges, we have successfully undertaken the ground work necessary to ensure we have a strong platform for sustainable profitability in the years ahead. This has seen us establish our new holding company, execute a £925 million capital package and take the first steps in delivering a disciplined cost reduction programme.

Focused on growth

We remain focused on the opportunities for future growth and ensuring we fulfil our ambition to be the number one community bank. We will achieve this by continuing to deliver on our strategy through which we aim to create value for all our stakeholders.

Read more in the Chief Executive Officer's statement on page 8

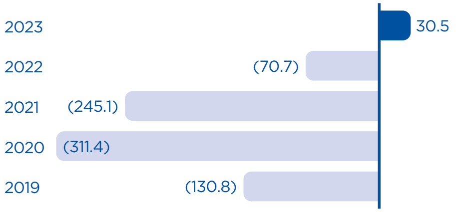
The actions we have taken provide us with the platform to create sustainable growth.

Daniel Frumkin
Chief Executive Officer

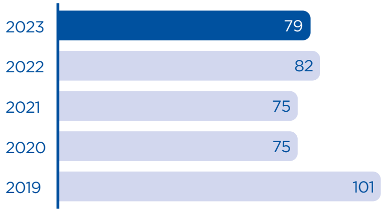
Summary of the year

2023 has been a year of two halves: whilst the first six months saw us return to profitability on both a statutory and underlying basis, our results in the second six months were impacted by speculation surrounding our capital options, contributing to the need to raise capital.

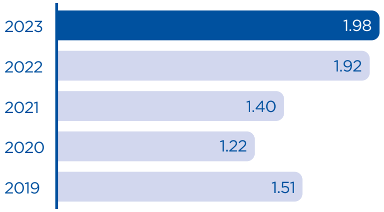
Statutory profit/(loss) before tax
(£m)



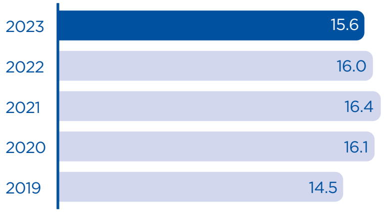
Loan to deposit ratio
(%)



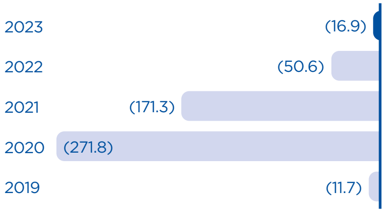
Net interest margin
(%)



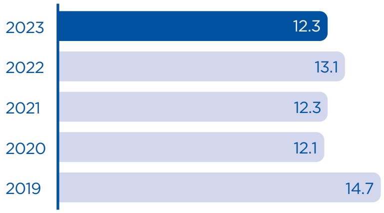
Deposits
(£bn)



Underlying loss before tax
(£m)



Loans and advances
(£bn)



1. Competition and Markets Authority (CMA) survey carried out in Great Britain by Ipsos and BVA-BDRC between January 2023 and December 2023 – Services in branches. Results at ipsos.com and bva-bdrc.com
2. Newsweek survey carried out in the United Kingdom. Results at newsweek.com

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

Our approach
Our approach is centred on our colleagues, customers and communities. This allows us to deliver our ambition to be the number one community bank and create FANS. Our community-centric model and focus on our localness informs everything we do and the decisions we make.

#1
In-store service for personal and business customers[1]

Top 10
Most loved UK workplaces[2]

3m
Customer accounts

Our purpose and strategy framework

Our ambition is to be the number one community bank

Despite the challenges faced in 2023, our ambition remains the same: to be the number one community bank. Community banking means being embedded in the local communities we serve and prioritising local decision-making. It also means we provide simple and straightforward business, commercial and retail banking services that meet the needs of our customers in the area.

It's achieved through our **purpose**

Our purpose is **to create FANS.**

FANS are customers created through delivering exceptional customer service, who then champion us through actively recommending us to friends and family.

This simple purpose guides everything we do as it places the customer at the heart of all of our decision-making.

Strengthened by our **AMAZEING behaviours**

Our **AMAZEING** behaviours strengthen everything we do and are ingrained throughout our organisation helping us drive our customer centric-approach.

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

Read more about our people and culture on page 22

Our purpose and strategy framework
Continued

Delivered via our **business model**

Our business model is how we generate stakeholder value. It involves combining stores and digital channels with exceptional customer service to generate sustainable long-term value and tangible book growth.

Integrated model
Our model combines delivery through physical and digital channels.

Unique culture
Our colleagues deliver superior service and are the heart of our people-people banking approach.

Service-led core deposits
We seek to attract core deposits through our service-led relationship banking model with specific emphasis on our core retail and SME franchise.

Risk-adjusted returns
We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.

Read more about our business model on page 11

Supported by our **strategic priorities**

Our strategic priorities are what we focus on on a day-to-day basis that are crucial to developing our long-term success.

Revenue
Create FANS to deliver strong growth.

Balance sheet optimisation
Continued focus on risk-adjusted returns.

Cost
Cost discipline to support profitable growth and reinvestment.

Infrastructure
Protect value through safe, scalable infrastructure.

Communications
Engage colleagues, communities and other stakeholders to tell our story.

Read more about our strategy on page 12

Measured by our **key performance indicators**

Our key performance indicators (KPIs) are the metrics we monitor to check we are on track with the delivery of our strategy as well as to assess how our business model is performing. These consist of:

- Customer accounts.
- Colleague engagement.
- Customer satisfaction.
- Senior leadership diversity.
- Statutory profit/(loss).
- Underlying profit/(loss).
- Total capital plus MREL.
- Cost of deposits.
- Cost of risk.
- Statutory cost:income ratio.
- Return on tangible equity.
- Loan-to-deposit ratio.
- Total shareholder return.

Read more about our KPIs on page 14

Aligned with **performance based remuneration**

Our approach to remuneration for management is based on a simple and clear scorecard in addition to a Long Term Incentive Plan (LTIP). Scorecard measures are aligned to the four components of our business model with the LTIP based upon the successful generation of sustainable long-term value and tangible book growth.

Read more about our remuneration on page 86

Chair's statement

In a world of continued uncertainty we remain focused on delivering value for all of our stakeholders. We aim to achieve this through the continued execution of our strategy and an unrelenting focus on our ambition to be the number one community bank.

Dear stakeholder

I am pleased to introduce the first annual report of Metro Bank Holdings PLC, following the successful insertion of our new holding company in May 2023. Whilst our name might have changed, our ambition to be the number one community bank has not, and 2023 has been another key year in moving towards this.

As I reflect upon both the progress and challenges we have overcome during the past year, I do so with immense gratitude. The continued trust shown to us by you, our shareholders, bondholders, customers and colleagues reinforces mine and the Board's determination to see Metro Bank thrive and succeed. I want to take this opportunity to express my deepest thanks to you all.

Capital raise

The announcement in October of our £925 million capital package (comprising £150 million of new equity, £175 million of new MREL-eligible debt and £600 million of debt refinancing) was a defining moment. The Board was fully engaged in this process and active in both supporting and challenging the executive team to set this important foundation for the future. The shareholder vote of over 90% in favour of this was a demonstration of the support shareholders have for the business and the importance of strengthening our capital position.

Whilst we acknowledge that many shareholders were unable to participate in the capital raise, we believe that the package represented the best possible outcome for all stakeholders and will allow us to move forward with strengthened financial resources and renewed sense of purpose.

As part of the capital package, Jaime Gilinski Bacal – a long-time investor, became our majority shareholder through his company, Spaldy Investment Limited. Spaldy Investments Limited is entitled to appoint up to three shareholder appointed Non-Executive Directors to the Board. Dorita Gilinski, who has been a shareholder-appointed Non-Executive Director since September 2022 will continue as one of the three roles. The Board continues to be made up of a majority of independent Non-Executive Directors and together the Board remains committed to fulfilling its duty to act on behalf of all shareholders and wider stakeholders.

Results

The first six months of 2023 saw us return to profitability on both a statutory and underlying basis, a culmination of all the hard work delivered by Dan and the team over the past few years. The second six months of 2023, however, precipitated the conditions that required us to raise capital.

> **As I reflect upon both the progress and challenges we have overcome during the past year, I do so with immense gratitude.**
>
> **Robert Sharpe**
> Chair

Chair's statement
Continued

The increase in capital requirements in July through the increase in the counter cyclical capital buffer, alongside the news that we should not expect to receive AIRB approval in 2023 placed incremental pressure on our capital position. The Board has been continuously considering capital options, and these factors, along with the need to refinance our existing MREL debt before October 2024, meant that the window for raising capital from the market was scheduled for the fourth quarter of 2023. At the start of October, several speculative media reports contributed to uncertainty around the capital negotiations and an increased outflow of customer deposits. Our strong levels of liquidity and prudent approach meant these outflows were manageable and, indeed, as at 31 December 2023 we had returned to broadly the same deposit levels as we reported for the third quarter, with strong liquidity and funding regulatory ratios.

Since the capital package announcement, and financial completion, we have seen core deposit flows stabilise, supplemented through a combination of repricing and new deposit initiatives. The higher cost of this funding combined with the higher interest rate payable on our new and refinanced debt have acted as a drag on underlying profitability in the fourth quarter.

Crucially, the delivery of the capital package in November has seen us restore our regulatory capital ratios, ending the year with total capital plus MREL of 22.0% (31 December 2022: 17.7%) providing both certainty to stakeholders and a platform for future growth.

Responding to an evolving landscape

In November, the Board approved a cost saving plan to ensure the organisation is right-sized going forward. The programme included reducing our store hours, leading to 1,000 colleagues across stores and the wider business being made redundant. Alongside the cost savings, plans include making additional investments in areas including automation of services, improving our productivity and responding to customer trends.

The Board remains fully engaged in helping drive our strategy and supporting the executive team in its execution. In doing so, we remain mindful of the need to appropriately balance the interests and expectations of all our stakeholders.

Governance

During the year we appointed Clare Gilligan as our new Company Secretary. Clare joins us from Bank of Ireland (UK) plc where she was Company Secretary, bringing with her a wealth of expertise. Her appointment helps to ensure that our governance framework remains of the highest standard.

At the end of the year Anne Grim, Monique Melis and Ian Henderson stepped down from the Board. On 11 January, we announced that James Hopkinson, Chief Financial Officer, would step down as Executive Director and would leave the business during the first quarter of 2024 after a period of handover. I would like to thank all of them for their contribution.

The Board appointed Cristina Alba Ochoa to act as interim Chief Financial Officer, effective 15 January 2024.

On 29 February 2024, we announced the appointment of Marc Page as the permanent Chief Financial Officer and member of the Board from September 2024 (subject to regulatory approval). Marc will join us from Barclays where he was Chief Financial Officer of Kensington Mortgages since its acquisition by Barclays in 2023. He will bring with him a wealth of knowledge and experience across retail banking strategy, distribution and product management.

Whilst we will be a leaner organisation going forward, including at Board level, this is not at the expense of having the right level of skills within the organisation.

Outlook

The road ahead is not without uncertainty. We continue to see political and economic turbulence with a general election likely in 2024 set against the backdrop of cost-of-living pressures and a subdued economy.

Alongside these external challenges, we also face Bank-specific headwinds. This includes entering 2024 with elevated funding costs, which act as a drag on near-term profitability.

Despite these challenges, I remain confident in our ability to be the number one community bank. Metro Bank's resilience and ability to navigate obstacles as well as seize new opportunities is one of its great strengths and will drive our success in the coming year. We will continue to champion customer service and traditional banking values of trust, honesty and integrity, delivering excellence in our products and services and nurturing the relationships we hold dear.

Robert Sharpe
Chair
16 April 2024

Where to find out more

How governance is supporting our transformation

Stakeholder impact

We focus on the impact on our stakeholders of all the decisions we make and ensuring we are delivering the right outcomes to them is fundamental to delivering our ambition to be the number one community bank.

Read more in our Stakeholder Engagement on pages 59 to 61 and in our Section 172 Statement on page 34.

Stakeholder engagement

We were pleased to get support of over 90% for all our resolutions in relation to the capital package in November.

We look forward to further shareholder engagement throughout 2024 including at our AGM which will take place on 21 May 2024.

Read more in the Chair's governance letter on pages 52 to 53 and in our Section 172 Statement on page 34.

Operating environment

The environment we operate in is both competitive and rapidly changing. This presents us with challenges but also creates exciting opportunities for us as we grow.

Economic and political outlook

How we see it

Whilst 2023 has been a turbulent year with continued global uncertainty, the UK economy has been remarkably resilient, despite entering a technical recession in the final two quarters of the year. Inflation has fallen back from recent highs although remains in excess of the Bank of England's long-term target of 2%. Part of this softening has been as a result of continued increases in base rates which were increased from 3.50% to 5.25% over the course of the year. Whilst the outlook is that rates have peaked, the increases seen in 2023 will continue to impact customers in the years ahead as they roll-off lower-cost fixed-rate borrowing. Although this has resulted in an increase in arrears, this has come off a low base.

We have started to see signs of the job market softening, with lower levels of hiring activities and the prospect of potential rises in unemployment in 2024, adding to an uncertain economic outlook.

How we are responding

We see the current levels of uncertainty remaining elevated through 2024 due to continuing global conflict and key elections in both the UK and USA, as well as a subdued economic outlook.

We continue to take a prudent approach to expected credit loss (ECL) provisioning and believe this reflects the current uncertainties, including those related to slower economic growth and increased unemployment.

At the end of 2023 we took the decision to move away from unsecured lending given the return on capital it is providing in the current economic climate.

Competition

How we see it

The UK banking market remains highly competitive in respect of both deposits and lending.

For core current accounts, digital-only operators are achieving high levels of customer satisfaction whilst incumbent players continue to deploy switching offers and heavy marketing campaigns to maintain market share. At the same time, average current account balances are reducing industry-wide as customers repay debt, deploy excess deposits into higher rate savings and weather the increased cost of living.

In the lending market, larger incumbent players continue to competitively price mortgages with mortgage rates ending 2023 at below 4%, compared to the base rate of 5.25%. Equally, specialist lenders continue to make inroads into non-relationship driven segments, often delivered via intermediaries or aggregators.

We have also started to see the early signs of consolidation within the industry, which is likely to see market share concentrated further between larger incumbents.

How we are responding

We are continuing to invest in our deposit proposition to ensure we remain competitive and gain market share. Whilst we saw a reduction in average current account balances, both due to wider-market forces and the speculation around our capital raise, we continue to grow account numbers and deepen customer relationships.

In the lending space we are focusing our attention on targeting more specialist segments of the market. This is in part due to the setback in our AIRB ambitions, which we announced in September. Being a non-AIRB approved lender makes it hard to compete in the prime 'vanilla' segment of the market in respect of both volume and price due to the structural disadvantages in the capital treatment of residential mortgages compared to larger AIRB-approved competitors.

Customer behaviour

How we see it

Customer behaviour in 2023 has been marked by the higher rate environment and cost-of-living pressures. This has seen customers move their money to savings accounts to maximise interest as well as becoming increasingly willing to switch providers. The higher savings rates have also seen customers making greater use of ISAs as a tax shield, particularly amongst savers with high balances where interest payments exceed the personal savings allowance.

We are also continuing to witness the acceleration of digitisation with customers continuing to prefer digital-first channels. This rise in use of new technology also gives rise to increasingly sophisticated fraud.

How we are responding

We have increased our investment in our deposit gathering channels including building out our ISA proposition ready for the 2024 season. We were able to deploy some of these deposit gathering tools in the fourth quarter where we were able to quickly attract new deposits to replace balances lost in response to the speculation surrounding our capital raise.

We expect the current digitisation trend to continue and we will carry on making disciplined investment choices in this area.

We remain committed to stores and maintaining a fully integrated offering, although have reduced hours in response to changing customer needs.

Operating environment
Continued

Regulatory environment

How we see it
The UK regulatory environment has undergone significant changes in recent years and continues to evolve, with multiple changes on the horizon from key regulatory bodies.

Regulatory authorities including the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) have introduced reforms aimed at enhancing financial stability, consumer protection and market integrity.

Key regulatory initiatives have included the new Consumer Duty requirement and Basel 3.1, which sees changes to the industry's capital requirements.

We are also continuing to see regulators take a firm approach to misconduct and ensuring fair outcomes for customers. An example of this is the FCA's review into historical motor finance commission arrangements, the cost of which to lenders could be significant.

How we are responding
We continue to deliver a range of comprehensive projects to ensure we remain compliant with changes to the regulatory environment. During the year, we have made good progress on the implementation of our Consumer Duty requirements and continue to prepare for the introduction of Basel 3.1.

We retain proactive engagement with our regulators, industry bodies and other stakeholders to help shape the regulatory agenda, provide feedback on proposed reforms and continue to advocate for proportionate and pragmatic regulations that support both innovation and growth, whilst protecting the integrity of the financial system.

The current FCA investigation into motor finance shows the continued focus of regulators on ensuring customers are treated fairly. As a community bank we support the regulator to achieve this outcome for customers.

Capital and funding regime

How we see it
The UK's stringent approach to capital management continues to shape the banking industry. This is particularly true for new and mid-sized challengers like ourselves who remain subject to MREL requirements but unable to take advantage of the structural advantages of larger players who are able to benefit from their Advanced Internal Ratings Based (AIRB) status for determining risk-weightings. This makes providing the required return on capital challenging, particularly in mainstream lending, which would benefit from additional competition.

With respect to funding, the Bank of England's continued planned withdrawal of TFSME (combined with additional quantitative tightening) will put additional pressure on banks' funding requirements, with firms needing to either shrink balance sheets or increase their deposits to replace this form of funding. Equally, given the high-profile international bank failures in 2023, we see liquidity remaining a core focus for banks going into 2024, with firms likely to continue to hold excess liquidity over minimum requirements.

How we are responding
The capital raise during the year saw us restore all our capital ratios to above minima including CRD4 buffers.

The cost of capital remains high, both industry-wide and for ourselves in particular. We are therefore continuing to ensure we optimise our return on regulatory capital when determining our product and pricing strategy. Equally, we are working to ensure we are right-sizing our cost base to aid in the delivery of sustainable organic capital generation.

We retain high levels of liquidity with a liquidity coverage ratio (LCR) as at 31 December of 332% (compared to the minimum requirement of 100%), and were able to weather deposit outflows in response to press speculation in October 2023. Our strong levels of liquidity have also allowed us to repay £550 million of TFSME drawings early.

Focus on sustainability

How we see it
2023 was the hottest year on record globally and we are continuing to see the impacts of climate change both around the world and in the UK.

As awareness of environmental and social issues continues to grow, stakeholders are increasingly scrutinising companies' responses to these sustainability challenges. In particular, customers are continuing to have increased expectations of companies they interact with to deliver for the environment and wider society.

As well as our own decisions around sustainability, we recognise the role we play in broader society, primarily through the decisions over who and what we choose to finance. We see that the financial system has a central role in acting as a catalyst for change in broader society and as such can play an outsized role in contributing to the transition to a more sustainable and resilient economy.

How we are responding
We recognise the interconnectedness between sustainable business practices and long-term financial performance and as a result continue to integrate sustainability into all of our core operations and decision-making processes.

We continue to deliver our plan to achieve our 2030 net zero carbon emissions goal. In achieving this we remain committed to being transparent in respect of our reporting of progress to deliver this.

As a community bank we also recognise the importance of giving back to society and this will continue to be achieved through a range of initiatives which utilise our physical and digital channels.

Our corporate governance structure ensures that sustainability remains a key focus as part our ambition to be the number one community bank.

Chief Executive Officer's statement

With 3.0 million customer accounts covering retail, SME and commercial, a national network of stores and our continued digital investments we remain the UK's leading full-service mid-sized bank.

The start of the year began with continued momentum from 2022, which saw us return to profit on both a statutory and underlying basis and deliver our best set of results for several years in the first half. For the full year, we recognised an underlying loss before tax of £16.9 million for 2023 (2022: loss of £50.6 million), impacted in part by deposit pricing actions taken in the second half of the year. On a statutory basis, we delivered a profit before tax of £30.5 million (2022: loss of £70.7 million), largely as the result of a one-off gain from the capital restructure completed in November.

2023 saw the continued execution of our strategic priorities with tangible progress made across all areas. We enter 2024 with an improved and longer-dated capital position, and continue to take a disciplined approach to cost saving and have commenced further activities to achieve the savings outlined, all of which will set us up to continue on our path to sustainable profitability, and deliver on our ambition to be the number one community bank.

Capital package

Going into the year we were always clear about our need both to access the capital markets comfortably ahead of the call date for our MREL in October 2024 and to deliver profitability as a prerequisite. The increased capital requirements in July, combined with the setback in September to our ambition to achieve AIRB accreditation for residential mortgages, put pressure on our capital position, impacting the levels to which we were able to grow capital organically. Speculative media reporting contributed to our decision to accelerate and address our capital position in the fourth quarter.

The ability to secure the £925 million capital package demonstrates our investors' faith in us and in our customer service-centric model. We believe that this capital support provides certainty for us going forward.

Strategic delivery

Throughout the year, our customers have remained supportive and our promise to provide better service and to support the communities in which we operate continues to resonate. Progress has been achieved in the automation of back-office processes and investment in core infrastructure aimed at ensuring the stability and security of systems. Alongside this we have seen the launch of new products including enhanced commercial overdrafts and business credit cards. Whilst we see near-term pressure on profitability resulting from the increased cost of deposits gathered in the final quarter of the year, we are optimistic that the good work put in throughout 2023 continues to set us up well for the future.

> **We remain committed to increasing market share as we support more customers and communities.**
>
> **Daniel Frumkin**
> Chief Executive Officer

Revenue
Revenue during the year benefitted from increases in base rates and the continued growth in customer accounts, with total underlying income increasing 5% to £546.5 million (2022: £522.1 million).

Like most banks, a large proportion of our lending is fixed rate and therefore, despite base rates having stabilised, we are continuing to see the benefits as older loans mature into a higher rate environment. We will see further upside in 2024, 2025 and 2026 as loans and fixed rate treasury investments continue to reprice. Offsetting this, the weakened outlook for base rates and the competitive nature of the lending market will likely compress front-book loan pricing through 2024.

We also saw the increase in base rates flow through to deposit pricing, particularly as competition in the savings market continued to increase. As cost-of-living pressures continue, which is leading to customers utilising current account balances, and industry-wide drawings under TFSME mature, we envisage these pressures continuing through 2024 and for the medium term. To aid this, we have been investing in our deposit capabilities, including preparing for the ISA season in 2024 through improvements to our ISA switching capabilities. We have also started to provide savings accounts on deposit aggregator sites and are launching a new 'boost' proposition for savings accounts. While these deposits are more expensive than our core current account deposits, they are priced to be net interest income accretive, enable more lending and help to support our strong liquidity position.

Following the announcement of the successful completion of the capital package in November, we launched a deposit campaign to replace the deposits we lost in October resulting from speculative media reports. As a result, our deposits ended the year at £15.6 billion, up 1% from the level reported in our interim results. This campaign and the prevailing higher rate environment, saw cost of deposits in the second half of the year increase to 1.29%, up from 0.66% in the first half.

Our priority remains growing the number, depth and quality of our deposit relationships and we remain committed to supporting more customers and communities.

Costs
We continue to take a disciplined approach to costs, with underlying costs slightly down year on year, despite the continued high inflationary environment. The executive team has worked hard to improve processes helping manage costs. Our processes are still not as efficient or as automated as we would want which gives us the opportunity to identify and deliver further cost savings going forward. As committed at the time of the capital package, we are on track to deliver up to £50 million in annualised cost savings. As part of this approach, we took the decision to reduce our store hours, to focus on the times when customers need us most, and introduced changes to our organisational structure resulting in a reduction of roles. As a people-focused organisation, it is always incredibly difficult to let good colleagues go. I want to thank all of them for their hard work and dedication to Metro Bank. Whilst this was a very tough decision, it was ultimately necessary and is a key step in helping support our long-term sustainability. The exits agreed result in £43 million of annual savings and we remain confident in exceeding £50 million in total annual cost savings in 2024.

We will continue to explore options to further right-size our cost base in the months ahead, as we look to secure a sustainably profitable future for the bank. Part of this will include continuing to review our options around stores and our real estate which remain one of the largest components of our fixed cost base.

Infrastructure
Whilst we have reduced our operating hours, we remain committed to stores, which remain central to our proposition. During the year, we acquired a freehold site in Chester which will be our next new location. We continue to focus on building a pipeline to deliver our growth in the years ahead and have placed a greater focus on securing locations with a strong SME presence. Further store openings in the north of England will predominantly focus on out-of-town locations with parking which are easier for businesses to access and can serve larger populations.

Although a physical presence remains core to our offering, our priority will be to continue to digitalise to ensure we remain both competitive against larger high-street peers and new digital entrants. A particular area of focus will continue to be on enhancing our self-service features as well as building out our SME offering where we feel we are continuing to win market share in an area which remains underserved by the market.

During the year we worked to transform our mortgage origination platform, which has streamlined the process for both mortgage intermediaries and customers. As mortgages will continue to be the largest component of our lending portfolio we envisage that this investment will yield improvements in productivity and allow us to launch a greater range of products.

Where to find out more

How we are planning on delivering

Our financial approach
Our results for the year reflect the challenges faced in the final quarter of the year. Ensuring we are on a path to sustainable profitability remains the highest priority for the ExCo.

Read more in our financial review on pages 16 to 19

Our approach to sustainability
As a community bank we recognise the important role we play in delivering the sustainability agenda. Key to this is ensuring the decisions we take are right for our customers, communities, colleagues, suppliers and the environment.

Read more in our environmental, social and governance review on pages 20 to 33

Our approach to managing risk
Maintaining an effective approach to risk management underpins and strengthens our ability to deliver, ensuring decisions made are managed within acceptable limits.

Read more in our risk report on pages 124 to 157

Chief Executive Officer's statement
Continued

In May, we completed the implementation of our holding company marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework.

Balance sheet optimisation
Over the course of 2023, the management team actively constrained lending to around replacement levels in an effort to build capital organically. Following the capital raise it is now more important than ever that we continue to optimise our balance sheet and utilise our capital stack most efficiently to get the best possible sustainable returns for all stakeholders.

The return to a more normalised interest rate environment has led us to shift our focus away from unsecured lending back towards commercial, whilst mortgages will remain the largest component of our balance sheet. With the feedback from the PRA that we would not receive AIRB approval in 2023, our focus is to participate in niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage. This will likely mean that we seek to compete less for vanilla mortgages where AIRB-approved competitors benefit from a materially lower RWA weightage than either standardised weightages or those expected under the Basel 3.1 regulations. The pivot to commercial and specialist lending will drive higher risk adjusted returns but will also increase risk density. In order to meet customer demand and improve profitability, we will manage the balance sheet to optimise returns, which may include (but not limited to) periodically utilising capital buffers or electing to access capital markets to support growth.

Communication
Our focus on delivering excellent customer service is reflected in the latest Independent Competition and Markets Authority (CMA) survey where we retained the number one spot for in-store service for personal and business customers. 2023 also saw us implement Consumer Duty and sign up to the Government's Mortgage Charter supporting our commitment to customers, especially as many dealt with the effects of increases in the cost of living.

Whilst we have reduced our store opening hours in 2024, we remain committed to maintaining a physical presence and ensuring that stores remain both accessible and at the heart of local communities. In 2023, we rolled out our British Sign Language service which customers can now access in any of our stores, on the phone, in app or online. Fifty-two of our stores are also now designated as Safe Spaces – places where those suffering domestic abuse can go to safely start the process of rebuilding their lives.

Our community bank ethos also saw us deliver our financial education programme Money Zone in record numbers. The programme has now been delivered to 2,800 schools and 250,000 children, which in 2023 included delivering to 1,100 children in just one day at the Hertfordshire Agricultural Society Food and Farming Day. We have also introduced bespoke programmes for our armed forces' communities as well as for teenagers aged 16 to 18.

Alongside Money Zone, we support our communities through a wider range of initiatives. We have dedicated over 5,600 hours to local causes ranging from litter picks to sponsored walks, as well as celebrating large scale community events, notably Pride in London, Birmingham and Cardiff.

We are determined that the right-sizing of our workforce will not impede our ability to be a great place to work or a great place to bank. We will continue to foster an environment where colleagues can grow their careers and thrive. I was particularly pleased that during the year we were voted as a top 10 place to work in the UK and our annual Voice of the Colleague survey, conducted in October, saw some of the best results in our history as well as being significantly higher than the global benchmark.

We continue to focus on our culture of promoting from within, with over 40% of the positions in the first half of the year filled by colleagues being promoted or moving around the business. For the remaining hires, we have amplified our community focus when recruiting talent, increased opportunities available for apprentices from disadvantaged backgrounds, run a series of roadshows for professional returners trying to get back into the workplace and engaged with later in career populations to support our diverse workforce.

In May, we launched a five-year partnership with the England and Wales Cricket Board, later jointly pledging to treble the number of girls' cricket teams to support the development of women's and girls' cricket both at a national and community level, with the aim of delivering a lasting legacy for female representation in the sport. The partnership includes the sponsorship of key sporting events including the Women's Ashes where we are the title partner.

Looking ahead
2023 has been a varied year for performance with the continued strong momentum towards achieving underlying profitability in the first half of the year and our successful capital raise being key highlights. These have been offset by continued external headwinds combined with the need to make difficult decisions in the last quarter of the year. Some of these decisions, including our higher cost of deposits will continue to impact earnings potential into 2024, whilst we will not fully benefit from the effects of loan and investment repricing until 2026, therefore acting as a drag on our near-term results. Despite this, I remain confident that the work we have undertaken has allowed us to build the foundations of a structurally profitable bank – which is fundamentally different from where we were four years ago.

I remain grateful for the continued support of all our colleagues, customers, debt holders and shareholders as well as wider stakeholders.

Daniel Frumkin
Chief Executive Officer
16 April 2024

Business model

Our business model is simple. By delivering great customer service we can attract and grow a sustainable deposit base, allowing us to lend money to help individuals and businesses fund their ambitions.

is underpinned by...

Environmental and social priorities
We ensure that our business model and approach is focused on the areas that matter most to our stakeholders.

Read more on pages 20 to 43

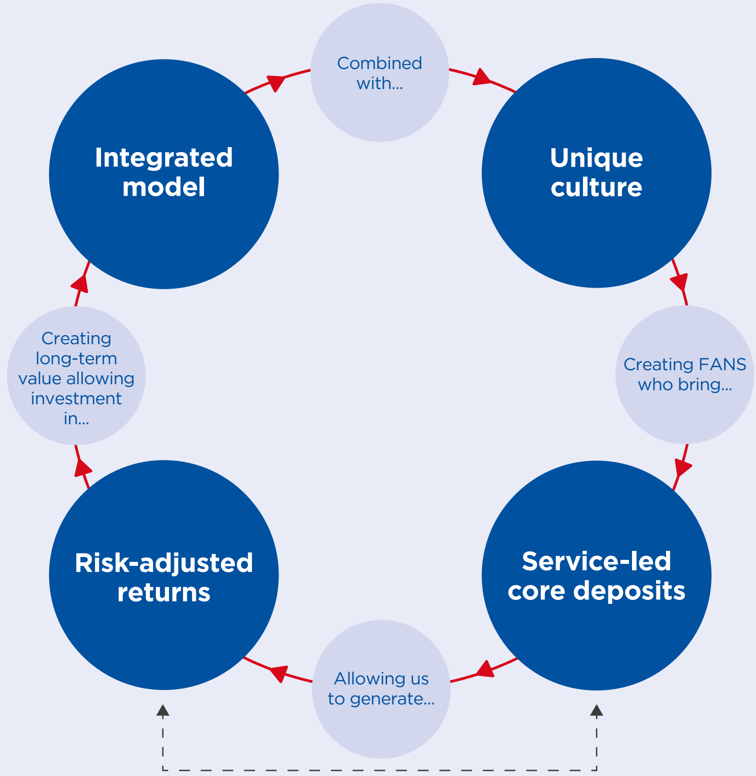
Risk management
We continue to focus on enhancing our control environment and risk capabilities, ensuring we balance the risks that need to be taken to deliver our strategy against ensuring this is done in a managed and appropriate manner.

Read more on pages 124 to 157

Governance
We are continually improving our approach to governance. Ensuring we maintain a robust governance framework is important in allowing all stakeholders to have confidence that we are making decisions in the right way.

Read more on pages 51 to 123

Our model



How we make money
We make money through the difference we charge on the loans we issue and the deposits we take, less our operating costs and changes in ECL.

Read more on pages 16 to 19

delivers value for...

Customers
Without the loyalty of our customers we would not exist. Ensuring we are turning our customers into FANS ensures the enduring success of our business.

Colleagues
We strive to make Metro Bank a great place to work; where colleagues can excel, grow and be themselves.

Investors
We are committed to ensuring that we can be an attractive investment for equity and bondholders. We never take our investors for granted and are working hard to build and maintain trust.

Regulators
We continue to play our part in ensuring a safe and stable financial system.

Suppliers
Building a trusted supplier base is key to delivering our ambitions. We want to ensure that as we grow they share in our success.

Communities
To be the number one community bank we have to be at the heart of the neighbourhoods we serve, delivering societal value day-in day-out.

Read more on pages 59 to 61

Business model
Continued

	Progress in 2023	Operating environment	Priorities	Risks	KPIs
Integrated model Our integrated model aims to combine delivery through physical and digital channels.	We continue to deliver stand-out service through our stores and digital presence. Our focus on our SME offering has seen us launch a new commercial overdraft and business credit card which includes straight through processing and automated decision-making. During the year we transformed our mortgage origination platform, streamlining the process for both mortgage intermediaries and customers. As mortgages will continue to be the largest component of our lending we envisage that this investment will yield improvements in productivity, allowing us to launch a greater range of products.	**Competition** The UK banking market continues to be very competitive with high levels of innovation. To remain competitive we need to continue to invest in all of our channels to ensure they meet our customers' needs. **Consumer behaviour** Customers are continuing to place a strong reliance on in-person service, although the move to digital continues. **Focus on sustainability** We continue to see strong pressure from all of our key stakeholders to ensure all of our operations are sustainable.	We will explore options to further right-size our cost base in the months ahead. While we remain committed to serving customers through stores, we will look to optimise how this best works for our customers and for our business. This is expected to be through focusing on opening smaller sites in strategic locations in the north of England, and through reassessing our store opening hours, based on how and when our customers use our services. Although a physical presence remains core to our offering, our focus will be to digitalise to ensure we remain competitive against both larger high-street peers and new digital-first or digital-only entrants.	Our principal risks in respect of delivering our integrated model are: • Conduct risk. • Operational risk. • Strategic risk. We continue to enhance our processes and systems to minimise the risk of operational issues, and to continue delivering on our strategy.	**Number of accounts** (m) 2023: 3.0 2022: 2.7 **Customer satisfaction** New to bank 2023: 76 2022: 85 Existing 2023: 36 2022: 33
Unique culture Our colleagues deliver superior service and are at the heart of our people-people banking approach.	We pride ourselves on being a bank that puts our colleagues at the heart of what we do. 2023 has been an incredibly difficult year with changes to our organisational structure resulting in the reduction of 1,000 roles in early 2024. Despite this, we continue to be focused on being an employer of choice. In 2023 we were awarded the Diversity, Equity & Inclusion Award from The Top 1% Workplace Awards 2023, reflecting our commitment to attract and retain talent from within the diverse communities we serve.	**Competition** The market for talent remains highly competitive, and the high inflationary environment has continued to put pressure on wages. We must remain competitive to help colleagues and retain talent. Read more about our operating environment on pages 6 to 7	We are committed to ensuring our people are our key focus and that recent cost reduction measures do not impact our unique culture. We will continue to support a diverse and inclusive workforce where colleagues can be themselves, investing in training and promoting from within where possible. Our cost reduction initiatives in 2024 will focus on further automation to free up colleagues' time and allow them to focus on what they do best – creating FANS.	Our principal risks in respect of delivering our unique culture: • Conduct risk. • Legal risk. • Operational risk. • Strategic risk. Planned automation and strategic re-focus is key to managing risk within a smaller workforce. Read more about risk on pages 125 to 157	**Colleague engagement** (%) 2023: 75 2022: 75 **Senior leadership diversity** BAME 2023: 20 2022: 19 Female 2023: 38 2022: 41 Read more KPIs on pages 14 to 15

Business model
Continued

Service-led core deposits

We seek to attract core deposits through our service-led relationship banking model with specific emphasis on our core retail and SME franchise.

Progress in 2023

At the start of October, several speculative media reports on the strength of our capital position led to an increased outflow of customer deposits. Whilst liquidity levels remained strong, a deposit campaign was launched in the last months of the year to replace the deposits lost. As at 31 December 2023, we had returned to broadly the same deposit levels as we reported for the third quarter, albeit at a higher cost.

Through 2023, we have invested in our deposit capabilities, started to provide savings accounts under our RateSetter brand on deposit aggregator sites, and launched new limited edition savings accounts.

Operating environment

Competition
As interest rates have risen, competition for deposits has increased, both from challenger banks and larger incumbents. Alongside this, newer digital-only fintechs continue to grow.

Regulatory environment
The regulatory environment continues to work towards ensuring the fair treatment of customers with a particular focus on vulnerable customers and Consumer Duty. This trend is seeing deposit-taking institutions, like ourselves, implement an increasing amount of regulatory requirements.

Priorities

During 2024, our focus will be on utilising the deposit building capabilities we built during 2023. A key component of this will be the new ISA season with a particular emphasis on switching. Alongside this, we will also launch a new 'boost' proposition for savings accounts, which will provide us with greater flexibility in the deposit pricing.

We also concentrate on continuing to grow our current account numbers, with priority geared towards increasing business accounts, where balances tend to be higher, fee earning opportunities are greater.

Risks

Our principal risks in respect of delivering service-led core deposits are:

- Conduct risk.
- Financial crime.
- Legal risk.
- Liquidity and funding risk.
- Market risk.
- Regulatory risk.

We continue to actively manage our balance sheet to ensure we retain high levels of liquidity and appropriately hedge our interest rate risk.

Alongside this, we continue to enhance our controls and review our products to both protect our customers and ensure we are delivering fair outcomes.

KPIs

Cost of deposits (%)

Risk-adjusted returns

We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.

Progress in 2023

Throughout 2023, we actively constrained lending to around replacement levels in an effort to preserve capital. Going into the year we were always clear about our need to access the capital markets, however external pressures caused us to accelerate our initial timetable. We successfully completed the delivery of a capital package in November, following which we decided to refocus our attention on commercial and mortgage lending, with a shift away from consumer lending.

Like most banks, a large proportion of our lending is fixed rate and therefore despite base rates having stabilised, we are continuing to see the benefits as older loans mature into a higher rate environment.

Operating environment

Competition
Competition in the lending space remains strong notably in the mortgage space from larger competitors as well as specialist lenders in other key segments.

Capital and funding regime
The UK's rigorous capital regime continues to see large financial firms, including ourselves, dependent on capital markets to support regulatory requirements.

Economic and political outlook
We expect interest rates to continue at a more normalised level in 2024, but financial pressure on households and an uncertain political outlook remains.

Read more about our operating environment on pages 6 to 7

Priorities

Following the capital raise, we continue to optimise our balance sheet and utilise our capital stack most efficiently to get the best possible sustainable returns for all stakeholders.

We plan to shift our focus away from unsecured lending back towards commercial, whilst mortgages will remain the largest component of our balance sheet with a focus on niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage.

Risks

Our principal risks in respect of delivering risk-adjusted returns are:

- Conduct risk.
- Credit risk.
- Market risk.
- Regulatory risk.
- Model risk.
- Capital risk.
- Strategic risk.

We take a prudent approach to lending to minimise the risk of losses. We continue to review and update our credit models to support this issue.

Read more about risk on pages 125 to 157

KPIs

Cost of risk (%)

Loan-to-deposit ratio (%)

Total capital plus MREL ratio (%)

Read more KPIs on pages 14 to 15

Key performance indicators

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

Link to business model

Components of our business model
Our business model is set out on page 11. Further details of each component of our business model can be found on pages 12 to 13, including how our KPIs link to measure our performance for each of these components.

Output of our business model
The output of our business model is to generate long-term value and create tangible book growth, measured through:

- Total shareholder return.
- Return on tangible equity.

Link to remuneration approach
Our approach to remuneration for management is based on a simple and clear scorecard. The scorecard measures are aligned to the four components of our business model to ensure management is focused on these. In addition to this we provide an LTIP which is linked to our scorecard outcomes of long-term value generation and tangible book growth.

Alternative performance measures

Where a financial KPI is an alternative performance measure a reconciliation to the nearest statutory measure can be found on pages 230 to 234.

KPI performance during 2023

Despite the challenging operating environment in 2023, we have performed robustly on the majority of our KPIs. A particular highlight has been maintaining record colleague engagement scores and the continued growth in customer numbers.

Customer satisfaction remains a key area of focus as whilst our scores remain favourable compared to market peers, we want to ensure the reversal of the decrease seen in year on new account openings, as well as to continue to increase the net promoter score on continuing relationships.

In respect of our financial metrics, we have reported a statutory profit and a smaller underlying loss for the year. Equally our capital ratios have improved following successful delivery of the capital package during the year.

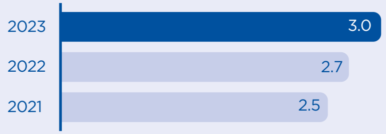
We did see a noticeable increase in our cost of deposits, which was driven by a combination of rising base rates as well as the cost of the deposit initiatives undertaken in the fourth quarter.

Key

- S Score card measure
- L LTIP measure
- A Alternative performance measure

Non-financial

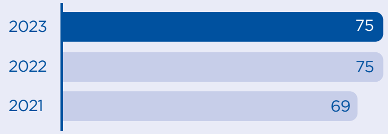
Customer accounts (m)



How we define it
Number of active customer accounts.

Why it is important
Growing our customer accounts is key to our franchise and validates that our approach is working and that our proposition resonates with customers.

Colleague engagement S

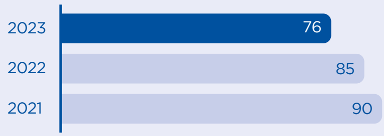


How we define it
The result is taken from our annual Voice of the Colleague survey.

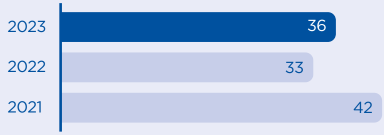
Why it is important
Attracting and retaining talent is vital to delivering superior service and preserving our culture and therefore we want to ensure colleagues enjoy working for us.

Customer satisfaction (%) S

New account openings



Continuing relationships

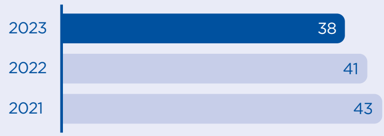


How we define it
Net promoter score for new account openings and continuing customer relationships.

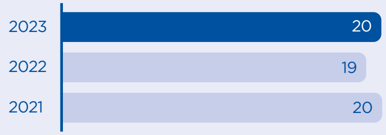
Why it is important
Our purpose is to create FANS and as such ensuring strong ongoing levels of customer satisfaction is important in measuring this.

Senior leadership diversity (%) S

Female



Minority ethnic



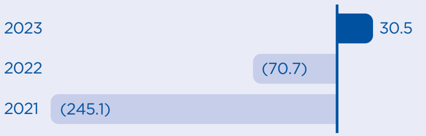
How we define it
Proportion of female/minority ethnic colleagues amongst our senior leadership team (ExCo and their direct reports).

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

Key performance indicators
Continued

Financial

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



How we define it
Our earnings before tax as defined by International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).

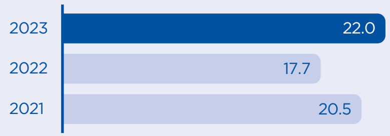
Why it is important
Achieving sustainable profitability is the key financial measure to demonstrate we are creating long-term value.

Underlying loss before tax (£m)

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

Why it is important
It provides further understanding of the underlying trends in the business.

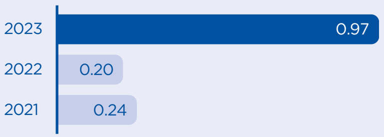
Total capital plus MREL ratio (%)



How we define it
Our total capital plus MREL expressed as a percentage of RWAs.

Why it is important
Our capital ratio represents the level of solvency of the bank, and the ability to be resilient in events of stress. This is important for all our stakeholders.

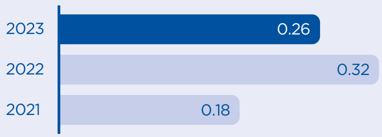
Cost of deposits (%)



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

Why it is important
Our ability to attract service-led core deposits is a component of our business model with cost of deposits being a key determinant in measuring this.

Cost of risk (%)



How we define it
ECL expense divided by average gross loans for the year.

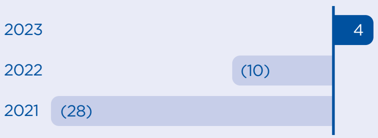
Why it is important
We seek to minimise our cost of risk, balanced with the interest received, to ensure we are optimising our lending.

Statutory cost:income ratio (%)

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

Why it is important
As we become more efficient, the ratio decreases and indicates our path to achieve the relevant scale for our capabilities of products and services.

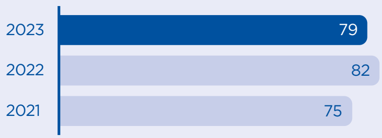
Return on tangible equity (%)



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

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

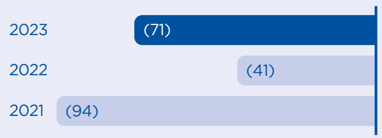
Loan-to-deposit ratio (%)



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

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

Total shareholder return (%)



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

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

Financial review

Summary of the year

2023 was another important year for us as we returned to profit on both a statutory and underlying basis in the first half of the year, established our new holding company and secured a successful capital package that will allow us to continue to profitably grow the business over the coming years.

For the full year ended 31 December 2023, we recorded an underlying loss before tax of £16.9 million, a reduction of 67% from 2022 (2022: loss of £50.6 million), partially reflecting the higher cost of deposits and wider market trend of declining current account balances.

On a statutory basis we recognised a profit before tax of £30.5 million (2022: loss of £70.7 million), reflecting the one-off gain on the refinancing of our existing Tier 2 debt as part of the capital package.

Additionally, non-underlying items included £20.2 million of costs associated with our announced cost reduction plan which is designed to improve the ongoing efficiency of our business as we look to deliver sustainable profitability.

Our results were impacted by the setback in September to our ambitions to achieve AIRB accreditation for residential mortgages and associated speculative media reports regarding our capital position led to an outflow of customer deposits, with a decrease in current account balances. Our strong levels of liquidity and prudent approach meant these outflows were manageable and we were able to quickly replace these balances with longer-term deposits, albeit at a higher cost, which contributed to a material increase in our cost of deposits in the fourth quarter.

Despite these challenges, we have entered 2024 with both a stronger capital and liquidity position. We have taken the first steps to deliver a disciplined cost reduction programme that will act to mitigate many of the headwinds we face and ensure a return to sustainable profitability.

Statutory and underlying results
Financial information in this report is prepared on a statutory (taken from our financial statements on pages 158 to 224) and underlying basis (which we use to assess performance on a management basis). Further details on how we calculate underlying performance, as well as our other alternative performance measures can be found on pages 230 to 234.

Income statement

	2023 £m	2022 £m	Change %
Underlying net interest income	411.9	404.2	2%
Underlying non-net interest income	134.6	117.9	14%
Total underlying income	546.5	522.1	5%
Underlying operating expenses	(530.2)	(532.8)	–
ECL expense	(33.2)	(39.9)	(17%)
Underlying loss before tax	(16.9)	(50.6)	(67%)
Non-underlying items	47.4	(20.1)	n/a
Statutory profit/ (loss) before tax	30.5	(70.7)	n/a

Interest income
Interest income benefitted from a rising base rate during the period, increasing 52% to £855.7 million (2022: £563.7 million). Lending income continues to be the largest component of our interest income.

Residential mortgage assets benefitted from higher rates for new and retained customers, with asset yields increasing to 3.37% (2022: 2.65%). Our retail mortgages are 92% fixed, with an average time to reversion of 2.41 years (31 December 2022: 2.45 years); we expect to see continued rate growth in the years ahead as older balances roll-off and are replaced with new lending at a higher rate.

Our commercial lending portfolio income grew due to higher yields, predominantly driven by our floating business loans which have seen greater yields as a result of the higher base rate environment, as well as the continued attrition of lower-yielding government-backed lending which was written during the COVID-19 pandemic.

Commercial lending remains a strong and growing part of our book; as part of our strategy, we will continue to rotate and grow our commercial lending, with a particular focus on small and medium enterprises as well as more specialist lending.

Consumer lending income also increased, driven by higher yielding originations due to the base rate environment. In 2024, we will no longer provide new consumer lending and instead focus on the commercial and specialised mortgages for new originations.

We also saw the benefits of increased rates flowing through to our treasury portfolio with interest income on our cash and investment securities increasing. This increase was also aided by our decision to adjust our portfolio mix towards lower risk-weighted investment securities and restrict levels of new lending origination to repayment levels.

Interest expense
Interest expense increased 178% to £443.8 million (2022: £159.6 million). This increase reflected the combination of the continued gradual reduction in non-interest bearing personal current accounts as well as an increase in cost of deposits reflecting the rising rate environment.

The reduction in average balances started across the industry in late 2022 in response to increases in the cost of living, as customers looked to pay down debt and move excess deposits into savings accounts, as well as weather the higher inflationary environment. We saw additional attrition in the fourth quarter following media speculation surrounding our capital options although we have continued to see the number of current accounts grow.

During 2023, we have enhanced our deposit capabilities, including serving aggregators and the launch of limited-edition savings products. This has successfully aided deposit inflows, whilst also increasing our average cost of deposits to 0.97% (2022: 0.20%).

Our wholesale funding expenses have also increased as a function of interest rates, where the largest expense is the Bank of England's Term Funding Scheme (TFSME) which is directly linked to base rate. Due to a higher rate environment, we have seen expenses for TFSME increase to £161.3 million (2022: £55.5 million). Despite this increase, it remains an additional stable cost of funding and is accretive to net interest income.

During the year, we repaid early the TFSME maturities scheduled for 2024 and the start of 2025. This repayment was partially funded by repurchase agreements, which represented a more cost-effective form of funding. We also used repurchase agreements in the fourth quarter which provided additional liquidity, which were largely repaid by the year-end.

Financial review
Continued

A combination of these factors, along with the increase in base rate, led to an increase in interest expense on repurchase agreements from £3.4 million in 2022 to £50.1 million in 2023.

As part of the capital package, our existing Tier 2 notes, which repriced to 9% in June 2023, were redeemed and replaced with £150 million of new Tier 2 notes at a coupon of 14%. The redemption date of our existing MREL debt was extended, and £175 million new MREL debt issued, both at a coupon of 12%.

The repricing and restructuring has resulted in an increase to interest expense on debt securities in 2023 which rose from £48.7 million in 2022 to £55.7 million in 2023; this increased cost of funding will continue into the future. Despite the increased cost, the refinancing of our wholesale debt has enhanced our balance sheet strength, provides additional certainty to all stakeholders and allows us greater runway to continue to deliver our strategy thereby assisting in delivering greater earnings potential in the future.

Non-interest income
Net fee and commission income has increased by £8.6 million to £90.4 million in 2023 (2022: £81.8 million), reflecting growth in retail and business current account volumes. Interchange income grew by £3.0 million to £40.0 million (2022: £37.0 million) reflecting increased consumer spending using a Metro Bank card.

Safe deposit box income increased by £1.7 million to £18.2 million (2022: £16.5 million) reflecting higher volumes as occupancy levels increased, driven by greater consumer demand in strategic geographical locations. Foreign exchange income has remained broadly static year on year at £34.0 million (2022: £34.1 million), providing a valuable source of income, whilst having minimal impact on our capital ratios.

Operating expenses

	2023	2022
Underlying cost: income ratio	97%	102%
Statutory cost: income ratio	90%	106%

Despite inflationary pressures, our disciplined approach to cost management has led to a slight decrease in underlying operating expenses to £530.2 million compared to £532.8 million in 2022.

This was aided by the decision at the end of 2022 to reduce the number of consultants and contractors used in the business, and to streamline our project delivery capabilities.

Salary costs remain our biggest contributor to operating expenses and in the current year we incurred costs of £241.2 million (2022: £236.6 million). A £13.8 million provision for the cost of the restructure has been booked in 2023 as a non-underlying item.

Professional fees have reduced significantly by £15.2 million to £23.2 million (2022: £38.4 million) as we have moved away from the use of contractors. In addition to this, information technology costs have also fallen by £2.5 million to £59.7 million (2022: £62.2 million), reflecting our cost discipline.

Occupancy expenses continue to be a fixed cost being driven by our store portfolio; costs have remained broadly flat despite the inflationary environment as we continue to actively reduce the cost base whilst maintaining our presence on the high street.

The continued discipline in operational cost has also funded areas of increased expenses, including greater investment into deposit product capability as well as a new multi-year sponsorship of women and girls cricket with the ECB. We see this as part of our ongoing commitment to become the number one community bank.

Non-underlying items

	2023 £m	2022 £m	Change %
Impairment and write-off of property, plant, equipment and intangible assets	(4.6)	(9.7)	(53%)
Remediation costs	–	(5.3)	n/a
Transformation costs	(20.2)	(3.3)	512%
Capital raise and refinancing	74.0	–	n/a
Holding company insertion costs	(1.8)	(1.8)	–
Non-underlying items	47.4	(20.1)	(336%)

We have recognised non-underlying income in 2023 of £47.4 million (2022: expenses of £20.1 million) driven by the capital package secured in October 2023 which resulted in a 40% haircut, and a £100 million gain, on the £250 million Tier 2 debt issuance. As part of the capital package, we incurred costs of £26.0 million. These consisted of fees paid to our advisors in relation to the debt restructuring, the acceleration of unamortised issuance costs, as well as the impacts from the breaking of the hedge relationships the instruments were previously in.

This is offset by the recognition of £20.2 million of transformation costs, which includes a £15.0 million provision for restructuring and associated costs. We have benefitted from the completion of remediation activities which were settled in 2022.

Expected credit loss expense

31 December 2023	ECL allowance £m	Coverage ratio %	NPL ratio %
Retail mortgages	19	0.24%	1.87%
Consumer lending	108	8.33%	5.94%
Commercial	72	2.13%	4.91%
Total lending	199	1.59%	3.11%
31 December 2022			
Retail mortgages	20	0.26%	1.45%
Consumer lending	75	5.07%	3.38%
Commercial	92	2.21%	4.59%
Total lending	187	1.41%	2.65%

We recognised an expected credit loss expense of £33.2 million in year 2023 (2022: £39.9 million), reflecting the challenging economic environment arising from the increased cost of living. The decrease from 2022 is due to management actions to optimise the credit quality of new lending, combined with releases relating to commercial customers that we have worked with and have secured repayments from. We continue to maintain management overlays and adjustments of £23.4 million (2022: £30.9 million) which represents 12% of ECL stock (31 December 2022: 16%). As at 31 December 2023, our coverage ratio was 1.59% (2022: 1.41%) and we believe we remain appropriately provided at this stage in the economic cycle.

Consumer lending accounted for the majority of the expected credit loss expense driven by loan maturation and deteriorated performance due to macroeconomic factors. The loan coverage ratio for consumer lending ended the year at 8.33% compared to 5.07% as at 31 December 2022.

Financial review
Continued

Commercial lending has been more resilient in 2023, with a release of expected credit losses during the year. The coverage ratio for commercial lending has decreased slightly to 2.13% as at 31 December 2023, down from 2.21% as at 31 December 2022.

We also saw a release of expected credit losses in respect of our retail mortgage portfolio, where credit quality remains high, leading to a slight decrease in coverage ratio from 0.26% to 0.24% over the year to 31 December 2023.

Looking forwards into 2024, we expect to continue the rotation of assets away from consumer unsecured and towards the commercial sector where we see strategic opportunity to support SMEs, a vital segment of the UK economy. The economic environment and wider outlook remain challenging and uncertain; however our processes ensure we continue to maintain adequate coverage ratios and continue to actively manage our portfolios.

Balance sheet

Lending

	31 December 2023 £m	31 December 2022 £m	Change %
Retail mortgages	7,817	7,649	2%
Consumer lending	1,297	1,480	(12%)
Commercial	3,382	4,160	(19%)
Gross lending	12,496	13,289	(6%)
ECL allowance	(199)	(187)	6%
Net lending	12,297	13,102	(6%)

Net loans and advances to customers ended the year at £12,297 million, down 6% from £13,102 million as at 31 December 2022, as we actively managed our RWA capacity reflecting our capital constraints for the majority of the year.

The increased interest rate environment is ensuring that we are achieving a higher return on regulatory capital in all areas of lending as new loans are written at higher yields but with the same risk-weighting.

Retail mortgages continue to form the largest component of our lending base at £7,817 million (31 December 2022: £7,649 million), representing 63% of lending (31 December 2022: 58%). With the feedback from the PRA that we should not expect to receive AIRB approval in 2023, our focus going forward will be to dominate in niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage. This will likely mean that we seek to compete less for vanilla mortgages with competitors benefitting from a materially lower RWA weightage than either standardised weightages or those expected under the Basel 3.1 regulations.

The commercial portfolio has decreased from £4,160 million as at 31 December 2022, to £3,382 million as at 31 December 2023. The decrease primarily related to our government-backed COVID relief loans which continue to run off following the closure of most schemes in 2021. As at 31 December 2023 outstanding lending under these schemes totalled £938 million (31 December 2022: £1,313 million). Although these loans are highly capital efficient due to their government backing, as these were written at the bottom of the interest rate cycle, they are relatively low-yielding and we will continue to see the benefit to interest income as these loans roll-off.

Commercial lending is expected to increase in 2024 as we shift our asset focus to commercial and specialist lending, especially in the SME sector which is currently underserved in the market. This includes launching a suite of relationship-driven products to ensure we can meet all of our customer needs.

In 2023, we launched our new business credit card and commercial overdraft, which are fully digital journeys with automated acceptance and decision scoring. This comes off the back of our business overdraft in 2022 which continues to be popular with customers.

The consumer portfolio has also decreased to £1,297 million (31 December 2022: £1,480 million), driven in part to minimise exposure to a higher risk segment during this part of the economic environment, but also partly reflecting our evolving strategic priorities where we are looking to prioritise relationship lending as part of our ambition to be the best community bank.

Treasury portfolio

Over the year, we have continued to optimise our treasury portfolio to maximise our risk adjusted return on regulatory capital, particularly as rates have risen. We ended the year with £8,770 million of treasury assets (31 December 2022: £7,870 million), comprising £4,879 million investment securities and £3,891 million cash and balances at the Bank of England (31 December 2022: £5,914 million and £1,956 million respectively). Our investment securities remain high quality and liquid, with 75% being either AAA-rated or gilts (31 December 2022: 68%).

Other assets

Property, plant and equipment ended the year at £723 million, down from £748 million as at 31 December 2022. Depreciation continues to outstrip additions, due to no new store openings taking place in 2023, although we are continuing to identify sites for future stores in the North of England. These sites are likely to be smaller than previously envisaged and more likely to be in locations that are most convenient for surrounding businesses. Freehold and long-leasehold properties total 30 out of our 76 stores. This strategy continues to provide us with a more cost-effective way of delivering our store-based service-led model.

Intangible assets have decreased to £193 million, down from £216 million in 2022, reflecting a more selective approach to investments. Our investments in 2023 have included delivering confirmation of payee services, improved deposit propositions and a new mortgage platform.

Deposits

	31 December 2023 £m	31 December 2022 £m	Change %
Retail customer (excluding retail partnerships)	7,235	5,797	25%
Retail partnership	1,708	1,949	(12%)
Commercial customers (excluding SMEs)	2,898	3,188	(9%)
SMEs	3,782	5,080	(26%)
Total customer deposits	15,623	16,014	(2%)
Of which:			
Demand: current accounts	5,696	7,888	(28%)
Demand: savings accounts	7,827	7,501	4%
Fixed term: savings accounts	2,100	625	236%

We remain focused on being a service-led deposit-driven bank. We ended the year with deposits of £15,623 million (31 December 2022: £16,014 million), a decrease of 2% year on year but up 1% from 30 June 2023. Deposits have been gradually decreasing during 2023 due to the increased cost of living weighing on people's savings capacity as well as the increasingly competitive interest rate environment which has seen customers both paying down debt and increasingly move deposits to higher-earning savings accounts.

Financial review
Continued

Following press speculation surrounding our capital raise, we saw a time-limited outflow of deposits. Core deposit flows have since stabilised to more recent normal ranges and we have seen a return to growth in these balances following the successful completion of the capital raise. The launch of a deposit gathering promotion in November 2023 saw us successfully attract new funding albeit at a higher cost.

Overall our deposit base continues to remain diversified with a 57%:43% split between retail and commercial customers (31 December 2022: 49%:51%).

We expect to continue raising deposits along with current account growth with planned store openings in the North of England, as well as continuing to pursue growth in the Instant Access and Cash ISA markets.

Wholesale funding
We remain predominantly a deposit funded organisation, with wholesale funding utilised where appropriate. Our wholesale funding continues to be mainly the Term Funding Scheme with additional incentives for SMEs (TFSME). During the year we have reduced our utilisation of the TFSME by £750 million, reducing our holding to £3,050 million (31 December 2022: £3,800 million) as we repaid some maturities due in 2024 and 2025 early. Part of this has been funded by our high levels of liquidity, as well as via the utilisation of short-term repurchase agreements which represented a more cost-effective source of financing.

Taxation
We recorded a tax charge of £1.0 million (2022: £2.0 million) in the year. This charge is primarily due to the offsetting impact of achieving a statutory profit, against exemptions in tax law for the gain recognised on the Tier 2 haircut.

We have unused tax losses of £912 million (2022: £859 million) for which no deferred tax asset is being recognised. The current value of our deferred tax asset is £214 million (2022: £215 million). There is no time limit on the utilisation of tax losses and as such the Bank will recognise a deferred tax asset once sustainable profitability is achieved.

Liquidity
Our liquidity position remains strong and in excess of regulatory minimum requirements. We ended the year with a liquidity coverage ratio of 332% (31 December 2022: 213%) and a net stable funding ratio of 145% (31 December 2022: 134%).

We continue to hold large amounts of high-quality liquid assets totalling £6,656 million (2022: £4,976 million). This included £3,642 million of cash held at the Bank of England (2022: £1,761 million).

Capital

	2023 £m	2022 £m	Change %
CET1 capital	985	819	20%
RWAs	7,533	7,990	(6%)
CET1 ratio	13.1%	10.3%	280bps
Total regulatory capital ratio	15.1%	13.4%	170bps
Total regulatory capital plus MREL ratio	22.0%	17.7%	430bps
UK regulatory leverage ratio	5.3%	4.2%	110bps

We ended the year with CET1, total capital and total capital plus MREL ratios of 13.1%, 15.1% and 22.0% respectively (31 December 2022: 10.3%, 13.4% and 17.7%), above regulatory minima, including buffers (excluding any confidential buffers, where applicable), of 9.2%, 10.8% and 21.2%.

The capital raise saw us issue £150 million of new equity and £175 million in new MREL-eligible debt. As part of the capital package, a long-time investor, Spaldy Investment Limited, became our majority shareholder.

In addition to raising new capital, we also refinanced all of our existing regulatory debt. This consisted of £350 million of MREL, which had a call date in November 2024. The refinanced debt, along with the new MREL has a call date of 30 April 2028, providing additional runway for us to deliver our strategy. Alongside this, we replaced our existing £250 million of Tier 2 debt with £150 million of new instruments. The £100 million haircut agreed by bondholders has led to a one-off gain which has been reported as a non-underlying income amount in 2023.

We ended the year with risk-weighted assets of £7,533 million (31 December 2022: £7,990 million), reflecting the active capital management we have delivered since the end of 2022 as well as prudent lending decisions at this stage in the economic cycle.

At the end of the first half of 2023, we also completed the implementation of our holding company marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework. All of our regulatory capital and debt capital is now issued from the new holding company.

Basel 3.1
The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market risk, credit valuation adjustment risk, counterparty credit risk, and operational risk, with remaining elements of the standards expected to be published in the second quarter of 2024.

In September 2023, the PRA announced a delay in implementation of the proposals until 1 July 2025. However, the phase in period for the output floor was reduced from 5 years to 4.5 years to maintain full implementation by 1 January 2030.

Based on our balance sheet and lending mix as at 31 December 2023 and the current proposals, our initial assessment of the impact indicates that there should be no material change to our capital position on implementation day. It should be noted that the rules are still subject to change.

Looking ahead
We enter 2024 with a stronger and longer dated capital base, putting us in a good position to deliver on strategy. We have also started the process of delivering a disciplined cost reduction programme, which will help to mitigate some of the near-term headwinds, notably the increased cost of deposits.

Ensuring we reduce our cost of deposits from their 2023 exit rate through the generation of additional core-deposits remains a priority. Alongside this, a key area of focus will be rotation of assets from consumer unsecured towards commercial lending, where we believe we can generate a better return in the current environment.

This combination of selective capital allocation, pricing rigour and cost discipline is core to our execution, with these steps meaning we are on the path to long term sustainable profitability.

Cristina Alba Ochoa
Interim Chief Financial Officer
16 April 2024

Environmental, social and governance review

Our ambition to be the number one community bank is built on doing the right thing by our customers, communities, colleagues, suppliers and the environment.

Our customers, communities and colleagues

Page 22

Governance, resilience, suppliers, data privacy and security

Page 27

Our planet and climate-related disclosures

Page 29

The strong connection between community banking and ESG

There is a strong synergy between our ambition to be the number one community bank, and our approach to ESG. Inherent to our community banking model is acting supportively, sustainably and responsibly towards our customers, our communities, our colleagues and our environment.

Metro Bank has always strived to be a different kind of bank. We operate at the heart of local communities, delivering fantastic customer service. As we have grown, our community-focused activities have expanded too, and in parallel to this we have incorporated ESG priorities into our business.

We embrace diversity and champion inclusivity; value sustainability and act responsibly towards the environment; make a positive difference through the local colleagues we employ, the local businesses we work with and the local causes we support.

We simply aim to do the right thing by our stakeholders. In short, a true community bank. Our support for communities in 2023 has included:

- Easter Egg Appeal between 20 March and 6 April distributing eggs to local community groups.
- Pride events in London and Birmingham.
- Diwali in Leicester (one of the largest Diwali celebrations outside of India) in October and November.
- 21 stores participated in Silver Sunday on 1 October 2023, a campaign to tackle loneliness and isolation among older people.
- Armed forces day in June.
- The Morph art trail in central London.
- International Women's Day in March.
- Hertfordshire County Show and the Hertfordshire Food and Farming day in July.

2023 ESG governance structure

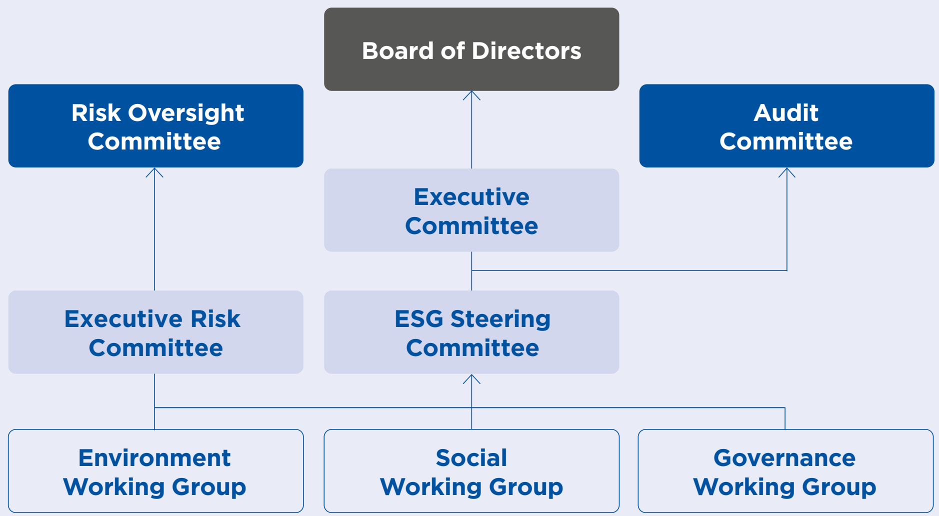
ESG governance and structure

The Board has oversight of our ESG strategy and priorities and ESG issues are regularly considered by ExCo. Our internal ESG structure comprises an ExCo-level ESG Steering Committee which coordinates all our ESG activities and reports into the Board on an annual basis, plus Working Groups of subject matter experts that coordinate progress and activity across ESG themes and report into the ESG Steering Committee every quarter.

The Risk Oversight Committee (ROC) has oversight of the framework for managing and reporting the risks from climate change, as set out in the Enterprise Risk Management Framework. ROC can escalate climate-related risk matters to the Board.

The Audit Committee reviews our ESG update and disclosures for TCFD requirements as part of its wider role in reviewing our Annual Report and Accounts.

Non-Executive Director Nick Winsor has an informal Board role for ESG oversight which includes engaging with senior management on ESG matters. The Chief People Officer is the ExCo member responsible for ESG strategy and the Chief Risk Officer has SMF responsibility for climate change risk.



ESG materiality and priority themes

In 2022, we conducted a materiality assessment of our approach towards current and emerging ESG issues to obtain deeper understanding of our external and internal stakeholders' views. We used the Global Reporting Initiative approach. Following research and a shortlisting exercise, we asked stakeholders to rank 19 issues, which we mapped against six overarching priority themes. We take account of the results in our considerations of ESG issues.

Our customers and communities

Turning customers and the communities we serve into FANS is central to everything we do.

Topics identified via materiality assessment:

- Customer service and experience – creating FANS.
- Financial inclusion, literacy and education.
- Supporting vulnerable customers.
- Community engagement, investment and fundraising.

Our colleagues

We are committed to an AMAZEING colleague experience, based on an inclusive culture.

Topics identified via materiality assessment:

- Colleague attraction training and development.
- Colleague engagement, health, safety and wellbeing.
- Diversity, equality and inclusion.

Data privacy and security

We continue to assess evolve and mature our data privacy and cyber security capabilities

Topics identified via materiality assessment:

- Data privacy and cyber security.
- Financial crime and fraud.

Our suppliers

We work with suppliers who uphold our values and actively assess and monitor the controls they put in place.

Topics identified via materiality assessment:

- Supply chain engagement and responsible procurement.
- Human rights and modern slavery.
- Anti-bribery and corruption.

Governance and resilience

Good governance, compliance and risk management practices make sure we remain a sustainable, strong and resilient business.

Topics identified via materiality assessment:

- Good governance practices.
- Ethics and compliance.
- Risk management and business resilience.

Our planet

We are taking the actions required to make positive changes and reduce our impact on the environment.

Topics identified via materiality assessment:

- Climate change.
- Operational environmental efficiency.
- Responsible investment and stewardship.
- Sustainable product innovation.

UN SDGs

Our ESG strategy contributes to a number of the United Nations Sustainable Development Goals (UN SDGs) and this is highlighted as appropriate in the following pages.

Our customers, communities and colleagues

We believe that by fostering these key relationships we can generate wider shared prosperity.

Our commitment to community banking aligns with the ‘S’ of ESG. It informs everything we do and runs through every aspect of our model and engagement with our colleagues, customers and communities. By helping our communities thrive, we believe our business will too. Responsibility for delivery is shared across all Metro Bank colleagues, led by our stores with their physical presence in communities across the country. In the following section, we present how our approach to community banking promotes Education, Employment, Equality and Equity.

Education

Alignment to UN SDGs:

We have always championed financial education in our local communities. Research from the Money and Pension Service in summer 2023 found that under half of children aged seven to 17 have been taught the skills they need to handle money as adults. Our free Money Zone financial education programme recognises this need and colleagues in all our stores are specially trained to deliver Money Zone to children at Key Stage 2 and 3 in local schools and clubs. We have reached well over 250,000 children with Money Zone to date, including more than 170 schools and community groups in 2023. This year we extended Money Zone to large community events including to 1,100 children at the Hertfordshire Food and Farming day in July. Last year we launched a financial education programme for young care leavers, and in 2023, we extended it to young people in sixth forms and colleges and to people serving in the armed forces.

In 2023, we delivered 16 ‘Tech Zone’ workshops with more than 300 primary school kids from the most deprived parts of London, teaching basic coding skills using micro:bit – tiny computers that have various sensors and capabilities such as buttons, LEDs, light sensor, temperature sensor, microphone, compass, accelerometer, speaker, radio and pins to connect to other devices or extensions. As part of this, Metro Bank built a strong relationship with STEM Learning and became accredited as a STEM organisation, in order to facilitate training to the community. We also created a train the trainer workshop to educate Metro Bank colleagues to deliver the programme in schools.

Education for our colleagues has always been a critical part of creating FANs in our communities. In addition to onboarding 1,155 new colleagues, this year we have run three learning campaigns with subject experts to develop skills and to foster a culture of learning.

Campaigns focused on key topics:

- data literacy and protection
- personal development and careers
- focusing on leadership mindset and skills.

The career campaign alone saw 61% of our colleagues accessing the new modules and events, with over 3,000 views on our Metro Bank University (MBU) internal digital platform.

250k+
children have attended our Money Zone education programme

Further developing our technical capabilities, we extended access to learning resources to support the majority of our corporate functions. We have access to over 2,150 new courses from expert training providers globally and we have seen 4,729 colleague interactions (equating to 1,085 learning hours). Our popular MSc Sustainable and Digital Banking apprenticeship programme has seen seven graduates this year, with 19 colleagues starting in December. We also launched our Tech Academy, developing skills through apprenticeships in cyber and IT operations, and currently we have 137 colleagues completing apprenticeships.

75% of our senior leaders attended one or more events hosted by a series of five thought leaders and industry experts. Topics ranged from developing a human customer experience to competition in the banking sector, to the barriers that women face returning to work after a career break.

Inspiring the next generation

In September 2023, we worked with Phoenix Primary School in Basildon to deliver three one-hour workshops to pupils with different ability levels including children with ADHD and autism. We adapted our training plans and sessions to reflect this, including simplifying our materials to ensure they were appropriate. As a result of these successful workshops, we were asked to run a session at Roehampton Gate Primary School which specialises in children with mild to moderate autism and Asperger's syndrome.

Employment

Alignment to UN SDGs: 1 NO POVERTY; 8 DECENT WORK AND ECONOMIC GROWTH

We are delighted to be named in Newsweek's UK top ten Most Loved Workplaces® for the second year running – the ranking recognises companies that put respect, caring, and appreciation for their colleagues at the centre of their business model. The numerous awards we've won in 2023 include:

- Top ten UK Most Loved Workplaces.
- Top 1% Workplaces Awards: Diversity, Equity and Inclusion Award and Leader of the Year Award.
- Global Diversity List 2023: Diversity and Inclusion Professional and Champion.
- 2023 Inclusive Awards: Inclusive Culture Initiative Award.
- Elite Women 2023: Best women mortgage leaders in the UK.
- Women in Finance Awards 2023: Diversity Lead of the Year.
- MoneyAge Mortgage Awards 2023: Large Loans Mortgage Lender of the Year.
- British Specialist Lending Awards: Lender: Head of Sales.
- Mortgage Strategy Awards: Best Large Loan Lender.
- UK National Contact Centre Awards: Quality Manager of the Year.
- Credit Strategy Car Finance Awards: Company Award for Diversity & Inclusion.
- M&A Today, Global Awards 2023: Best Lender of the Year – UK.
- Forbes Advisor Best of 2023 Awards: Best Business Credit Card.
- Moneynet Personal Finance Awards 2023: Best Business Credit Card.

In 2023, 95 colleagues joined us on our Level 2 and 3 Financial Services Customer Advisor Apprenticeship Programmes which support people starting a career in banking – the programme has achieved an overall effectiveness rating of 'good' from Ofsted. 63% of our apprentices in our stores and Amaze Direct contact centres come from the 50% most deprived areas of England.

Through the opportunity to share up to 25% of our apprenticeship levy, we can support non-levy paying businesses in our local communities to recruit apprentices. In 2023, we focussed on supporting female-led businesses in the Northants area.

300+
female business leaders attended networking events across our stores

Metro Bank is a founding signatory to the Investing in Women Code, and as a community bank we can be instrumental in supporting female entrepreneurs. In 2023, in addition to our stores' regular networking events for local businesses, stores hosted ten events for more than 300 female business leaders. We have redeveloped our public webpage dedicated to supporting women in business, adding a range of case studies to inspire future female business leaders, highlighting the support we can provide, and including the details of our local ambassadors for female entrepreneurs.

200k
businesses have their current account with us and more are switching to us everyday

Metro Bank customer case studies also featured prominently in the British Business Bank's Investing in Women Code Annual 2023 Report. Our stores celebrated International Women's Day by hosting more than 2,000 people at complimentary networking events for local businesses.

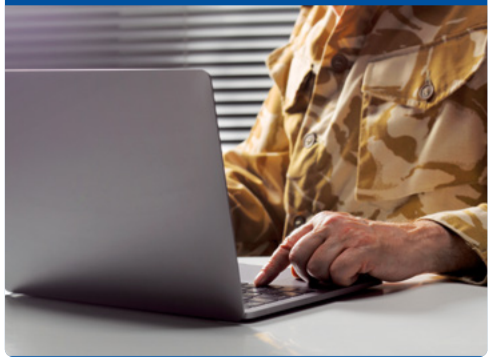
We're committed to helping local businesses, who form such an important part of thriving communities. We put relationship banking at the heart of our support for businesses, with every small business customer enjoying direct access to a Local Business Manager.

We provide current accounts to more than 200,000 businesses and more are switching to us every day. Building on the successful introduction of our enhanced business overdraft last year, this year we have launched our enhanced Business Credit Card providing fast, flexible access to up to £60,000 of credit, underpinned by an automated and simplified application process meaning customers can walk out of their local store with their new credit card in under 45 minutes. We have also radically improved our small business lending products increasing lending amounts up to £60,000 with a faster journey from application to decision to receiving funds.

Armed Forces Business Insights Day

25 people attended our Armed Forces Insight Day, where they heard from our Chief People Officer and Managing Director of Banking Products, plus a number of other senior leadership team members representing a range of business areas.

Attendees had the opportunity to have their CVs reviewed by our internal recruitment team and meet hiring managers. This led to three attendees following up and beginning the process for applying for roles. This process is continuing in view of the 12-month timeframe for those leaving the Armed Forces.



We are strong supporters of the Armed Forces Covenant and hold the Gold Award. We are proud to have been named in the 100 GREAT British Employers of Veterans by the Ex-Forces in Business Awards. In 2023, we recruited three ex-services colleagues and in June we hosted a business insights day in central London for veterans preparing for employment outside the military, and a number of our stores hosted celebrations for Armed Forces Day in June.

Our new stores planned in the north of England will create more than 200 roles directly, with around 30 in place already, and support a significant number of jobs indirectly via the many businesses we support in our local communities.

Our wellbeing programme offers a range of tools including our Employee Assistance Programme, plus support through our health partner Vitality and the Bank Workers Charity. Colleagues inspire each other with articles and blogs, which are shared on a weekly basis. To support the launch of our wellbeing strategy, we ran a Wellbeing at Work week which saw 400 colleagues attend a webinar for financial wellbeing and over 100 colleagues booking Vitality Health checks. This is in addition to training and awareness sessions and online support materials. We also offer flexible working options and introduced a Day 1 right to request flexibility in May 2023. This generated a c.400% monthly increase in flexible working applications.

Equality and equity

Alignment to UN SDGs:

The current economic environment remains challenging for our customers and we have brought together information regarding the support we can offer into an online hub, along with money tips and links to specialist organisations. Recognising this is a concerning time for some of our mortgage customers, particularly those approaching the end of their existing deal, we have signed up to the Government's Mortgage Charter to offer additional support including for customers struggling to keep up with mortgage payments.

52
of our stores are now Safe Spaces

We are committed to financial inclusion and offer all our customers market-leading service, access and support. We have continued our extensive internal vulnerable customer programme throughout 2023 with a focus on bedding-in skills and capability across all functions so that vulnerability is considered across all relevant processes and practices.

Progress this year has included:

- Further specialist training for customer-facing colleagues;
- Further support for victims of financial abuse, including the roll-out of Safe Spaces across 52 stores and training for our store colleagues. Safe Spaces offer a private area for people to access support safely in partnership with the UK Says No More campaign;
- Launch of direct referral processes with StepChange, PayPlan and GamCare for customers in financial difficulty to get specialist support to manage their debt;
- Launch of a dedicated Vulnerable Customer page on our intermediary website to help brokers understand how to identify a vulnerable customer; and
- A new Mortgage Payment Support page for customers if they are worried about their finances.

Supporting our local causes

Just a handful of examples of our support for local good causes: our west London and Staines stores celebrated the Sikh New Year festival, Vaisakhi, by donating to local foodbanks; our local colleagues conducted extensive litter clean ups on a nature trail in Croydon and at St Edeyrns Village in Cardiff; our Oxford colleagues helped prepare a new premises for the local Yellow Submarine charity for people with learning difficulties and autism; and our Wolverhampton store donated 180 boxes of banana, apple and blueberry treats to Birmingham Dogs Home.

From grassroots clubs all the way up to the Metro Bank Women's Ashes

2023 was a record-breaking season for the England Women's cricket team, making the launch of our partnership even more impactful. With viewership on the rise too, our message is travelling further than ever. In fact, the highest number of people on record watched the women's games this summer – a total of 7.4 million, which is nearly a quarter of total women's sport viewership in the UK.

With our name up in lights for 138 matches – including the Metro Bank Women's Ashes and Metro Bank One Day Series – and two brand campaigns with a dynamic new look and feel, the figures are brilliant from a brand perspective too.

With our brand awareness growing +5ppt amongst cricket fans, coupled with a +9ppt increase in brand trust among female fans, we're off to a flying start. As always, our colleagues are also a huge priority for us, and it's been fantastic to see so many attending matches, meeting the players, and even presenting trophies on match days.

Our partnership has only just started to scratch the surface, and with the momentum in women's sport growing ever stronger, this is a real opportunity for us to make a difference in our communities both on and off the field.

In May we launched a free, on-demand British Sign Language (BSL) interpreters service to support deaf customers. The service is available for in-person visits to our stores and for phone calls to our AmazeDirect customer service team. This service enhances the existing range of accessibility options for Metro Bank customers including Relay UK to help customers with hearing and speech difficulties communicate with us over the phone, and the ability to request certain documents in braille, large print, or on audio CD.

In line with our AMAZEING values, if things go wrong we strive to put them right again and deliver a positive customer experience. We publish customer complaints data on our website here: www.metrobankonline.co.uk/help-and-support/forms/give-us-feedback/complaints-data/

5k+

hours of colleagues time dedicated to volunteering in the communities we serve

As a community bank, Metro Bank gives every colleague a paid day dedicated to volunteering, we call it a 'Day to Amaze': it's a great way to support local good causes practically. In 2023, colleagues dedicated more than 5,000 hours of their time to volunteering, an increase of 60% compared to 2022, with the number of colleagues using their Day to Amaze increasing from last year. Alongside this, our colleagues and local communities raised £72,800 for local, national and international good causes via collections, sponsored activities and events and via the Magic Money Machines in our stores.

This year, Metro Bank announced a new partnership with the England and Wales Cricket Board (ECB), recognising our shared commitment to diversity, inclusion, and making a meaningful impact in our communities. We're very proud to be:

- First ever Champion of Women's and Girls' Cricket
- Title Partner of the Women's Ashes
- Title Partner of the International and Domestic One Day Series for Women and Men
- Official Banking Partner of the ECB.

At the heart of the partnership is the Women's and Girls' Fund, co-developed and co-funded by Metro Bank and the ECB to help transform grassroots cricket. Our mission is to triple the number of girls' teams by 2026, by empowering more female coaches and volunteers to inspire girls on and off the pitch.

We're proud of our culture, and colleagues are telling us they like working here too. Our Voice of the Colleague survey saw our best ever colleague engagement scores this year with all scores above or equal to the global benchmark. Our engagement question "How happy are you working at Metro Bank?" (eSAT) increased by 3 points compared with October 2022 (+4 points above benchmark).

We want every colleague to feel included and valued, and therefore diversity and inclusion (D&I) has always been an important part of our AMAZEING culture. Our commitment to being a D&I leader helps us bring out the best in our colleagues, attract new talent, thrive as a business and ultimately create more FANS in our communities.

Our 5 colleague inclusion networks

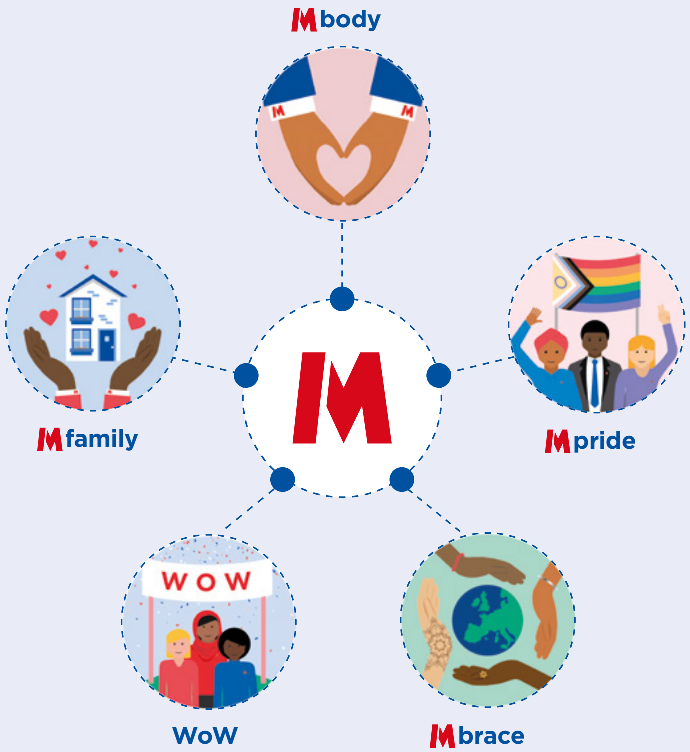
Mbody: promotes health and wellbeing in both mind and body, including those with both visible and non-visible barriers.

Mbrace: embraces our diverse people and fosters an environment where everybody can be themselves.

Mfamily: a network for all those in a family environment to share experiences and provide support for those who want or need it.

Mpride: helps create an environment of inclusion where everyone can be themselves and at their very best. Open to all colleagues who identify themselves as LGBTQIA+ or consider themselves an ally.

Women on Work (WoW): supports all colleagues, regardless of gender, who are interested in engaging, inspiring and collaborating with female colleagues at Metro Bank.



Our colleague networks have had an impactful year: our MPride network had 50 colleagues join Pride marches in Birmingham and London in the summer, demonstrating solidarity with the LGBTQ+ community. In September, colleagues celebrated National Inclusion week with a variety of events, both in-person and virtual events at contact centre sites, team huddles at stores and webinars in head office. Cross-network Mentoring Circles were launched with 82 colleagues taking part promoting intersectional inclusion, and we launched 52 Safe Spaces across our stores in conjunction with a domestic abuse charity by WoW.

Our Mbrace network hosted their annual Black History Month event on 12 October where 86 colleagues attended in person at our Holborn office to hear from guest speakers, learn about mentoring and hear from the Sickle Cell Society. £5,400 was raised as part of a raffle and auction for the Sickle Cell Society. Our Mfamily network championed the achievement of Metro Bank becoming a Fostering Friendly organisation, whilst Mbody have dedicated time to educate our colleagues about disabilities and neurodiversity.

Gender pay gap

As a community bank, we believe it is important that our team reflects the diverse communities we serve; we have a range of initiatives focused on encouraging and supporting talented women into leadership and specialist roles, and we are working hard on initiatives to close the gap. Our median gender pay gap of 16.7% compares with a national average gender pay gap of 14.3% across all industries, calculated by the Office for National Statistics in November 2023.

Whilst the gender split amongst our colleagues at Metro Bank is broadly balanced, our gender pay gap exists mainly because of an imbalance when we look at diversity by seniority. This means that we have more colleagues in junior roles than at senior levels, and within this balance we have more female colleagues in our junior roles, and more male colleagues in our senior roles.

Gender pay gap
As at April 2023

16.7%
median pay agp

20.5%
mean pay gap

Read more on our gender pay at metrobankonline.co.uk

Female Directors on the Board

2022	36%
2023	36%

Female colleagues as % of the workforce

2022	46%
2023	46%
Industry	47%

% Females in SLT (Exco -1)

2022	39%
2023	38%
Industry	33%

Governance and resilience

Maintaining a strong governance framework allows us to operate effectively.

Alignment to UN SDGs: 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

We have always had zero-tolerance for bribery and corruption. We deliver regular training to all colleagues on our Anti-Bribery and Corruption Policy and they are encouraged to raise any concerns about the conduct of others or the way the business is run, without fear of unfair treatment under our Whistleblowing Policy.

We comply with all applicable sanctions regimes. We also comply with UK anti-money laundering and anti-terrorist financing legislation and have an implementation framework in place. We do not give or receive improper financial or other benefits in our business operations, nor do we help facilitate tax evasion in any way. We do not tolerate any deliberate breach of financial crime laws and regulations that apply to our business and the transactions we undertake, and we continue to invest in our processes and systems and monitoring.

Data privacy and security

Keeping our customers safe from fraud and scams is naturally one of our highest priorities. Our 'scam of the month' series informs people how to spot and protect against the latest tricks used by fraudsters. We joined the BBC Be Scam Safe awareness week in October. We are active supporters of the Take Five fraud awareness campaign and last year we joined Stop Scams UK's 159 service, which connects our FANS safely and securely to our contact centre if they receive a suspicious call about a financial matter.

Recognising the ever-evolving nature of cyber risk, we run a continuous improvement programme to ensure that our capability keeps pace. We constantly monitor for emerging threats and new attack methods and regularly conduct simulation exercises to fine tune our capability. We have a rigorous and mature vulnerability management process in place, our comprehensive policies and minimum standards align to ISO 7001 best practice, and we benchmark ourselves against the National Institute of Standards and Technology framework. We are active members of a number of industry forums and we provide regular briefings to colleagues in addition to annual mandatory cyber security training.

Safe management of personal data is taken seriously and remains a priority for us. We continued to make improvements to our operations and records management team, to ensure effective governance of our data, in particular where records contain special categories of data.

Our suppliers

It is important to us that we work with suppliers who uphold our values. We take this seriously – starting from when we select a supplier during our procurement processes, then throughout the entire life-cycle of our business relationships.

In 2022, we launched our first Supplier Code of Conduct, setting out the expectations we have of our suppliers. The next version of our Code will launch in 2024 and will place more obligations on our suppliers, for example, to inform us of their progress towards lowering carbon emissions.

We are gathering more and more information on our suppliers' approach to ESG and we are doing that proactively through our tendering and contracting activities. In our quarterly business reviews with our most important suppliers, we gather data on, and discuss, topics such as: ISO 14001 certification, use of renewable energy, compliance with Modern Slavery legislation and gender pay gap data.

We regularly review the controls put in place by our suppliers to prevent and detect data security breaches, bribery, corruption, modern slavery, child trafficking, unfair wages, unacceptable working conditions and labour rights abuses. We expect our suppliers to adhere to the UN Guiding Principles on Business and Human Rights.

We remain committed to using the Financial Services Supplier Qualification System (FSQS) for our suppliers to share information with us and we encourage all our suppliers to become members. FSQS helps our suppliers by reducing duplication of effort in responding to buyer due diligence requests, and benefits us by sharing resources.

Our biggest ever Money Zone event

In July, colleagues from our stores in Hemel Hempstead, St Albans, Enfield, Luton and Borehamwood joined forces at the Hertfordshire Agricultural Society Food and Farming Day to deliver part of our financial education programme – Money Zone – to 1,100 eleven year olds from 26 local schools.

Money Zone is a series of financial education lessons that we offer to school children – either virtually or in store. Money Zone usually comprises of four sessions – budgeting, saving, banking and the last session which takes place in store giving children a look behind the scenes. Given the time constraints, the pupils enjoyed an abridged lesson on the day with an invitation to take up the full course at their schools at a later date.

To date, we have delivered our Money Zone programme to over 250,000 children. Across the UK, adult financial literacy remains at less than 70 per cent. As a community bank we are committed to encouraging children of all ages to learn more about the finances they will need to understand as they grow older and start earning money.

Human rights

As a community bank, we are committed to maintaining positive relationships with our stakeholders including conducting our business in a way that respects human rights. Our policies and practices reflect this, including our Whistleblowing Policy which applies to any information relating to suspected wrongdoing or dangers, and our detailed Modern Slavery Policy.

Slavery, servitude, forced labour and human trafficking (modern slavery) is a crime and violation of fundamental human rights. We have zero tolerance of modern slavery and remain committed to conducting all our business professionally, fairly and with integrity across all our relationships, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

During 2023 we:

- Published our seventh Modern Slavery Statement, approved by the Board and signed by the CEO (available on our website at: metrobankonline.co.uk/about-us/modern-slavery/.
- Delivered the sixth report of the Modern Slavery Champion to the Board. The report included the annual review of our Modern Slavery Policy; an update on progress against the Modern Slavery Statement and Action Plan; and an update on our internal Modern Slavery Working Group.
- As part of our Modern Slavery Policy, we undertake increased due diligence in respect of our business and supply chains on a risk basis.

We continue to leverage the FSQS to support due diligence on suppliers before contracting and ongoing during the relationship, on a risk basis.

1,440

suppliers engaged as part of our due diligence process

In 2023, we engaged 1,440 active third parties. Thirty-eight (2.64%) were either based in riskier countries (where the 2023 Measurement Action Freedom score, an independent assessment of government progress towards UN Sustainable Development Goal 8.7, is less than 50) or were more likely to be exposed to modern slavery risk due to the nature of the services.

In accordance with our Modern Slavery Policy, further investigation was conducted, following which all 38 suppliers demonstrated adequate controls to mitigate modern slavery risk.

We continue to support our suppliers in relation to the risk of modern slavery, to clearly explain our approach to modern slavery and our expectations of our suppliers.

All colleagues were required to undertake modern slavery computer-based training during 2023.

Political neutrality

Metro Bank is and will remain politically neutral and it is not our policy to open or close an account due to the political or personal beliefs of an individual or organisation.

Taxation

As a community bank, we recognise the benefits to society from our full participation in the tax system. As with everything we do, we are committed to acting with integrity and honesty in our tax strategy, policies and practices.

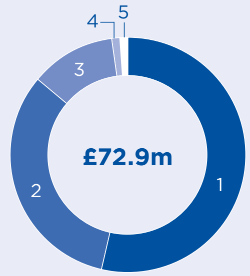
During 2023, our total tax contribution was £139.3 million, made up of £72.9 million taxes paid and £66.4 million of taxes we collected on behalf of the UK government. Taxes paid in the period were charged to our income statement or capitalised as part of an asset's cost. Taxes collected are generated by our business activity, including the taxes of employees and customers collected in the usual course of business and administered on behalf of the UK government.

Further information can be found in our Tax Strategy document available on our website at: metrobankonline.co.uk/globalassets/documents/customer-documents/intermediaries/2022-tax-strategy.pdf.

ESG ratings

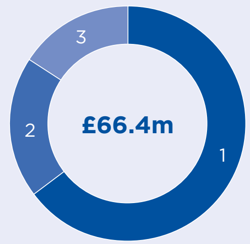
In 2023, we commenced engagement with specialist ESG rating agencies to ensure our data and activities are understood and appropriately reflected in our ratings.

Taxes paid (2023)



	£m	%
1. Irrecoverable VAT and customs duty	39.2	53.77
2. Employer NICs	23.6	32.37
3. Business rates	8.6	11.80
4. Corporation Tax	0.8	1.10
5. Other taxes	0.7	0.96

Taxes collected (2023)



	£m	%
1. PAYE	43.0	64.76
2. Employee NICs	13.0	19.58
3. Net VAT	10.4	15.66

Our planet

Being good to our planet goes hand in hand with our ambition to be the number one community bank.

Alignment to UN SDGs:

We are working to reduce the impact of our operations on the environment. Climate change is also a risk to us and the communities we serve – managing this risk, and helping our colleagues, suppliers, customers and communities to do so too is a key part of being a responsible community bank. As we grow and expand into new communities, we are building environmental considerations into the plans for our new stores.

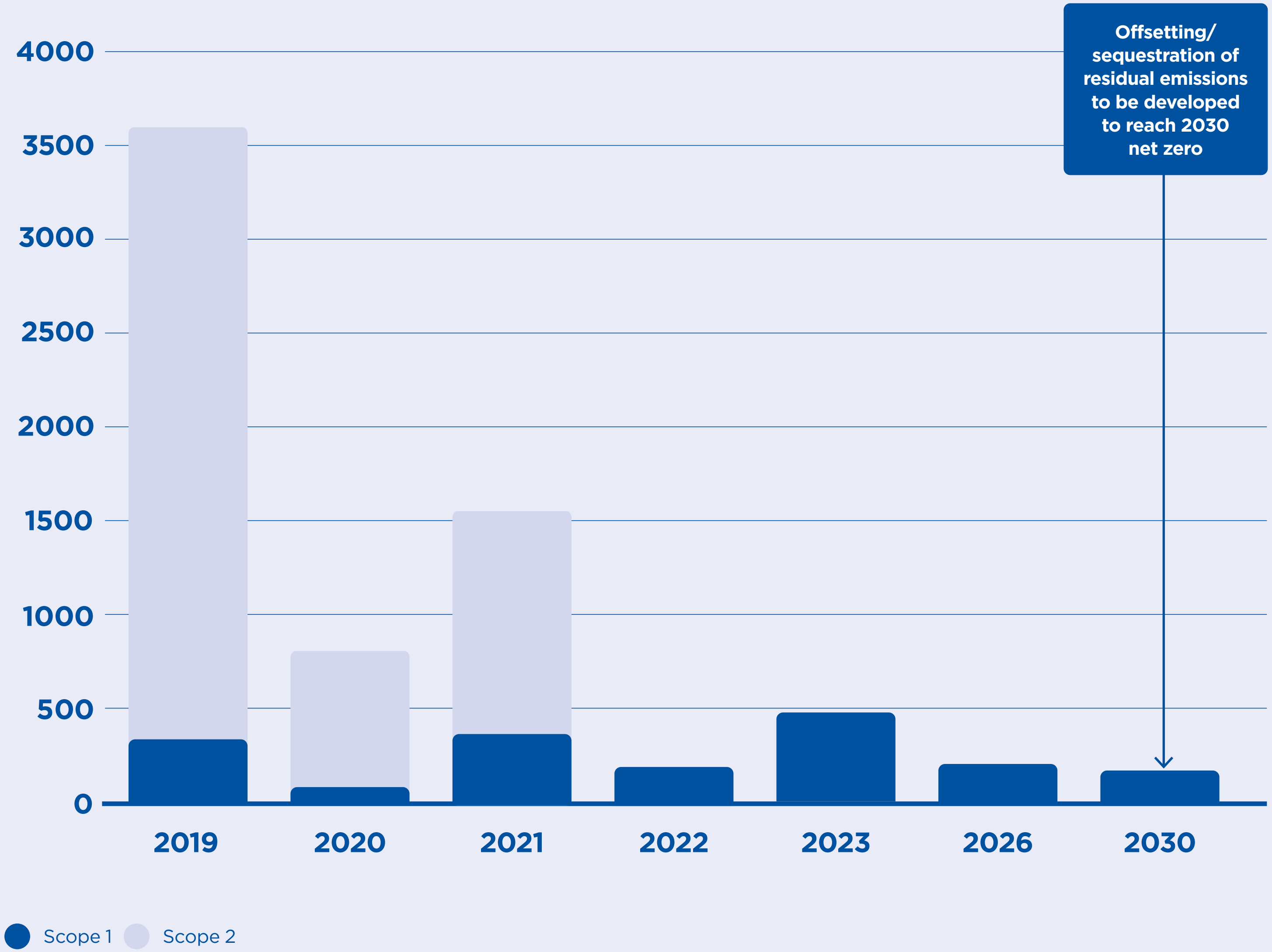
In recognition of this, we have committed to two headline pledges to reduce our carbon footprint:

- To make our operations net zero by 2030.
- To make our operations and value chain net zero by 2050.

In summer 2023, we submitted a full disclosure to the Carbon Disclosure Project – a widely-recognised reviewer of corporate environmental data. The outcome is expected in early 2024.

Operational emissions road map

tCO_2e



Bishopsgate office furniture reuse

In June 2023, we vacated our office at 55 Bishopsgate in London in advance of the building being redeveloped. All colleagues were relocated to other central London locations. In line with our commitments to support the community, to recycle and reduce waste, we partnered with Collecteco to donate the office furniture and equipment to good causes. £128,000 of furniture and equipment was donated to 13 causes across London including NHS trusts, the YMCA, Scouts, schools and charities. Overall, 31 tonnes were saved from landfill, and the equivalent of 177,500kg of carbon emissions were saved, compared to purchasing the same equipment from new.

In autumn 2022, we completed the transition to purchasing 100% electricity from renewable sources across all our stores and offices, certified by the Renewable Energy Guarantee of Origin (REGO) scheme. This important milestone has driven a significant reduction in our operational emissions and has taken our market-based Scope 2 emissions to zero. We do not have any operations based in high biodiversity habitats.

100%

of electricity used in our stores and offices comes from renewable sources

To continue the progress towards our operational net zero pledge, our next steps are to identify and measure our residual operational emissions and eliminate them where possible. The remainder will be offset by purchasing high quality carbon removals.

Since 2020, we have sent zero waste to landfill. We source supplies from renewable sources and recycle where possible. We donate surplus office furniture to local charities, saving tonnes of material from landfill in addition to the carbon emissions that would arise from purchasing equivalent new equipment.

This year, we rolled out a new sustainable pen made from recycled plastic and designed to be accessible for everyone, including people with arthritis, carpal tunnel syndrome, or a prosthetic limb. Our pen caddies are made from recycled plastic and can be repurposed as a plant pot – we even provide strawberry seeds as a symbol of supporting our communities grow!

As an ethical community bank, we do not lend directly to businesses that undertake:

- Metal ore mining, coal mining; peat, oil or gas extraction.
- Fossil fuel power generation.
- Activities that cause deforestation.
- Arms manufacture or military activities.

We were founded to be a different kind of bank – a bank with the community at its heart, built around colleagues delivering fantastic customer service.

As we have grown, we have incorporated environmental, social and governance (ESG) priorities into our business to ensure we continue to build it in the right way. In doing this, we are committed to being open and transparent about what we are doing and why.

This approach has seen us become known as a bank that embraces diversity and champions inclusivity; a bank that values sustainability and acts responsibly towards the environment; a bank that makes a positive difference through the local colleagues we employ, the local businesses we work with and the local causes we support. A bank that simply aims to do the right thing by our stakeholders.

The table below sets out our GHG emissions.

	2023	2022	2021	2020	2019
Scope 1 emissions	469	179	336	67	319
Scope 2 emissions (location based)	2,705	2,855	3,327	3,799	4,247
Scope 2 emissions (market based)	–	–	1,194	729	3,256
Scope 3 emissions (core)[1]	1,335	1,397	n/a	n/a	n/a
Scope 3 emissions (all)	111,205	129,363	155,182	190,333	248,979
Total GHG emissions (location based)	114,379	132,397	158,845	194,199	253,545
Total GHG emissions (market based)	111,674	129,542	156,712	n/a	n/a
Full-time equivalent colleagues (FTE)	4,281	4,040	4,184	3,850	3,555
Total emissions per FTE	26.1	32.8	38.0	50.4	71.3

1. This measure covers emissions arising from purchased paper (Cat. 1), Fuel and energy related activities (Cat.3), Waste Generated in Operations (Cat.5) and Business Travel (Cat. 6).

Quoted emissions figures are quoted in tCO_2e.

Non-financial information and sustainability information statement

This statement is prepared in compliance with sections 414CA and 414CB of the Companies Act 2006 and explains where you can find further information about how we do the right thing in relation to our customers, communities, colleagues and the environment. A description of our business model and strategy, as well as the non-financial KPIs relevant to our business can be found on pages 11 to 15.

Reporting requirement	Where to find further information for an understanding of our business and our impacts, including outcomes of our activities	Relevant policies and standards that govern our approach (please see policy list on pages 32 to 33 for a description of each policy)
Environmental matters	Page 29 – Our planet. Page 35 – Task Force on Climate-related Financial Disclosures.	• Climate pledges. • Supplier management. • Business and commercial lending.
Colleagues	Page 22 – Our colleagues. Page 26 – Gender pay gap. Page 62 – Letter from the Designated Non-Executive Director for Colleague Engagement. Page 105 – Annual report on remuneration.	• Diversity and inclusion. • Recruitment and selection. • Health and safety. • Whistleblowing. • Conflicts of interest.
Social matters	Page 22 – Our customers and communities. Page 27 – Data privacy and security. Page 27 – Governance and resilience. Page 29 – Our planet.	• Climate pledges. • Supplier management. • Business and commercial lending. • Vulnerable customers. • Data protection. • Anti-tax evasion. • Anti-money laundering/counter terrorist financing. • Business continuity. • Complaints.
Human rights	Page 27 – Our suppliers.	• Modern slavery. • Outsourcing. • Diversity and inclusion.
Anti-bribery and corruption	Page 27 – Governance and resilience. Page 151 – Financial crime risk.	• Anti-bribery and corruption.

Environmental, social and governance review
Continued

Key
1 Our customers and communities
2 Our colleagues
3 Data privacy and security
4 Our suppliers
5 Governance and resilience
6 Our planet

Policy list

Policy	Description	ESG priorities
Anti-bribery and Corruption	The policy outlines our approach to managing the risk of bribery and corruption and to ensure we conduct business in an honest and ethical way, with a zero-tolerance approach to bribery and corruption.	2 5
Anti-Money Laundering/ Counter Terrorist Financing	The policy sets out the systems and controls to identify, assess, monitor and manage financial crime risks and the procedures in place to assess their effectiveness.	1 2 5
Anti-Tax Evasion	The policy sets out our zero-tolerance approach to tax evasion.	1 5
Business Continuity	The policy makes sure we are able to continue delivering services to our customers at acceptable levels if something unexpected were to happen. It addresses impacts to the continuity of critical business activities in the case of man-made disasters, natural disasters or other material events.	1 2 3 4 5
Complaints	The policy is in place to ensure customer complaints are handled promptly and effectively, with a focus on fair outcomes for our customers and meeting our regulatory obligations when things go wrong.	1 2
Conflicts of Interest	The policy provides consistent practical guidance to all relevant parties in relation to the identification, recording and maintenance of actual and perceived conflicts of interest.	2 4 5
Data Management	The policy sets out our objectives and expectations in managing data and data governance practices. It makes sure that data is managed, governed, accessed, protected, utilised and disclosed appropriately. It also focuses on the quality of key data elements and their ongoing maintenance.	1 2 3 5
Data Protection	The Policy is in place to ensure we comply with our data protection obligations and have the adequate level of data protection as prescribed by the General Data Protection Regulation.	1 2 3 5
Diversity, Equity and Inclusion	The policy means that we treat our colleagues fairly. It sets out our commitment to having a diverse workforce which reflects our customer base and to employment policies which follow best practice, based on equal opportunities for all colleagues.	1 2
Fraud	The policy sets a consistent approach to the deterrence, detection and prevention of internal and external fraud.	1 2 5
Health and Safety	The policy protects our customers and colleagues. It recognises our statutory duties and responsibilities under the relevant Health and Safety and Welfare legislation.	1 2
Information Security	The policy sets objectives, expectations, roles and responsibilities and requirements for protecting both our and customer information.	3 5

Environmental, social and governance review
Continued

Policy	Description	ESG priorities
Lending and Arrears Management Policies (including Retail, Business & Commercial Lending)	These policies set our approach to making lending decisions in a structured, consistent and fair way that is compliant with all relevant regulatory requirements. They define the way we safeguard both ourselves and our customers in pursuit of our goals and how we support our customers during periods of financial difficulty.	1
Modern Slavery	The policy describes our approach towards preventing slavery, servitude, forced and compulsory labour and human trafficking in any of our operations or at any of our suppliers and, through them, our supply chains.	1 5
Physical Security	The policy protects our customers and colleagues. It defines the measures to protect our premises from security threats and to ensure the personal safety and security of all customers, colleagues and visitors.	1 2
Procurement and Supplier Management	The policy ensures that when we rely on an external supplier for key processes and activities, we take the reasonable steps to identify, monitor and mitigate the external supplier risks.	1 4 5 6
Product governance	The policy sets requirements to ensure products and services are developed to address customer needs, have a defined target market, are designed to deliver good customer outcomes and are understood by customers.	1 5
Records Management	The policy sets out Metro Bank's objectives and expectations for managing records responsibly and efficiently from creation to disposal, complying with legal and regulatory obligations.	1 2 3 5
Recruitment and Selection	The policy relates to all recruitment-related activities and is relevant for all colleagues and any third-party recruitment partners. The policy outlines responsibilities for hiring aligned to our Company objectives/ethos and in accordance with the relevant legislation and regulation.	2
Sanctions	The policy sets the requirements and approach to managing financial sanctions risks in compliance with applicable sanctions regimes including the prevention, detection and investigation of potential sanctions evasion.	1 5
Technology	The policy sets our approach to the management of technology and associated risks across each of the delivery channels, to support our strategic objectives and deliver good customer outcomes.	1 2 3 5
Vulnerable Customer	The Vulnerable Customer Policy sets out our approach to identifying and interacting with vulnerable customers to ensure we deliver good customer outcomes.	1 2
Whistleblowing	The policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting us.	2 5

Section 172 Statement

Stakeholder engagement is essential to the execution of our purpose to be the number one community bank.

Our six key stakeholders:

Our customers

Our business model depends upon attracting customers and turning them into FANS. Our reputation and creating FANS is at the core of our values.

Our colleagues

As a growing business, we need to attract new talent. We also want to ensure our colleagues are happy and engaged so that they provide excellent service to each and every customer.

Our communities

We are proud to be an integral part of the communities we serve.

Our investors

We engage openly and transparently with our investors who help us to grow.

Our regulators

Following our regulators' principles, rules and guidance helps us to put customers at the heart of everything we do.

Our suppliers

We pride ourselves on doing the right thing, and maintaining the highest values in everything we do, and this extends to the suppliers we work with.

The Board must act in accordance with the duties set out in the Companies Act 2006 ('the Act'). Under section 172 of the Act, the Board has a duty to promote the success of the Company for the benefit of its members as a whole. When making decisions, the Board ensures that it acts in the way it considers, in good faith, would most likely promote success for the benefit of our members, and in doing so have regard to the matters set out in Section 172(1) of the Act.

The different needs of stakeholders are considered throughout the whole decision-making process. The Board at all times has regard to the impact of material decisions on the different stakeholder groups. However, it is not always feasible to provide pragmatic outcomes for all stakeholders and the Board at times has to make decisions based on the competing priorities of stakeholders and the needs of the Bank. More information on the key decisions made by the Board in the year and how stakeholders were considered can be found on page 58.

S.172 factor	Relevant disclosures	Pages
(a) the likely consequences of any decision in the long-term	• Our purpose and strategy framework. • Business model. • Strategic priorities. • Risk report.	2–3 11–13 3 124–157
(b) the interests of the Company's employees	• Non-financial information statement. • Our colleagues. • Board activity and stakeholder engagement. • Letter from the Designated Non-Executive Director for Colleague Engagement.	31 59 57–61 62–63
(c) the need to foster the Company's business relationships with suppliers, customers, and others	• Board activity and stakeholder engagement. • Environmental, social and governance review. • Our suppliers.	57–61 20–33 61
(d) the impact of the Company's operations on the community and the environment	• Board activity and stakeholder engagement. • Task Force on Climate-related Financial Disclosures. • Environmental, social and governance review.	57–61 35–43 20–33
(e) the desirability of the Company maintaining a reputation for high standards of business conduct	• Whistleblowing. • Anti-bribery and corruption. • Audit Committee report. • Modern slavery.	74 27 and 151 70–74 27–28
(f) the need to act fairly between members of the Company	• Board activity and stakeholder engagement. • 2023 AGM. • Share capital.	57–61 60 120

Task Force on Climate-related Financial Disclosures

We are committed to reporting on the impact of climate change on our business in a transparent manner and taking responsibility for the actions required to drive positive changes in our approach to climate-related risks and opportunities.

In compliance with the FCA's Listing Rules, the Group has made disclosures consistent with the TCFD 2021 Recommendations and Recommended Disclosures, including the appropriate annexes and supporting guidance. Additionally, following the amendment of sections 414C, 414CA and 414CB of the Companies Act 2006, the Group has indicated in the below table which of the climate-related disclosures, outlined in Section 414CB, are addressed by the TCFD recommended disclosures, alongside the pages of the 2023 Annual Report and Accounts where these are located.

Key points	Future developments	Page
Governance		
Describe the Board's oversight of climate-related risks and opportunities.		
• The Board retains oversight for all climate-related risks and opportunities and has received half-yearly updates on our progress in this regard in 2023. • The Risk Oversight Committee has oversight of the framework for managing and reporting on climate-related risks in line with our Enterprise Risk Management Framework.	• The Board will continue its regular oversight, engagement and challenge on climate-related strategy and activity. • Ongoing review of governance framework to ensure continued alignment with regulation and industry-recognised best practice and ensure that an appropriate level of focus on climate-related risks and opportunities is in place.	20 and 38
Describe management's role in assessing and managing climate-related risks and opportunities.		
• Overall responsibility for our approach to climate-related risks and opportunity sits with the CEO and is devolved to relevant members of the Executive Committee. • Senior Management Function responsibility under the Senior Managers and Certification Regime sits with the Chief Risk Officer for climate-related risk. • Our Environmental Working Group, reporting into the ESG Steering Committee, discusses our approach to monitoring, measuring and mitigating climate-related risks on a regular basis.	• Focus on enhancing our data and reporting on climate-related risks via key risk indicators to facilitate improved management assessment of these risks. • Further embed climate-related considerations within our approach to product governance to ensure that climate-related risks and opportunities are being consistently considered within this process.	20 and 38
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.		
• Climate-related risks have been identified and assessed as part of a wider review of top and emerging risks and embedded in the Enterprise Risk Management Framework. • Considerations covering risks, our internal operations and our engagement with stakeholders are embedded in the ESG materiality assessment for the organisation. • Opportunities to support our customers in achieving their climate-related aspirations are considered in the strategy review and product development process.	• Continue to evolve our climate-related strategy with new aspirations aligned to our overall strategy. • Expand dialogue with customers on climate-related risks and opportunities to ensure we can best support their transition to a low-carbon economy. • Enhance data capture and quality to support identification, assessment and mitigation of climate-related risks and opportunities and evolve risk capabilities, origination strategy and product suite accordingly.	39–42

Task Force on Climate-related Financial Disclosures
Continued

Key points	Future developments	Page
Strategy continued		
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.		
• The potential impact of climate-related risks and opportunities on our strategy and financial position continues to be considered on an ongoing basis.	• Further embedding of climate consideration in our strategic and financial planning, with consideration of the necessary tools and methodologies to support delivery of the climate-related strategy.	39–42
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		
• Climate-related stress testing is in place and continues to evolve in maturity. There is an impairment overlay process established to cover climate-related risks. • Scenario analysis insights are used to inform the Internal Capital Adequacy Assessment Process and in financial reporting.	• Continued enhancement of our modelling capabilities.	42
Risk management		
Describe the organisation's processes for identifying and assessing climate-related risks.		
• Climate change has been embedded as a cause into the Enterprise Risk Management Framework, together with frameworks, policies and standards for the relevant principal risks. • To form a view on materiality and assess impacts across different time horizons, we assess each principal risk to identify how climate change could manifest. • Internal modelling capabilities are in place to assess the exposure of our lending portfolios to climate-related risks.	• Continue to develop methodologies to identify and assess climate-related risks. • Further development and embedding of climate-related controls. • Enhancement of climate-related data and monitoring across risk types and processes.	40–42
Describe the organisation's processes for managing climate-related risks.		
• We have integrated climate-related controls into our credit processes across both retail and commercial lending, with credit assessments for in-scope commercial clients including qualitative climate risk considerations. • We engage closely with our material suppliers to ensure climate-related risks are identified and appropriate controls put in place.	• Extend climate scenario analysis to additional portfolios. • Enhance capabilities for EPC data capture to enable regular portfolio monitoring.	40–42
Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.		
• Climate-related risks are fully embedded in our Enterprise Risk Management Framework and Three Lines of Defence model, with associated governance structures and defined roles and responsibilities.	• Continue to keep pace with evolving industry requirements around risk management, reporting and governance.	40–42

Task Force on Climate-related Financial Disclosures
Continued

Key points	Future developments	Page
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.		
• Climate-related metrics across our operations, supply chain and financed emissions are reported on an annual basis via our climate-related disclosures. • The properties securing our lending portfolios are assessed for flood and subsidence risk, as well as EPC distribution.	• Continued review and enhancement of our calculation methodologies for Scope 3 emissions in line with industry best practice. Includes development of roadmap to enhance PCAF data quality level for financed emissions and engagement with suppliers to improve Category 1 measurement. • Development of climate-related key risk indicators for intra-year monitoring.	29–30 and 42–43
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.		
• Scope 1, 2 and 3 emissions are disclosed within the wider TCFD disclosure, with full disclosure across all applicable Scope 3 categories.	• Continued enhancement of emissions calculation methodologies in line with industry best practices.	30 and 42
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.		
• We have two overarching net zero targets in place – to achieve net zero emissions across Scope 1 and Scope 2 by 2030 and across Scope 3 by 2050.	• Continued monitoring of performance against these targets and development of interim milestones for sub-categories across all Scopes.	29 and 42–43

We have highlighted some key milestones which have been achieved to date and those we believe will help us to meet our 2030 and 2050 Net Zero pledges.

Short-Term		Medium-Term	Long-Term
100% of electricity procured from certified renewable sources	✓	Procurement of certified renewable gas	Review of origination strategy, product proposition and asset mix to support mitigation of financed emissions
No waste delivered to landfill	✓	Procurement of quality carbon credits to offset fugitive emissions	Ongoing identification of new physical and transition risks impacting our portfolio through scenario analysis
Vehicle fleet is fully hybrid	✓	Transition vehicle fleet to electric vehicles	
Maintained travel emissions below 70% of pre-COVID levels	✓		
Inclusion of climate-related KRIs within Risk Appetite			

Key ✓ Completed

This section of our annual report includes our climate-related financial disclosures, consistent with the recommendations of the Task Force on Climate-related Financial Disclosures, providing an update on our current progress and areas of future focus.

We have made strong progress during 2023, successfully embedding enhancements to our approach to the management of climate-related risks across both our governance structure and the wider risk management framework. There remains work to do to enhance our assessment of the impact of climate-related risks and opportunities on our businesses, strategy, and financial planning, and to refine and enhance coverage and application of climate-related metrics as our capabilities and methodologies mature.

Governance

Board oversight of climate-related risks and opportunities

The Board has ultimate accountability for all climate change risk-related matters. During 2023, the Board has been engaged in the development of our approach, receiving half-yearly updates on climate risk and an annual ESG update. The Board continues to consider climate-related risks and opportunities as part of the annual strategic and financial planning process to ensure our approach to these matters evolves in line with emerging developments. The Risk Oversight Committee has oversight of the framework for managing and reporting the risks from climate change, as set out in the Enterprise Risk Management Framework. The Committee can escalate any climate-related risk matter to the Board. The Audit Committee approved the approach to disclosures and the TCFD requirements, and reviews climate-related financial disclosures as part of its wider role in reviewing our Annual Report and Accounts.

Management's role in assessing and managing climate-related risks and opportunities

Responsibilities for the management of climate-related risks extend across the organisation and its 'Three Lines of Defence'. As climate risk impacts all of our principal risks it requires integration with existing control frameworks, policies and strategies.

The accountability for our approach to ESG sits with the CEO and is devolved to relevant members of ExCo. The Chief Risk Officer has Senior Management Function responsibility under the Senior Managers and Certification Regime for our approach to managing both financial and non-financial risks arising from climate change, including:

- Embedding the consideration of climate-related risks into the governance structures.
- Incorporating the risks from climate change into risk management practices.
- Using long-term scenario analysis to inform strategy setting, risk identification and assessment.
- Ensuring that climate-related risks are appropriately disclosed in line with the recommendations of the TCFD.

Executive Risk Committee

The Executive Risk Committee (ERC) has delegated authority from ROC for overseeing our exposures and approach to managing climate-related risks. In 2023, the Committee received half-yearly updates on the progress of our approach to managing climate-related risks, including assessment of our position against the requirements of Supervisory Statement 3/19, the ongoing evolution of our approach to managing climate-related risks driven by third-party relationships and enhancements to the credit-related aspects of climate risk management.

Credit Risk Oversight Committee

The Credit Risk Oversight Committee (CROC) has specific responsibility for oversight of climate-related aspects of credit risk including recommending strategies to adjust the credit risk portfolio to react to changes in the prevailing market or physical environmental conditions. During the year, the Committee received updates on the credit risk aspects of climate change, including climate risk-specific analysis relating to lending portfolios.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) focuses on our financial risks including capital, funding, liquidity and interest rate risk to ensure that the activity complies with regulatory and corporate governance requirements and also delivers our policy objectives. Where appropriate, this includes the impact of climate change on aspects under its remit.

Environment Working Group

The Environment Working Group continued to bring together key stakeholders from across the first and second lines of defence in 2023 to support work to help embed climate risk into the ERMF and support our wider climate-related goals and ambitions.

The Environment Working Group is accountable for delivering our net zero strategy and objectives across three strategic focus areas:

- Managing the impact of climate change on the business.
- Supporting our customers' transition to a low-carbon economy.
- Reducing the impact that the business has on the environment.

The Environment Working Group has focused on building out the foundations of a multi-year roadmap across core business areas and risk management disciplines. It will continue to update as our analysis of risks and opportunities from climate change evolve. This will help to accelerate progress and prioritisation, particularly in relation to our climate change response.

Task Force on Climate-related Financial Disclosures
Continued

Strategy

While the changes associated with the transition to a lower-carbon economy pose risks, they also present significant opportunities for organisations focused on climate change mitigation and adaptation solutions. In line with our ambition to be the number one community bank, we have an important role to play in facilitating the transition to a low-carbon economy, leveraging the opportunities, and managing the risks we are exposed to from climate change.

We are committed to supporting our customers along the journey as they make the transition towards a low-carbon economy, and to continuing to build our own capabilities by identifying and managing the potential impact of climate change on the business, as well as exploring ways to reduce the impact that the business has on the environment.

We recognise that climate change presents both risks and opportunities to our business model and strategy over short, medium and long-term horizons:

- Short-term (0-1 years): The time horizon for annual financial planning.
- Medium-term (1-5 years): The time horizon for strategic and financial planning cycles.
- Long-term (>5 years): This timeframe is considered using scenario analysis.

Identifying and managing the impact of climate change on the business

The ability to identify, understand and manage risk is critical to our long-term strength and stability and climate risk is no different in this regard. Climate risk does however require us to address risks that may manifest over a significantly greater period of time than that covered by more traditional approaches to risk management. We broadly categorise climate risks into two types: transition risk and physical risk. Within these broad categories we have identified a number of factors arising from climate change which we monitor over the short, medium and long term. Our initial focus has been to identify and assess risks to the business. We have continued to progressively embed climate risk into our key risk processes throughout 2023, developing control processes across our lending activity and internal operations. We continue to develop our own internal climate scenario analysis and stress testing capability in line with emerging industry methodologies and have used outputs from initial methodology developments to formulate an initial impact assessment to inform considerations in developing our strategic response. The risks we face in the medium term primarily relate to transition risks, predominantly arising from developing regulatory and legislative expectations. For example, tightening minimum energy efficiency standards for domestic buildings may lead to transition risks which could impact the value of mortgaged properties or the ability of borrowers to service debt.

Physical risks represent a longer-term risk (primarily from changes in climate patterns impacting the physical property securing our mortgage portfolio) and the most material risks are expected to crystallise over the long term. Changes in extreme variability in weather patterns are forecast to lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk.

Exposures to physical and transition risks may also arise through our commercial lending portfolio due to changes in policy, consumer preferences or technology. As a retail bank, we are not heavily exposed to certain carbon-intensive industries.

Operational risk exposures arise from physical damage to key office locations and physical and transition risks via key suppliers, which could result in business disruption or increased costs.

In 2024, we will continue to review and assess the risks and opportunities that could have a material impact on the business and environment, and refine our approach to climate change scenario analysis, taking into account what we have learned in our initial development work. As these methodologies continue to develop, we will be progressively drawing on our scenario analysis to inform strategic planning; providing insight into/for our strategy, business model and financial plans. At present we do not believe risk arising from climate change to have had material impact on the financial statements.

Operations

We continue to make positive progress in reducing the impact of our direct operations on the environment. We have maintained our position of generating no market-based Scope 2 emissions by continuing to procure 100% renewable electricity with full backing by Renewal Energy Guarantee of Origin (REGO) certificates. We have continued to reduce waste as far as possible and maximise recycling rates (see the case study on the move from our Bishopsgate office for a great example of how we're truly living this ethos!). We continue to deliver zero waste to landfills, which we have achieved consistently since 2020.

These actions have helped us to achieve an overall reduction of 90% across our Scope 1 and 2 emissions from the 2019 baseline, and this keeps us strongly positioned to meet our stated commitment of being net zero across Scope 1 and 2 by 2030. We have identified what continues to drive our remaining Scope 1 and 2 emissions and have identified the necessary actions required to eliminate them. Once these steps have been taken, we will determine the level of residual emissions generated and deliver our full net zero pledge through the purchase of high-quality carbon removals.

Task Force on Climate-related Financial Disclosures
Continued

Risk Management
Identification and assessment
We classify climate-related risks as either physical risks or transition risks. We are exposed to both physical and transition risks arising from climate change. Risks arising from climate change materialise through various channels:

1) Through the financial services and support we provide to customers who may themselves be exposed to the climate change.
2) The operation of our own infrastructure, business and premises which may be exposed to both transition and physical risks.
3) Through a deteriorated perception of our brand if we do not adequately support a transition to a low-carbon economy.

To form a view on materiality, and to understand the broad financial impacts across different time horizons, the Enterprise Risk Management Framework was assessed through a climate change lens to identify how climate change could manifest in each of our principal risks. Due to the longer timeframes associated with climate impacts, short, medium and long-term horizons are being applied to the consideration of impacts. This assessment has been included in the 2023 Internal Capital Adequacy Assessment Process (ICAAP) and identified our top three climate change risks as: credit, capital and operational. Credit risk is the most material climate change risk due to our mortgage portfolio exposures.

Credit risk

Physical risk examples	Transition risk examples	Time horizon
Repayment challenges from obligors due to reduced profitability or asset devaluation because of climatic shifts.	Failure to adapt to changes in policy, regulation, and technology resulting in negative impact to customers.	Medium term to long term.

Mortgages
We have controls in place to mitigate against flood risk, subsidence, and landslip in our residential mortgage portfolio. Where it is identified that a property is situated on a flood plain, borrowing is only permitted where a suitable insurance policy is in place. Specific requirements are in place in relation to lending to buy-to-let properties which have an Energy Performance Certificate (EPC) rating below E. In accordance with the Minimum Energy Efficiency Standards Regulations, all buy-to-let properties must have a minimum EPC rating of E.

All physical valuations must be completed by registered valuers to utilise their local knowledge and expertise, including the assessment of physical risks and climate-related information.

We continue to receive open-source property data for our mortgage portfolio to enhance our portfolio risk identification and monitoring processes. Our secured lending policies and standards will continue to evolve in response to the external environment, increasing regulation and investor and other stakeholder interest. Work is underway to plan how climate risks will be incorporated into credit decisioning in the future.

Commercial lending
Our approach to commercial lending and collateral management incorporates environmental risk considerations. We have additional credit risk assessment requirements for customers operating in carbon-intensive industries. Our Commercial Lending Policy also outlines the prohibited and restricted industries where we have either no or limited appetite to lend.

A large proportion of our business lending customers are privately owned and/or SMEs. Very few lending customers therefore report against voluntary disclosure initiatives such as Carbon Disclosure Project, Sustainability Accounting Standards Board or TCFD.

A top-down assessment of sectors (and sub-sectors) which may have a higher likelihood of being impacted by transition risks has been performed. It highlighted that our direct exposure to commercial lending segments with high emissions is relatively low. We continue to enhance and refine this work at both counterparty and sector level, considering both risks and opportunities as we look to support our customers' responses to climate change. The output will be used to inform the evolution of our credit policies and risk appetite measures to monitor the portfolio transition risk.

Capital and liquidity risk

Risk examples	Time horizon
• Our capital position is indirectly subject to climate risk through Bank-wide exposures across all risk types. • Longer-term climate change risks may adversely impact our future revenue through customer behaviour, balance sheet or strategy changes over the longer term in response to climate change risk factors. • Market dislocation could also impact the value or the ability to monetise liquidity buffers or incremental client deposits run-off resulting from transition risk drivers.	Medium term to long term.

Climate change risk has been considered as part of the 2023 ICAAP. This includes a qualitative assessment of the potential financial implications of climate-related risk, namely transition and physical risks. The ICAAP is a key planning process and facilitates the Board and senior management in identifying, measuring and monitoring our risks and ensures that we hold adequate capital to support our risk profile. Based on our current assessment the capital requirement is not considered to have a material impact over the planning horizon at this time. Consideration of climate risk will continue to be further embedded in key processes where investment decisions are made and the level of climate risk being taken is material. The output of the climate scenario analysis and stress testing is used to inform the understanding of how capital management may be impacted.

Climate risk and broader ESG considerations are now reflected in our treasury portfolio investment strategy, with implications for securities that can be included in the Liquidity Pool. The 2023 Internal Liquidity Adequacy Assessment Process (ILAAP) outlined the potential funding and liquidity risks that may arise as a result of physical risks or transition risks.

The impacts of climate change will continue to be assessed within our prudential statements, namely the ICAAP and ILAAP.

Operational risk

Physical risk examples	Time horizon
Business interruptions due to extreme weather events and damage to facilities. Disruptions in supply chain.	Medium term.
Transition risk examples	
Increased operating costs for facilities and higher capital expenditures for resiliency and carbon reduction measures capital expenditures for resiliency and carbon reduction measures.	

Climate change is embedded as a cause within the Enterprise Risk Management Framework and our principal risks are assessed through a climate lens. All loss events are recorded in our incident management system, enabling the identification of climate-related risk events.

Scenario analysis is performed to assess the potential effects of climate-driven events including disruption to business services, damage to physical assets, and health and safety. Physical risk data has been obtained in relation to key data centres and office/store locations to support our assessment of future risk. The results of the scenario analysis are used to plan, prepare and respond to potential disruptions. There are also plans in place to help resume business operations as quickly as possible in the aftermath of an extreme climate event to minimise operational disruptions.

We continue to take steps to embed climate change considerations into our procurement and supply chain management processes, including exploring different methods to collect environmental performance data from third parties. More broadly, the Operational Resilience programme outlines the requirements (including requirements of suppliers) to respond to business disruption.

We will continue to identify, manage and disclose material climate-related risks and their impacts on our strategy and financial planning, in line with the TCFD framework.

Task Force on Climate-related Financial Disclosures
Continued

Our Risk Appetite Statement includes a qualitative statement in relation to climate risk. In support of this appetite, complementary quantitative key risk indicators are being developed and will be assessed with a view to integrating them into risk appetite metrics, where appropriate. Metrics will be further enhanced as data and capability evolves and will leverage scenario analysis outputs.

Response
Climate change has been embedded as a cause into the Enterprise Risk Management Framework, together with the frameworks, policies and standards for these principal risks. For Credit risk, we have also integrated climate risk considerations into both the Business and Commercial Lending Policy and the Collateral Management Policy to aid the embedding, management and monitoring of climate change risk as a cause to our credit risks.

Scenario analysis
As the understanding and importance of climate risk progresses, climate scenario analysis is becoming an essential capability and risk management tool. Scenario analysis assists the identification, measurement and ongoing assessment of climate risks over the longer term, and the potential threats to our strategic objectives. Throughout 2023, we have continued to use the analysis from the Biennial Exploratory Scenario work conducted in 2021, leveraging the results of that analysis in the corresponding period and using this to inform a PMO which is incorporated within our IFRS 9 ECL calculation. In addition, a Climate Risk scenario was formally assessed as part of the 2023 ICAAP, reviewing the potential impact of an extreme weather event causing prolonged physical damage to our stores and a breakdown in the transport infrastructure servicing the stores. Outcomes from these pieces of analysis have indicated that we are considered to have sufficient capital to withstand the losses associated with the climate scenarios that have been assessed.

As this capability is established and further developed, the assessment will be run on an ongoing basis to inform scenario planning and monitoring of the portfolio composition to ensure no undue concentrations. The results of the scenario analysis will be used to support the evolution of origination strategies in line with our overarching strategic objectives and risk appetite to factor in climate change risks and opportunities. It will also inform product opportunity assessment and help to identify areas where we could best support customers' transition to improved energy efficiency or reduction in exposure to physical risks.

Metrics and targets
Our climate change metrics are anchored to our commitment to make our own operations net zero by 2030, and to drive material reductions in the climate impact of our financing activity and value chain by 2050. Recognising that there is more to do to fully understand the impact of climate change across our business, we will continue to work on developing further metrics in line with evolving industry practices.

Our emissions data for 2023 is disclosed in the below table, outlining year-on-year changes as well as overall progress from our 2019 baseline.

Emissions summary by Scope and Category

Emission Scope	Category	2023	% change PY	2022
Scope 1	Fuels (transport)	20	-13	23
	Gas	71	18	60
	Fugitive	378	294	96
	Total	**469**	**162**	**179**
Scope 2	**Electricity (market)**	**0**	**–**	**0**
	Total Scope 1 & 2	469	162	179
	% change from 2019 baseline	-90	–	–
Scope 3	Cat 1: Purchased goods & services	54,986	-17	65,933
	Cat 2: Capital goods	2,155	-69	7,057
	Cat 3: Fuel & energy activities	903	-11	1,015
	Cat 4: Upstream transportation	371	-22	477
	Cat 5: Waste	9	0	9
	Cat 6: Business travel	423	23	343
	Cat 7: Employee commuting	4,495	-1	4,550
	Cat 9: Downstream transportation	114	-3	117
	Cat 15: Investments	47,749	-4	49,862
	Total Scope 3	**111,205**	**-14**	**129,363**
	% change from 2019 baseline	-55	–	-48
	Total GHG emissions	**111,674**	**-14**	**129,542**
	% change from 2019 baseline	-56	**–**	**-48**

Quoted emissions figures are quoted in tCO_2e
For Scope 3 emissions, categories 8 and 10-14 are assessed not to apply to our operations at this time and are therefore excluded from our analysis

Operational emissions

Greenhouse gas reporting is undertaken in line with our obligations under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the Streamlined Energy and Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions.

We report GHG emissions in accordance with the operational control approach, The only material data limitation in the emission data relates to employee commuting, where data for all individuals was not available; to account for this, average population values were used to perform the calculation.

We have seen an increase in our Scope 1 emissions this year as detailed in the table above, primarily driven by an increase in refrigerant and coolant leaks (known as fugitive emissions). By their nature, these will be subject to variance year on year and as we progress towards our 2030 commitment we will seek to offset these fugitive emissions via high-quality carbon credits. Overall, we have achieved a reduction of 90% in Scope 1 and 2 emissions from our baseline year of 2019 and are well positioned to achieve our 2030 net zero commitment for Scopes 1 and 2. We continue to procure 100% renewable-backed electricity across our operations and therefore produce no market-based emissions from our electricity procurement.

We recognise that the climate impact of our operations goes beyond carbon emissions from fuel consumption and electricity and that we have a responsibility to understand and address emissions across our wider value chain. Therefore, we have measured our Scope 3 emissions from our own operations in 2023 as set out in the table above. To enhance our reporting, we have broken down our Scope 3 emissions into their underlying categories.

In addition to tracking the emissions for buildings, water and waste consumption are measured across our sites. We continue to divert 100% of our waste from landfill. We have continued to see a reduction in emissions from these sources both year on year and from our baseline in 2019. We have also seen concurrent reductions in paper usage. These reductions can be reasonably attributed in part to our continued operation of a hybrid working model.

Financed emissions

We remain fully committed to our pledge to make our financing activity and value chain net zero by 2050 to achieve alignment with the 2015 Paris Agreement.

Financed emissions are absolute GHG emissions that we finance through our lending and investment activity. We continue to develop the data and technology required to enhance the accuracy of our assessment and management of our carbon-related assets and exposures.

For 2023, we have calculated financed emissions from our residential mortgage portfolio (both organic and acquired) and residential and commercial buy-to-let portfolios. PCAF guidance has been followed when determining the attribution factor associated with the lending book, based on outstanding amount and property value at origination. To support calculation of the emissions arising from the portfolio of properties, typical annual energy consumption data for the average UK property was obtained from UK Government statistical databases, as were emissions conversion factors for gas and electricity usage.

The use of EPC data has informed our understanding of the impact of transition risk on our mortgage portfolio. EPC ratings of the mortgage portfolio are monitored to provide a view on the energy efficiency of the housing stock securing our lending. The table below shows a summary of EPC ratings on our mortgage book as at the start of 2023, covering both residential and professional buy-to-let. Approximately 75% of mortgaged properties in the portfolios have been matched to an EPC rating, with the most common EPC rating in our mortgage book being D, which is slightly lower than the UK average. Approximately 39% of the book currently rated EPC C or better on an interpolated basis, which represents a 3% improvement over the previous year.

EPC rating	% of properties
A	0
B	11
C	28
D	42
<E	19

Physical climate risk data was matched for 95% of the properties in the portfolio, with the incremental impact of river, coastal and surface flooding assessed to 2050. The assessment shows that the flood risk of the properties in our mortgages portfolio is broadly in line with the national average. Our scenario analysis results suggest physical risks arising from climate change should have a low impact on our mortgage portfolio over the next 30 years.

Flood Risk		Negligible	Low	Medium	High
Residential	Rivers and sea	94.4%	3.1%	1.9%	0.6%
	Surface water	86.7%	8.9%	2.2%	2.2%
Commercial	Rivers and sea	93.3%	4.4%	2.0%	0.3%
	Surface water	83.4%	11.7%	2.1%	2.8%

Risk overview summary

We operate a straightforward community banking strategy and business model, carefully managing risk as we serve our customers through both physical and digital channels.

Approach to risk management

Our risk management framework underpins our ability to deliver, ensuring risks are carefully considered when making decisions and are managed within acceptable limits on an ongoing basis. The framework establishes the risk management responsibilities of all colleagues, which are embedded within our AMAZEING values, formalises our risk appetite and sets out the tools and techniques used to operate safely within it.

Further information on our risk management framework can be found on page 125.

Risk environment in 2023

During 2023, there has been particular focus on overseeing the management of our capital risk, culminating with the successful completion of the refinancing activity in November, which restored capital ratios to above regulatory minima, including buffers (excluding any confidential buffers, where applicable). Management of liquidity risk was also heightened following increased customer deposit outflows in October as a result of speculative media reports on the strength of our capital position and negotiations.

Our strong levels of liquidity and prudent approach meant these outflows were manageable and by year end we had returned to broadly the same deposit levels as we reported for the third quarter. Whilst some deposits came at an increased cost, we continue to demonstrate strong liquidity and funding regulatory ratios. Focus has also remained on assessing and managing the impact of the changing macroeconomic environment and the effect of this on credit risk, including supporting our customers and ensuring appropriate levels of credit provisions.

Key areas of focus across non-financial risk have been the implementation of the new Consumer Duty requirements, ongoing assessment and improvements in operational resilience and continued strengthening of financial crime controls. Through the year, we have continued to enhance our risk data and systems, introduced new and updated tooling and focused on their application to further mature and streamline risk management activities. Our Policy Governance Framework has been refined with a focus on usability and we have enhanced reporting to governance committees and the Board.

Further information on our operating environment can be found on pages 6 to 7.

Principal risk exposures

On an ongoing basis, we assess our risks against risk appetite, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. We consider the potential impact and likelihood of internal and external risk events and circumstances, and the timescale over which they may occur.

We identify, define and assess a range of principal risks to which we are exposed. These are the high-level risks we face, for which risk appetite is set and monitored via key risk indicators. They are consistent with those set out in last year's annual report and comprise:

- Credit risk.
- Capital risk.
- Liquidity and Funding risk.
- Market risk.
- Financial Crime risk.
- Operational risk.
- Conduct risk.
- Regulatory risk.
- Legal risk.
- Model risk.
- Strategic risk.

Further details on all of our principal risks, including our risk appetite, exposure and response to each can be found on pages 130 to 157.

Amongst these, certain risks have been considered most material over the course of the year. Our capital risk position has improved following the successful refinancing in late 2023, but oversight remains heightened as we continue to closely monitor the implementation of our strategy and our financial performance. Credit risk has been subject to continued close scrutiny in light of the challenging macroeconomic environment and management of financial crime risk remains a priority, aligned to regulatory focus. Strategic risk including reputational risk has also been subject to more active management in light of the risks prior to, and following, the capital restructuring and associated media speculation. This risk is anticipated to stabilise and improve in line with our planned return to sustained profitability. Further details on these four risks are set out on pages 45 and 46.

Risk overview summary
Continued

Principal risks

Principal risk	Exposure	Response	Outlook
Strategic risk	Strategic risk could arise as the result of an insufficiently defined, flawed, or poorly implemented strategy. Successful management of strategic risk requires a plan that is responsive to the rapidly evolving external environment in which we operate. Furthermore, our strategy needs to meet the expectations of our stakeholders, including our customers, regulators and investors. During 2023, we remained focused on the execution of our strategy, with the return to profitability in the first half of the year demonstrating the strengths of our community banking strategy. The second half of the year saw a combination of increased capital requirements together with a setback in our ambition to achieve AIRB for residential mortgages. These factors put pressure on our capital position and restrained the levels to which we were able to grow capital organically. In challenging market conditions, we were successful in delivering a £925 million capital package which included the raising of new capital as well as the refinancing of our existing regulatory debt. Externally, some negative sentiment was generated prior to and following this activity with short-term impacts on deposits.	We continue to oversee the development and execution of our strategy on an ongoing basis through regular in-depth management reviews of business performance and change delivery, oversight of strategic risks through risk governance and regular updates presented to the Board. We actively manage any potential reputational risks to the bank, including monitoring media coverage to understand stakeholder perceptions and potential impacts and ensure our corporate announcements are clear, informative and a fair reflection of who we are and what we do. The Board undertakes an annual review of the strategy and Long Term Plan, which is supported by a risk assessment reviewed at the Risk Oversight Committee. During 2023, we have continued to strengthen our cost management discipline, including prioritisation and delivery of technology change.	We continue to see a high level of volatility in the external environment. The risk of further negative sentiment is expected to remain for the near term, but we are confident that we have developed a strategy for 2024 that serves our customers, sets us on a path to sustained profitability and supports our ambition to be the number one community bank. As we begin to see the success of our revised strategy, we expect this risk to recede. Monitoring of performance will remain heightened with close Board oversight of the efficacy of the strategy and its implementation. This will be supported by ongoing risk assessment to support active management of the evolving risk profile, with oversight from the Risk Oversight Committee.
Capital risk	Capital risk exposures arise from the depletion of our capital resources which may result from: • Increased RWAs. • Losses. • Changes to regulatory minima or other regulatory rules. Our capital risk management approach is therefore focused on ensuring we can maintain appropriate levels of capital to both meet regulatory minima and support our objectives, both under normal and stressed conditions.	Our capital risk mitigation is focused on three key components: • A return to sustainable profitability that will allow us to generate organic capital growth. • The continued optimisation of our balance sheet to ensure we are utilising our capital stack efficiently. • Continuing to assess the raising of capital, as and when market conditions and opportunities allow.	Following the capital raise we enter 2024 with a stronger and longer-dated capital base, putting us in a good position to deliver on strategy and achieve sustainable profitability in the years ahead. Our active P&L management, including disciplined cost reduction, will help to mitigate the near-term headwinds from the increased cost of deposits and funding for the Bank. Capital risk will continue to be subject to heightened monitoring and active management.

Risk overview summary
Continued

Principal risks continued

Principal risk	Exposure	Response	Outlook
Credit risk	During 2023, the macroeconomic environment in the UK has been impacted by high inflation, increased interest rates and subdued economic growth. This has impacted upon the cost of living for our customers and in turn, affordability and property valuations. There have been decreases observed in the residential property price indices, although the overall reduction has been relatively muted to date. The rate of inflation has reduced significantly over the year, but remained above the central bank target rate at year end. As a result, whilst the Bank of England base rate has remained higher than prior years, mortgage rates have started to decrease and there is an expectation that this will continue in 2024. We have observed some crystallisation of the economic deterioration on customer positions and through this, onto ECL. As affordability for customers has come under pressure from higher interest rates, we have observed an increase in arrears rates for the mortgage portfolio from a low base. Against this, whilst the economic outlook remains on the downside, forecasts have improved over the course of 2023, and this has resulted in a positive impact on the ECL position.	We have an appetite and credit criteria appropriate for managing lending through an economic cycle. We have made limited updates to our credit criteria and risk exposure where appropriate during 2023. We have continued to enhance our credit risk framework and associated policies in the current macroeconomic environment: reporting, analysis, and forecasting have been enhanced, particularly around arrears and impairments, to inform strategic decision-making and operational management. We work with our customers who are in arrears, have payment shortfalls or are in financial difficulties to obtain the most appropriate outcome for both the Bank and the customer. The primary objectives of our policy are to ensure that appropriate mechanisms and tools are in place to support customers during periods of financial difficulty and to minimise the duration of the difficulty and the consequence, costs and other impacts arising.	The macroeconomic outlook has improved during the course of 2023, although risks remain as central banks manage the course of interest rates, and geopolitical instability continues from conflicts in both Ukraine and the Middle East. We remain alert to the ongoing impact of the resetting of interest rates after a period of historically lower rates. We anticipate that the impact of this will continue throughout 2024 as customers transfer from older fixed rate mortgage products, and we have appropriate mechanisms in place to support customers and manage the associated risks. We utilise macroeconomic scenarios provided by Moody's Analytics in the assessment of provisions. The use of an independent supplier for the provision of scenarios helps to ensure that the estimates are unbiased. The macroeconomic scenarios are assessed and reviewed monthly to ensure appropriateness and relevance to the ECL calculation.
Financial crime risk	We may be exposed to financial crime risk if we do not effectively identify and appropriately mitigate the risks of criminals using our products and services for financial crime. Financial crime risks include money laundering, sanctions violations, bribery and corruption, facilitation of tax evasion and terrorist financing. Failure to prevent financial crime may result in harm to our customers, ourselves and third parties. In addition, non-compliance with regulatory and legal requirements may result in enforcement action such as regulatory fines, restrictions, or suspension of business or cost of mandatory corrective action, which will have an adverse effect on us from a financial and reputational perspective.	We are committed to safeguarding both ourselves and our customers from financial crime. We continue to invest in our financial crime control framework to ensure compliance with current as well as newly issued legal and regulatory requirements. We have invested in an ongoing financial crime change capability to deliver these improvements as well as support with the embedding of previously implemented controls. In 2023, this saw us deliver an ongoing due diligence capability. We continue to identify emerging trends and typologies through conducting horizon scanning activity, through information obtained from investigative and intelligence teams and through attending key industry forums (or associations) such as those hosted by UK Finance. As required, we continue to update our control framework to ensure emerging risks are identified and mitigated.	Recognising the evolving landscape of financial crime risk against the backdrop of increasing regulatory focus, we continue to invest in our financial crime control environment to prevent financial crime and remain aligned to our legal and regulatory requirements. The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters, and the FCA's enquiries remain ongoing.

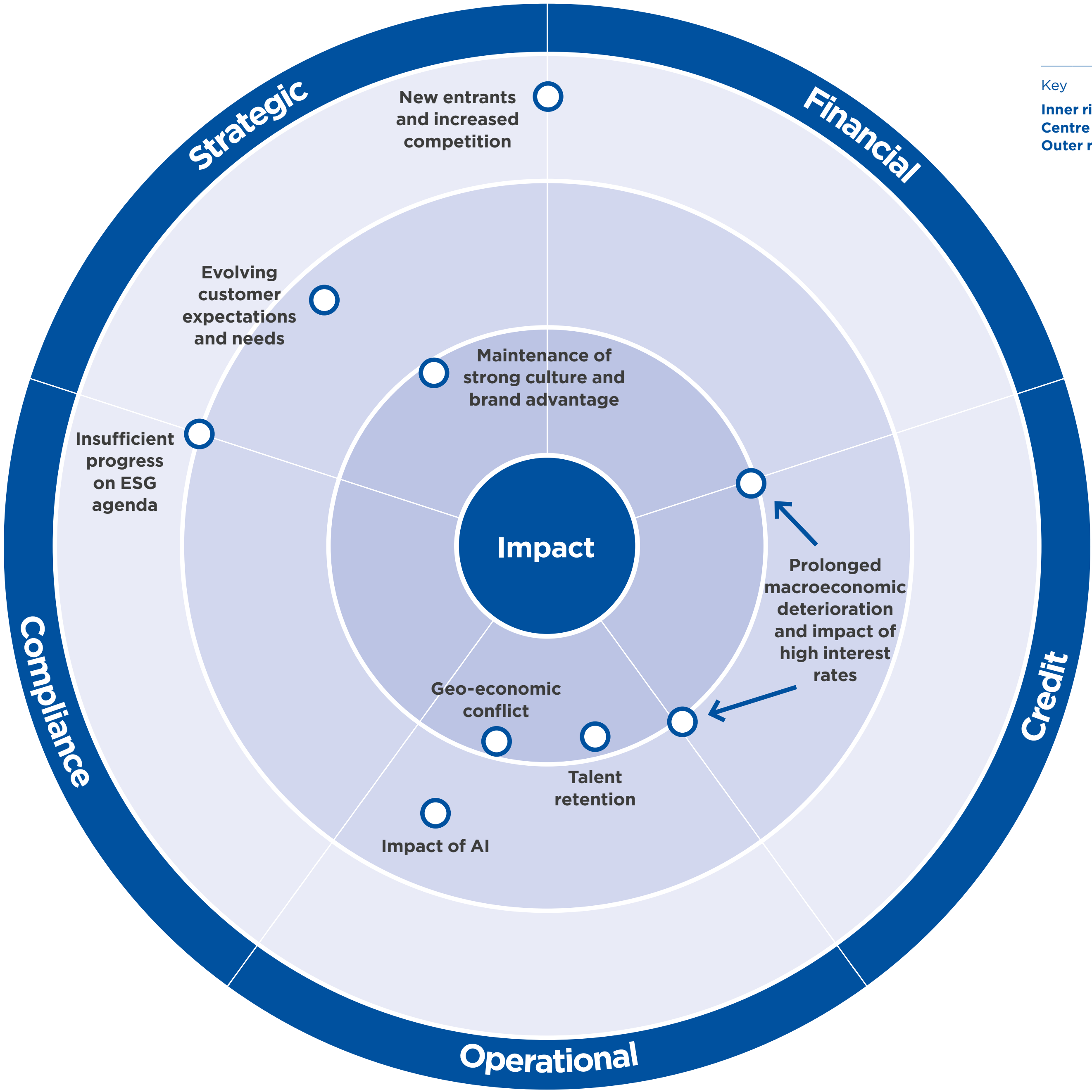
Risk overview summary
Continued

Emerging risks

We proactively identify a range of evolving threats, which cannot yet be reliably quantified, but which have the potential to cause significant loss or harm to the Bank. These are actively monitored and regularly reported through the Bank's governance structures with preparatory actions taken in response where necessary.

Emerging risks are grouped by risk themes, which equate to the Bank's principal risks. Time horizons for their potential emergence as crystallised risks are considered alongside an estimate of the potential impact should they crystallise.

A range of methods are used to identify emerging risks including internal working groups, scenario analysis and consulting with external experts, to ensure an external perspective is incorporated. There continues to be increased focus on assessing and understanding how different individual risks and threats are correlated with each other, including via scenario analysis.



Key
Inner ring: <12 months
Centre ring: 1 to 3 years
Outer ring: 3+ years

Risk overview summary
Continued

Emerging risks and time horizon

Emerging risk	Response	Principal risks	Crystallising time horizon
Maintenance of strong culture and brand advantage	• Clearly defined organisational strategy and reinforcement of AMAZEING values. • Continued focus on exceptional customer service. • Ongoing commitment to the physical store model, serving customers in their communities.	• Strategic	<12 months
Geo-economic conflict	• Ongoing investment in sanctions capability and active monitoring. • Resilience planning, including for supply chain disruption. • Business continuity planning and exercising.	• Operational • Financial crime	<12 months
Talent retention	• Active management and targeted interventions in volume and high-competition roles. • Differentiated offering with emphasis on growth plans and unique culture.	• Operational • Conduct • Strategic	<12 months
Prolonged macroeconomic deterioration and impact of high interest rate environment	• Close and active monitoring of customers in arrears/distress. • Application of Consumer Duty principals to deliver good customer outcomes. • Elevated fraud and financial crime monitoring.	• Credit • Conduct • Operational	1 to 3 years
Impact of Artificial Intelligence (AI)	• Continued investment in technology and data capability. • Safe and staged introduction of AI/machine learning use cases (internal efficiencies, customer opportunities). • Close monitoring and response to evolving regulatory expectations with a focus on delivering good customer outcomes.	• Operational • Strategic • Regulatory	1 to 3 years
Evolving customer expectations and needs	• Rebalancing of capability across channel offerings, with investment in digital capabilities. • Evolved product and service offerings within target growth sectors.	• Operational • Conduct • Strategic	1 to 3 years
ESG agenda	• Definition of authentic ESG strategy and integration into business metrics. • Satisfying regulatory requirements and reporting transparency.	• Credit • Operational • Strategic	1 to 3 years
New entrants and increased competition	• Investment in digital capabilities alongside physical presence. • Clear definition and communication of purpose amongst sectors we serve.	• Strategic	3+ years

Viability statement

Assessment of principal and emerging risks

The Directors undertook a robust assessment of all the principal and emerging risks we face, to understand those that presented the greatest risks to going concern and viability.

See pages 124 to 157 for our principal risks

Risks to going concern and viability

The principal risks that were felt posed the greatest risk to going concern and viability were:

- Operational failure (Operational risk).
- A lack of liquidity (Liquidity and Funding risk).
- Insufficient capital (Capital risk).

Risk management and internal controls

The Directors undertook an assessment of our approach to risk management and the effectiveness of our internal control systems to ensure these remained appropriate and didn't require any additional consideration in respect of assessing going concern and viability.

Assessment of prospects

Strategic planning process

Our strategic planning process consists of our Long Term Plan which covers a five-year period from the year end and is central to the assessment of prospects. It is reviewed annually by the Board with the first four years forming the viability assessment period.

Board review of the Long Term Plan

- Determination of whether the assumptions underpinning the Long Term Plan remain appropriate.
- Consideration of whether the plan continues to take appropriate account of the external environment.

See pages 6 to 7 for information on our operating environment

Assessment of viability

Although our Long Term Plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact by examining our sensitivity to a 'severe but plausible' downside. This has been undertaken via the creation of a scenario that reflects additional downside risks.

Severe but plausible stress

Directors considered a scenario that led to increased ECL, deposit outflows, reduced fee income, increased costs and the removal of our ability to raise incremental regulatory capital. Under this scenario we retained sufficient liquidity. With respect to capital we fell below regulatory minima at a total capital plus MREL level.

Scenario outcome and mitigating actions

The Directors considered the actions that could reasonably be deployed to mitigate the capital risk and concluded that these were both plausible and did not in and of themselves constitute any additional risk. Mitigating actions could include balance sheet optimisation through slowing growth or exiting portfolios, or through cost reduction, or through raising additional long term debt dependent on market conditions. Accounting for these actions we would remain above minima although we would need to operate in our capital buffers for a period of time.

Routine stress testing

In addition to the specific scenario, we perform routine stress testing (including reverse stress tests) for both management and regulatory purposes including as part of the ICAAP and ILAAP. Directors review these assessments to understand the likelihood of such events occurring and what mitigating actions could be taken.

Viability Statement

The Directors confirm that they have a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the four year assessment period to 31 December 2027.

Going concern

The Directors consider it appropriate to prepare the financial statements on the going concern basis.

Viability statement
Continued

Approach and horizon period
Our approach to assessing going concern and viability is set out on page 49.

Our approach starts with the consideration of the principal risks we face. Of our principal risks it was felt that only operational failure (Operational risk), a lack of liquidity (Liquidity and Funding risk), or insufficient capital (Capital risk) could directly lead to us not being able to continue in our current form if they were to occur (although a failure of our other principal risks could lead to one of these events).

Alongside this the Directors considered our approach to risk management and the effectiveness of our internal control systems to understand if there were any other considerations that should form part of the assessment. This included consideration of all material controls, including financial, operational and compliance controls. As described in the corporate governance and risk reports, our risk management and internal control systems are monitored and evaluated on an ongoing basis at the Risk Oversight Committee, Audit Committee and Board.

Although underpinned by a wide variety of support, central to the assessment was our Long Term Plan. The Long Term Plan represents our best forecast estimate covering the period from 1 January 2024 to 31 December 2028, the first year of which reflects our 2024 budget. Although the plan covers five years the Directors have assessed prospects and viability for the four years through to 31 December 2027. This is felt appropriate as it is the period over which forecasts have a greater level of certainty (although the fifth year still provides a robust planning tool against which strategic decisions can be made). The assessment then focused on reviewing the plan against the principal risks identified above that could impede our ability to remain viable over the four-year horizon period.

Assessment of prospects
The Directors have an obligation in accordance with provision 31 of the Code to confirm that they believe that we will be able to continue in operation, and to meet our liabilities as they fall due. Our prospects are assessed primarily through our strategic planning process (our Long Term Plan) as set out to the left. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so considers whether the plan continues to take appropriate account of the external environment (see Operating environment on pages 6 to 7 for further details). The latest updates to the Long Term Plan (covering the period 2024 to 2028) were formally approved by the Board in February 2024.

Our purpose and strategy framework which incorporates our business model and strategic priorities (see pages 11 to 13) are central to an understanding of our prospects. The nature of our activities is long-term and our business model has remained unchanged since we were founded.

Delivering on our strategic priorities is key to achieving our forecasts in the Long Term Plan. The Directors have reviewed the assumptions underpinning our plan and have determined they are appropriate.

Assessment of viability
Although our Long Term Plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact by examining our sensitivity to a 'severe but plausible' downside. This has been undertaken via the creation of a scenario that reflects additional downside risks.

Assessment of going concern
In line with the work undertaken in respect of viability the Directors also undertook an assessment of going concern, which they consider to cover a period of at least 15 months from the date of approval of the financial statements.

Consistent with their approach to considering viability, the Directors assessed whether we continued to maintain sufficient liquidity and capital for the period of assessment. Given this assessment, combined with the fact that the Directors do not intend to liquidate or to cease our operations, they concluded that there was a reasonable expectation that we have adequate resources to continue as a going concern. They have also concluded that there are no material uncertainties that could cast significant doubt over this assessment.

Viability statement
Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that we will be able to continue in operation and meet our liabilities as they fall due over the four-year assessment period to 31 December 2027.

Going concern statement
The Directors also consider it appropriate to prepare the financial statements on the going concern basis, as explained further in the Basis of preparation paragraph in note 1 to the financial statements.

This Strategic Report, including pages 1 to 50, was approved by the Board and signed on its behalf by:

Daniel Frumkin
Chief Executive Officer
16 April 2024

Governance

In this section

Corporate governance introduction

Our focus remains on delivering value for all stakeholders through unrelenting focus on our strategy.

I am pleased to set out Metro Bank's corporate governance report on behalf of the Board. The purpose of this section is to explain how we, as a Board, considered and made decisions that were in the best interests of shareholders, customers, colleagues and all other stakeholders in 2023. The Board remains committed to adhering to the highest standards of corporate governance and this is reflected in the decisions we take, the transparency of the standards we set, our culture and how we communicate with our stakeholders.

In 2023, the Board continued to focus on the Bank's transformation journey delivered by our ExCo and centred on our five strategic priorities.

In May 2023, we completed the implementation of our holding company. This marked an important milestone in meeting the requirements of the Bank of England's resolution framework. Following a robust implementation process, the new structure is fully embedded and operating well.

The October 2023 announcement of our £925 million capital package was a defining moment for the Bank. The Board considered very carefully all stakeholders when making the decision to recommend the capital package and, although some investors were unable to participate, the Board agreed that the package demonstrated the best possible outcome for all stakeholders.

In November 2023, we announced that potential cost savings of £50 million per year had been identified. In making decisions to implement these cost savings, the Board considered very carefully the impacts on all of its stakeholders.

Whilst we remain committed to providing services to our communities through our stores, we made the decision to reduce store opening hours in early 2024. Increasingly, our customers are choosing to bank with us in other ways, and Online Banking and the Metro Bank App are available 24 hours a day.

We also made the difficult decision to make changes to our organisational structure, resulting in a reduction of roles in the Bank. Whilst we remain focused on colleague engagement and wellbeing, the Board agreed this was a necessary step to support the long-term sustainability of the Bank and was the best decision for all stakeholders.

The Board continued to review and monitor progress against the Bank's ESG strategy and priorities and was heartened to see all the initiatives successfully launched during the year. The Board will continue to keep the Bank's ESG strategy under close review as it is a key enabler of the Bank's objective to become the best community bank. More information on ESG can be found on pages 20–33.

The Board remains committed to adhering to the highest standards of corporate governance, which is reflected in the decisions we take.

Robert Sharpe
Chair

Corporate governance introduction
Continued

During the year, the Board approved a new partnership with the England and Wales Cricket Board (ECB). The Board believes this is an important step in our community banking offering and is delighted that the Bank will be able to support a number of initiatives including the Women's and Girls' Fund. More information on the Bank's partnership with the ECB can be found on page 25.

I am proud of what we achieved during the year. Moving forward, the Board is focused on how the Bank can deliver sustainable profitability and growth for our stakeholders whilst continuing to navigate an uncertain economic environment.

Leadership
On 31 December 2023, Anne Grim, Ian Henderson and Monique Melis stepped down from the Board. On behalf of the Board, I would like to take this opportunity to thank Anne, Ian and Monique for their contributions to the Bank.

In January 2024, James Hopkinson stepped down as CFO and Executive Director. Cristina Alba Ochoa has been appointed as Interim CFO (subject to regulatory approval) until the new permanent CFO, Marc Page, joins the Bank later in 2024.

Prior to the departure of Ian, Anne and Monique on 31 December 2023, the percentage of females on the Board was 36% – just below the recommended 40%.

The Board has retained its ethnic diversity on the Board and the Senior Independent Director (SID) is female.

We recognise the benefits of having a balanced and diverse Board that represents the views, experiences and backgrounds of our customers and colleagues. We are committed to increasing the diversity of our Board over time and in line with our Board succession plan.

There were a number of changes to the membership of the ExCo in 2023 which resulted in the following changes: Richard Saulet was appointed Chief Commercial Officer; Aisling Kane was appointed Managing Director, Retail & Business Banking; and Faisal Hussain was appointed COO. Andy Veares was promoted to Managing Director, Corporate and Commercial in early 2024. The Nomination Committee is delighted that the strong pipeline and succession planning we have in place for our senior leaders is bearing fruit.

The changes made to ExCo, as well as the appointment of Cristina Alba Ochoa as Interim CFO, reflect our continuing commitment to creating a strong, experienced and diverse leadership team.

As part of the agenda for 2023, the Board received regular updates on culture, including current and future initiatives to define, measure and sustain culture at the Bank.

Governance
Our aim in this Corporate Governance Report is to provide a clear and meaningful explanation of how the Bank applies the principles of the 2018 UK Corporate Governance Code (the 'Code') and how the Board provides oversight of the Bank and discharges our governance duties.

In line with Code requirements, the Board's effectiveness and performance was assessed through an externally facilitated evaluation which commenced in 2023. I am pleased to report that the Board continues to operate effectively, despite the challenges faced during 2023. Like all boards, there are areas where our performance and value to stakeholders can be enhanced and these are outlined on page 68. Drivers of the Board's effectiveness which were highlighted in the outputs of the 2023 Board effectiveness review include: the wide range of skills, experience and behaviours around the Boardroom table; the Board's open, inclusive, positive, collegiate and collaborative culture; and insightful Directors who are interested in and proud of the Bank and what it stands for, and who care about its future and its commitment to its stakeholders.

I would like to thank our shareholders for their overwhelming support throughout the year — all resolutions at our AGM on 26 April and the General Meetings held on 26 April and 27 November respectively were duly passed.

Future priorities
As we move forwards, both the Board and management still fundamentally believe that to be successful we must continue to offer both physical and digital services and we know the value this creates for our customers and our communities. The Bank remains committed to the community banking model, with our store presence being the differentiator for our customers. We remain one of the highest rated high street banks for overall service quality for personal customers, the best bank for service in-store for personal and business customers, and joint top for service in-store for personal customers in the Competition and Markets Authority's Service Quality Survey in February 2024.

We continue to invest further in creating products and services that meet the needs of our diverse customer base and create an even better consumer experience for our customers. Looking forwards to 2024, I remain positive about the future of the Bank. As a Board, our focus will be on continuing to provide effective oversight of management as they deliver our strategic priorities of revenue, balance sheet optimisation, cost, infrastructure and communication.

Robert Sharpe
Chair
16 April 2024

Board of Directors
As at the date of publication

Key to committees
A Audit
N Nomination
R People & Remuneration
O Risk Oversight

Robert Sharpe
Chair

Robert has over 45 years' experience in retail banking and is currently Chair at Pollen Street Limited and Hampshire Trust Bank plc. He has had an extensive number of board appointments both in the UK and the Middle East including Chairman of Bank of Ireland UK plc, Non-Executive Director at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc, RIAS plc and several independent Non-Executive Director roles at banks in Qatar, UAE, Oman and Turkey. Robert was previously Chief Executive Officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was Chief Executive Officer at Portman Building Society and Bank of Ireland's consumer business in the UK.

N Appointed to the Board:
1 November 2020

Daniel Frumkin
Chief Executive Officer

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

Appointed to the Board:
1 January 2020

Paul Thandi CBE
Independent Non-Executive Director

Paul is an experienced Chief Executive Officer, Chair and Non-Executive Director with diverse international media and service-led experience with an emphasis on people, innovation, data and culture. Paul is the former Chief Executive Officer and Chair of the NEC Group in Birmingham and successfully steered the NEC on a journey from public sector ownership to a £307 million management buyout in 2015, and then an £800m acquisition of the NEC Group by Blackstone in 2018. In addition, Paul is the Chair of BOXPARK, Chair of Student Energy Group, sits on the Board of the West Midlands Growth Company Limited and the British Allied Trades Federation, is a patron of Marie Curie and sits on the Advisory Board of Bowel Cancer UK Heads Together. Paul is Deputy Lieutenant of West Midlands Lieutenancy, representing the King in the region, and was awarded a CBE for services to the economy in the New Year's Honours List 2020.

R N O Appointed to the Board:
1 January 2019

Catherine Brown
Senior Independent Non-Executive Director

Catherine's Non-Executive Director and Remuneration Committee Chair roles include QBE Underwriting Limited and QBE UK Limited, one of the world's leading international insurers and FNZ (UK) Limited. Catherine has previously held a Non-Executive Director role at the Cabinet Office and was Chair of Additive Flow Limited. She has been a Trustee of Cancer Research UK and Chatham House. Catherine has extensive experience in organisational transformation in financial services and a wide range of experience in leadership and operations. Her previous executive appointments include Group Strategy Director at Lloyds Banking Group, Executive Director of Human Resources at the Bank of England and Chief Operating Officer at Apax Partners.

A R N O Appointed to the Board:
1 October 2018

Board of Directors
Continued

Nicholas Winsor MBE
Independent Non-Executive Director, Designated Non-Executive Director for Colleague Engagement, and Consumer Duty Champion

Nick is Non-Executive Director of Schroder Oriental Income Limited, Chair of its Nomination and Remuneration Committee and a member of its Audit and Risk, and Management Engagement committees. He is also Senior Independent Director of the States of Jersey Development Company, Chair of its Remuneration and Nomination Committee and a member of the Audit and Risk Committee; and a Non-Executive Director for Bankers Without Boundaries Connect Singapore PTE Ltd. Nick has more than 36 years of international banking experience with HSBC Group in a number of markets: Brunei; Channel Islands; Hong Kong; India; Japan; Qatar; Singapore; Taiwan; United Arab Emirates and the UK. Nick is also Chair of Autism Jersey and was awarded an MBE for services to the community in the Queen's 2020 Birthday Honours List. He holds a Masters in Physics from Oxford University and is a Fellow of the Institute of Directors.

A O Appointed to the Board:
20 April 2020

Michael Torpey
Independent Non-Executive Director

Michael retired from the position of Chief Executive of the Corporate & Treasury division and Member of the Group Executive Committee at Bank of Ireland in August 2018. He is currently a Non-Executive Director of FICS Group Holdings Limited, Frasers Group Financial Services Limited, Remitly Europe Limited and Studio Retail Group plc. His past appointments include: Head of Banking at the National Treasury Management Agency in Ireland; Group Treasurer at Irish Life and Permanent plc; Senior Treasury Adviser at Irish Financial Regulator; Finance Director at Ulster Bank Group; and Finance Director at First Active plc.

A O Appointed to the Board:
1 September 2019

Dorita Gilinski
Shareholder-Nominated Non-Executive Director

Dorita is the President of JGB Financial Holding Company and a member of the Board of Directors and the Audit Committee of Banco GNB Paraguay. Dorita co-led the launch of Lulo Bank, the first fully digitalised bank in Colombia. She brings significant experience in banking, including digital banking and marketing, as well as strategic planning and stakeholder engagement to her Non-Executive Director role. Prior to these roles, Dorita founded the Dori Gilinski Gallery and Libros Para Niños, a non-profit organisation that connects UK volunteers with Latin American schools and charities. Dorita is a graduate of the University of Oxford and holds an MBA from Harvard Business School. Dorita is a shareholder-nominated Non-Executive Director, nominated by her father Jaime Gilinski Bacal, a major shareholder of Metro Bank, through his Spaldy Investments Limited vehicle.

Appointed to the Board:
26 September 2022

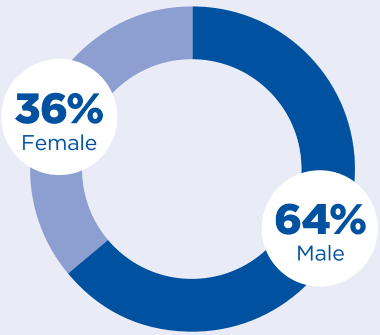
Clare Gilligan
Company Secretary

Clare joined Metro Bank as Company Secretary in July 2023 and leads the Bank's company secretarial function and ensures it continues to meet its statutory and regulatory obligations. Clare joined Metro Bank after more than 15 years at the Bank of Ireland where she held a number of senior risk governance roles, latterly UK Company Secretary. Clare holds a BA Hons in Russian & Soviet Studies from the University of Manchester.

Appointed:
31 July 2023

2023 governance at a glance

Board gender diversity
As at 31 December 2023



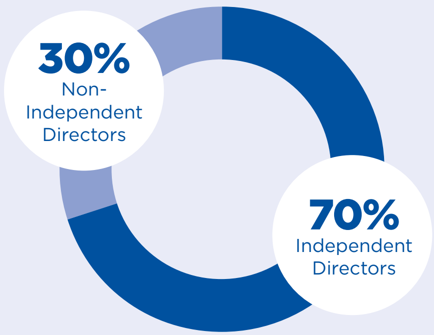
Board tenure
As at 31 December 2023

2 — 0-2 years

7 — 2-4 years

2 — 5+ years

Board independence*
As at 31 December 2023



*Excluding the Chair.

Highlights

New company structure
In May, we completed the implementation of our holding company, marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework.

Capital package
In November 2023, we announced the successful completion of a £925 million capital package.

2023 Board changes
On 31 December 2023, Anne Grim, Ian Henderson and Monique Melis stepped down from the Board. In January 2024, James Hopkinson stepped down as CFO and Executive Director. Cristina Alba Ochoa has been appointed as Interim CFO until Marc Page joins the Bank later in the year as CFO and Executive Director.

2023 Board and Committee attendance

	Standard Board 8 meetings	Additional Board[5] 18 meetings	Audit 7 meetings	ROC 8 meetings	PRem 4 meetings	Nom 3 meetings
Robert Sharpe	8	18				3
Daniel Frumkin[1]	7	18				
James Hopkinson	8	18				
Catherine Brown	8	14		8	4	3
Monique Melis[2]	7	12	7			3
Paul Thandi[3]	7	16			4	3
Michael Torpey	8	17	7	8		
Nick Winsor	8	17		8		
Ian Henderson[4]	8	15	6	8		
Anne Grim	8	18			4	
Dorita Gilinski	8	15				

1. Daniel Frumkin was unable to attend one standard Board meeting for personal reasons.
2. Monique Melis was unable to attend one standard Board meeting for personal reasons.
3. Paul Thandi was unable to attend one standard Board meeting for personal reasons.
4. Ian Henderson was unable to attend one Audit Committee meeting for personal reasons.
5. Directors missed additional Board meetings due to prior commitments where meetings were called at short notice.

Compliance with the UK Corporate Governance Code

Good corporate governance is essential to our ambition to become the UK's best community bank. The Bank was fully compliant with the requirements of the UK Corporate Governance Code (the 'Code') in 2023.

The details where key content on compliance with the Code can be found in this report is below.

Board activities and stakeholder engagement

Key Board activity		Stakeholders considered	Strategic priorities
New holding company	In May, we completed the implementation of our holding company, marking an important milestone in meeting the requirements of the Bank of England's resolution framework. This was a complicated process which the Board kept under careful review. It was pleasing to receive a high level of support from our shareholders at the Court and General Meetings in April. Following a robust implementation process, the new structure is fully embedded and working well.	Our customers, Our regulators, Our investors	Infrastructure
Capital package	The announcement in October of our £925 million capital package was a defining moment for the Bank. We carefully considered all stakeholders when making the decision to recommend the capital package and, although some investors were unable to participate, the Board felt that the package demonstrated the best possible outcome for all stakeholders.	Our customers, Our colleagues, Our regulators, Our investors	Balance sheet
Cost reduction	In November, we announced that potential cost savings of £50 million per year had been identified. In making decisions to implement these cost savings, the Board considered very carefully the impacts on all of its stakeholders. Whilst we remain committed to providing services to our communities through our stores, we made the decision to reduce store opening hours from early 2024 onwards. Increasingly, our customers are choosing to bank with us in other ways, and Online Banking and the Metro Bank App are available 24 hours a day. We also made changes to our organisational structure, resulting in a reduction of roles in the Bank. Whilst we remain focused on colleague engagement and wellbeing, the Board agreed this was a necessary step to support the long-term sustainability of the Bank and was the best decision for all stakeholders.	Our customers, Our colleagues, The communities we serve, Our investors	Costs
ESG	The Board continued to keep the Bank's ESG strategy and priorities under review and was heartened to see all the initiatives successfully launched during the year. The Board will keep the Bank's ESG strategy under close review as it is a key enabler of the Bank's objective to become the best community bank. More information on ESG can be found on pages 20-33.	Our customers, Our colleagues, Our suppliers, Our regulators, Our investors	Costs
ECB partnership	During the year, the Board approved a new partnership with the England and Wales Cricket Board (ECB). The Board believes this is an important step in our community banking offering and is pleased that the Bank will be able to support a number of initiatives including the Women's and Girls' Fund. More information on the Bank's partnership with the ECB can be found on page 25.	The communities we serve	Communication, Revenue

Stakeholders

- Our customers
- Our colleagues
- The communities we serve
- Our suppliers
- Our regulators
- Our investors

Strategic priorities

- Costs
- Revenue
- Infrastructure
- Balance sheet
- Communication

Board activities and stakeholder engagement
Continued

Board activities

The Board has a forward plan for its meetings, which includes regular updates from the ExCo and on financial, strategic, risk management, people and culture, and operational matters. Each Board Committee has defined Terms of Reference with delegated specific areas of responsibility to ensure that all areas for which the Board has responsibility are addressed and reviewed during the year.

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

The ExCo, senior management and advisors are invited to attend Board and Board Committee meetings to present, contribute to discussion, and advise members of the Board or Board Committees on particular matters. The involvement of the ExCo and senior management in Board and Board Committee discussions strengthens the relationship between the Board and senior management and helps to provide the Board with a greater understanding of operations and strategic direction.

The Board meets periodically without the Executive Directors present to ensure any concerns can be discussed.

Furthermore, it enables the Board to scrutinise and challenge management on the delivery of strategic objectives. The Chair, assisted by the Company Secretary and her team, is responsible for ensuring that the Directors receive accurate and timely information. The Company Secretary and her team compile the Board and Board Committee papers, which are circulated to Directors in advance of meetings. The Company Secretary and her team ensure that feedback on Board papers is relayed to senior management. The Company Secretary prepares minutes of each meeting and is responsible for following up on any action items.

Key announcements, decisions and Board activity

2023

Jan
- Annual review of the Bank's Resolution Readiness.
- Overview of the 2022 internal evaluation outcomes and review of the actions.

Feb
- Reviewed and approved the Bank's Long Term Plan.
- Approved the risk appetite for the Bank ensuring that we can maximise returns in a safe and sustainable way.
- Directors' duties refresher.

Mar
- **2022 year-end results**
- Approval of the Prospectus and Scheme Document published in relation to the new holding company.

Apr
- Approval of the partnership with the England and Wales Cricket Board (ECB).
- Welcomed shareholders to our AGM and held a General Meeting and Court Meeting to give shareholders the opportunity to vote on the insertion of a new holding company into the Group.

May
- **Q1 2023 results**
- Consumer Duty training.

Jun
- Following support from our shareholders, insertion of the holding company into the Group.

Jul
- Following recommendation from the Group Nomination Committee, reviewed and approved the appointment of Clare Gilligan as Company Secretary.

Aug
- **H1 2023 results**

Sep
- Held our annual away days to agree our vision of the Bank's strategic objectives for 2024.

Oct
- Secured £925m capital package and recommended to investors for approval.

Nov
- **Q3 2023 results**
- Published Prospectus and Circular in relation to the capital package and held General Meeting at which all resolutions were approved.

Dec
- Announced the resignation of Anne Grim, Ian Henderson and Monique Melis from the Board.

Stakeholder engagement

Our customers

Our diverse range of customers all have their own individual needs, but what binds them together is the desire for AMAZEING service and a range of banking services. We remain one of the highest rated high street banks for overall service quality for personal customers, the best bank for service in-store for business customers and joint top for service in-store for personal customers in the CMA's Service Quality Survey in February 2024.

What matters most to them

- A wide range of banking services and products that are easily accessed.
- AMAZEING service.
- Product enhancements.

How we engage

- Voice of the Customer programme allows us to monitor customer service delivery.
- Creating FANS and meeting their needs is one of our core values and the Board takes our customers into account in every decision it makes.
- Regular external communications, social media, and advertising.

The Board recognises the importance of continuing to invest in our digital channels. During the year, we enhanced self-serve options online and via our App. We launched Confirmation of Payee to our customers to give them confidence that they have the correct payment details before making a payment. Customers using our App can now receive push notifications when they near their credit limit, supporting customers in managing their money. We have also introduced Aida, our chatbot, to support our customers with general enquiries, like how to make a payment via the App.

We have also delivered virtual queueing for customers visiting our stores, enhancing the customer experience with an SMS service, so customers can continue with their day before sitting down with a colleague.

We have continued our programme of launching new products and services for our SME community. As part of this, we launched a new business credit card journey to improve the accessibility of this product to our customers.

2023 outcomes and highlights

- Investment into our digital infrastructure – all to heighten the consumer experience.
- Launched Confirmation of Payee to our customers.
- Introduced Aida, our chatbot, to support our customers with general enquiries.
- Delivered virtual queueing for customers visiting our stores.

Our colleagues

We understand that our colleagues are what makes the Bank different. We want every colleague to be a fan of Metro Bank, feel supported and invested in, so that they can make FANS of our customers.

What matters most to them

- Flexible and hybrid working practices.
- Engaged and motivated colleagues.
- Development and career opportunities.
- Fair pay, reward and opportunity to make a difference.
- Culture of inclusion and wellbeing.

How we engage

- Engagement representatives across the business.
- Have your say cafés and colleague meetings with leaders.
- Revolution Update hosted by the ExCo team.
- Voice of the Colleague surveys.
- Remuneration working groups.
- Opportunities to engage with ExCo and Board members.
- A programme was piloted for our senior leaders to build greater customer awareness, including direct involvement with stores and contact centres to develop a deeper understanding of what our customers want and need from their Bank.
- Face-to-face and virtual opportunities to meet and provide feedback to our DNED, Nicholas Winsor.

Our 'MAGIC Yammer' page allows our colleagues to share their ideas, individually or as a team, on how the Bank can improve its customer experience. The ideas are reviewed by the MAGIC committee, which assesses the ideas and puts them through to the next stage – Zest Den. The selected colleagues go through to Zest Den – a panel of senior leaders and ExCo. The winning ideas at this stage are then taken forward by colleagues for implementation.

We engage with colleagues through our colleague inclusion network groups, our Voice of the Colleague engagement representatives and our Senior Leadership Team forum.

The Board reviews Voice of the Colleague survey results and receives updates on people and culture through the year. More information on how we engaged with our colleagues is on page 62.

2023 outcomes and highlights

- Engagement score of 78, four points above global benchmark.
- New panel format Revolution Update with the opportunity to join in person or virtually.
- 'Thank You' week to recognise the work that our colleagues have done throughout the year.
- Online 'Yam Jams' Q&As with senior leadership.

Our investors

It is important to us that we engage with our investors to keep them up to date on our performance, strategy updates, share our vision for the future and understand their views and focus areas. We engage openly and transparently with our investors, who are helping us to grow and shape the Bank for the future.

What matters most to them

- Successful delivery of the strategic plan.
- The path to sustained profitability.
- Ability to maintain cost discipline and leverage the cost base for revenue growth.
- Capital management and ability to lend more to our customers.

How we engage

- 2023 AGM, General meetings and Annual Report and Accounts.
- Quarterly trading updates and investor presentation at half/full year.
- Investor roadshows and conferences.
- Proxy adviser and institutional investor meetings.

We ensure the needs and views of our shareholders are brought into the boardroom and are considered at all times throughout the decision making process. The Board regularly receives updates from the Investor Relations team to remain informed on investor views, the market and latest trends. The Board appointed a shareholder-nominated NED in 2022, with the purpose of further enhancing the existing rigorous Board discussions to ensure that shareholder views are considered as part of Board decision-making.

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

2023 outcomes and highlights

- Capital raise and debt refinancing completed with strong shareholder support, 92% voting in favour at the GM.
- All resolutions at the 2023 AGM passed with 91% or more votes in favour.

Our regulators

We are subject to financial services regulations and approvals in the markets in which we operate. We engage with our regulators to ensure we meet all the relevant regulations and ensure we do the right thing. The Bank is committed to promoting integrity, transparency and engaging in a collaborative and open manner with our regulators. The financial services regulatory landscape continues to evolve, and the Board ensures the Bank's strategic priorities are in line with regulatory requirements and new initiatives. For example, Consumer Duty, evolving capital standards and corporate reforms are all areas in which the Bank will engage with our regulators in the year ahead.

What matters most to them

- Compliance with relevant laws and regulations.
- Governance and accountability.
- Transparent and constructive engagement and communication.

How we engage

- Annual PRA presentation to the Board.
- Regular meetings between our regulators and members of the Board and ExCo.

We aim to maintain our positive relationship with regulators through an approach of early and regular engagement, particularly on areas of critical importance. The FCA and PRA receive copies of our Board papers.

We have engaged constructively with our regulators during 2023 with respect to key initiatives and will continue this engagement across upcoming changes to the regulatory landscape in 2024 and beyond. The CRO reports regularly to the Risk Oversight Committee and the Board on material matters of regulatory engagement including an assessment of the status of our regulatory relationships.

Our suppliers

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

What matters most to them
- Collaboration.
- Open and fair terms of business, including payment terms and practices.
- Social and ethical business relationship.
- Long term partnerships.

How we engage
- Report on supplier payment practices.
- Supplier Code of Conduct.
- Regular senior level engagement with key suppliers.
- Dedicated relationship manager with the Bank.

We are committed to paying our suppliers within clearly defined terms and we have processes for dealing with any payment issues that may arise. The Group Audit Committee reviews and approves the Bank's disclosure on supplier payment practices, and, as required by law, we publicly report this information on a bi-annual basis. For the last reporting period between 1 July 2023 and 31 December 2023, our average invoice payment turnaround was 29 days. We continue to review and improve our processes with the aim of ensuring all of our suppliers are consistently paid within defined terms.

The Board understands the risks posed by our suppliers and ensures that they are appropriately managed by the Bank. All suppliers have a relationship owner within the Bank and a Supplier Commercial Manager within the Procurement, Supplier Risk and Commercial Management teams. We maintain effective relationships with our suppliers and consider their interests when making relevant decisions.

We work closely with our suppliers, meeting regularly at senior level with key suppliers. We have continued to embed ESG considerations in conversations with suppliers, driving meaningful engagement with their ESG teams, and have taken the first steps toward supplier-specific emissions reporting.

We also further bolstered our oversight of supplier risks and controls, with a particular focus on our top tier material engagements.

2023 outcomes and highlights
- First supplier-specific emissions reporting.
- Enhanced oversight of material supplier risks and controls.

The communities we serve

We are proud to be an integral part of the communities we serve and they are at the heart of our ambition to be the number one community bank. Our communities bring Metro Bank to life, providing vital services to local people and businesses, as well as employment opportunities when we expand into new locations. The people and businesses close to our stores are crucially important to us as we deliver on our ambition to become the UK's number one community bank.

What matters most to them
- Effective engagement and communication.
- Safe and friendly environment in store and outside.
- Impact on the local economies.

How we engage
- Money Zone, our financial educational programme for school children and young adult care leavers. In 2023, we expanded our financial education programmes to include young adults aged 16 to 18 in schools and colleges and people serving in the armed forces.
- Networking and community events.
- Days to AMAZE volunteering.
- Fundraising for charities.
- Our stores celebrated International Women's Day by hosting more than 2,000 people at complimentary networking events for local businesses.

The Board understands how important it is to have a physical presence in our communities. In deciding where to build a new store, we take into account where we can reach the most people and businesses so that we can continue to offer convenient banking at a time that suits our customers, and we will be looking at opportunities to open more stores in the North of England in 2024.

We have supported our colleagues in joining a Community Champion Group of their choice. Champions give back by helping our local communities and registered charities.

2023 outcomes and highlights
- Joined the UK SAYS NO MORE campaign to end domestic violence and made 52 of our stores official 'Safe Spaces' for those in need.
- 15,000 children completed Money Zone.
- Attended Herts County Show where we were a headline sponsor to the event, which welcomed over 35,000 people, and provided financial education to over 1,000 children.
- Marched alongside our communities in the London, Birmingham, Cardiff and Oxford Pride Parades.
- Metro Bank is the ECB's first-ever Champion of Women's and Girls' Cricket. A new Women's and Girls' Fund – made up of equal contributions from the ECB and Metro Bank – is at the heart of the partnership. The Fund will accelerate cricket's progress towards becoming a more inclusive sport, through community team programmes to attract and retain women and girls.

Letter from the Designated Non-Executive Director for Colleague Engagement

The Board continues to have the opinion that appointing a DNED is the most appropriate engagement mechanism for the Bank to ensure there is effective two-way engagement between colleagues and the Board.

I'm very pleased to set out my letter to Metro Bank's stakeholders as I celebrate my first full year in the role as the Designated Non-Executive Director for Colleague Engagement (DNED). During my time on the Board, I have been privileged to meet so many wonderful colleagues and this was a great opportunity to engage in person, and digitally, with colleagues and deliver their feedback to my fellow Board members.

The Board continues to be of the opinion that appointing a DNED is the most appropriate engagement mechanism for the Bank to ensure there is effective two-way engagement between colleagues and the Board.

The Board recognises that the DNED role doesn't replace existing engagement channels. The ExCo already plays a key role in communicating Board decisions to colleagues and we have a number of established networks and forums which help us to understand the views of our diverse colleague population. The Bank also seeks colleague views through other mechanisms including the Voice of the Colleague (VOC) surveys and feedback via our internal social media channel, Yammer. My role is to provide an additional point of connection between the Board and the workforce and escalate their views to the Board as a whole in order to inform effective decision-making.

I formally report on engagement activities and the feedback I have gathered to the Board throughout the year. I also provide a report to the Group People and Remuneration Committee each year on the outcome of my engagement ahead of its year-end decisions to ensure the views of colleagues are taken into consideration.

Our colleagues are key to our success and we are proud of the culture we have at Metro Bank, which we recognise as one of the main reasons that colleagues want to work here. The Board plays an active role in defining and monitoring culture, particularly in an environment of change, and we will keep this under close review during 2024.

Our colleagues are key to our success and we are proud of the culture we have at Metro Bank. The Board continues to welcome the views of colleagues and I look forward to having more opportunities next year to engage with them to learn what more we can do to serve our communities.

Nicholas Winsor
Designated Non-Executive Director for Colleague Engagement

Letter from the Designated Non-Executive Director for Colleague Engagement
Continued

2023 DNED engagement activities and feedback

It has been a busy year for the Bank with many changes and, as ever, we have taken colleagues into consideration in every decision we have made as a Board. Throughout 2023, I had many formal and informal engagements with our colleagues. These included visiting colleagues across different sites, attendance at department leadership events and hosting 'Natter with Nick' sessions. These events provided valuable insights into how colleagues were experiencing the work environment and, most importantly, the leadership and culture of the Bank. It was great to understand from colleagues what leadership can do to enhance their experience.

As can be seen in the VOC results, colleagues love the culture at the Bank and in particular, the collaborative and open relationships between teams.

Colleagues raised that they would benefit from certain system upgrades and this was taken into account when the Board was agreeing on prioritisation of investments.

During the year, the Board considered and approved changes to the organisational structure which resulted in a number of colleagues being made redundant. It was important to the Board that colleague wellbeing was a priority during this time and it was pleasing to see the number of resources made available to colleagues.

Colleagues fed back that they value what local leaders are doing to support colleague wellbeing, along with the additional wellbeing support tools that the Bank offers. To build on this, the Wellbeing hub was relaunched to provide easy access to all the resources and tools needed to support colleague wellbeing which remains a focus for the Board as the Bank continues on its transformation journey. Their views are paramount to ensuring that the Board does all it can to support colleagues during this time of change. Alongside this, I regularly log into Yammer, an internal social media tool for colleagues to share information, ideas and socialise. The platform is self-moderating, rather than top-down, and is used as a solutions tool when colleagues have a question. This helps me to have an overview of the bump ups raised by colleagues and means I can raise issues at Board if necessary, based on the conversations I see.

The Bank also has a platform called 'Recognise' that allows colleagues to call out each other's achievements and it was great to continue to see colleagues celebrating one another's successes during the year.

Looking forwards

The Board recognises that the role of DNED will continue to evolve, particularly as a result of changing working practices, as new areas of colleague focus are identified, and as fresh opportunities for engagement arise. I look forward to championing the views of colleagues as the Bank goes through another year of change and I am pleased to already have an interesting schedule of engagement opportunities with colleagues in 2024.

The Board continues to welcome all of our colleagues' views, recognising the benefit of a colleague base that is the bedrock of our business model, ensuring we can deliver over and above for our customers, the communities we serve and for each other.

I look forward to meeting even more of our AMAZEING colleagues in the future.

Nicholas Winsor
Independent Non-Executive Director
16 April 2024

Summary of key activities undertaken by the DNED during 2023

2023	Colleague contact	Colleague insight	Formal/informal reporting
Q1 (Jan to Mar)	• Attended Inclusion Chairs Meeting. • Visited Cheapside store with Interim Director of Colleague Experience and Inclusion. • Met with People team and Senior Leadership Team colleagues at Holborn Office.		• DNED update to Board. • DNED letter published in 2022 Annual Report.
Q2 (Apr to Jun)	• Hosted 'Natter with Nick' virtual event (selection of colleagues from across the business). • Visited AMAZE Direct Slough site and Slough store. • Attended Pride Month virtual event – Mpride's guide to Pride. • Attended Pride Month virtual event – The importance of LGBTQ+ allyship.	• Voice of the Colleague Survey.	• DNED update to Board.
Q3 (Jul to Sept)	• Attended Inclusion Chairs Meeting. • Attended 'In conversation with England stars Nat Sciver-Brunt, Tammy Beaumont, and Clare Connor'. • Attended Revolution Update.		
Q4 (Oct to Dec)	• Attended Inclusion Chairs Meeting. • Visited Manchester and Liverpool stores. • Attended Chief Information Officer Senior Leadership Team All-hands Communications meeting.	• Voice of the Colleague Survey.	• DNED update to Board.

Board leadership and company purpose

Board leadership and company purpose

Role of the Board

The Board is accountable to our stakeholders for setting the strategy to promote the long-term success of the Bank. The Board is responsible for the oversight of the Executive Committee, governance, internal controls, risk management, strategy, and the overall performance of the Bank. The interests of our stakeholders are always at the forefront of the Board's agenda.

Composition of the Board

As at the date of this report, the Board consists of the Non-Executive Chair, the CEO, four independent Non-Executive Directors and a shareholder-nominated Non-Executive Director. The Board has formally documented the separate roles and responsibilities of the Chair and CEO. More information on the composition of the Board can be found on pages 54-55 and information on the responsibilities of the Board can be found on page 66.

Governance framework

Board

The Board's core role is to promote the long-term success of the Bank for the benefit of its shareholders. Alongside the operating company board, this requires us to:

- Determine and review risk appetite.
- Monitor management performance in delivering our strategy.
- Ensure that risk management measures and internal controls are appropriate and effective.
- Oversee and monitor the embedding of and adherence to the Bank's business values.
- Ensure that the Bank's financial structure, resources, talent and culture will support long-term growth. In discharging this role, the Board must also have regard to and engage with the interests of a wide range of stakeholders, including colleagues, customers, suppliers and broader communities, in order to build mutual trust and support the long-term sustainability of the business.

CEO

Executive Committees

Group Risk Oversight Committee | Group Nomination Committee | Group People and Remuneration Committee | Group Audit Committee | Disclosure Committee

Matters reserved for the Board

The Board is responsible for setting and managing the Bank's strategic direction. The Board has a formally documented schedule of matters that are reserved for approval. This includes decisions concerning the Bank's strategic aims and long-term objectives, the structure and capital of the Group, financial reporting and internal controls, risk management, and various statutory and regulatory matters. The Board is also responsible for effective communication with the Bank's shareholders, its culture, purpose and values and any changes to the Board or Board Committee membership or structure, and has authority to recommend the Directors' Remuneration Policy to its shareholders. The Board delegates responsibility for day-to-day management of the business to the CEO and sets out the basis for delegation of authorities from the Board to the Board Committees.

Board Committees

The Board delegates specific responsibilities to each of its Committees: Group Audit, Group Risk Oversight, Group Nomination, and Group People and Remuneration. All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee, which is chaired by the Chair of the Board. All committees comprise independent Non-Executive Directors, except the People and Remuneration Committee, where the Chair of the Board (who was independent on appointment) is also a member. In accordance with the UK Corporate Governance Code, all members of the Group Audit Committee are independent Non-Executive Directors.

Each of the Committees has established Terms of Reference setting out its duties, authority, and reporting responsibilities, copies of which are available on our website: (metrobankonline.co.uk)

The Terms of Reference of each Board Committee are reviewed regularly to ensure they remain appropriate and reflect any changes in legislation, regulations, or best practice. These documents are also reviewed formally every year by the relevant Board Committee, then approved by the Board, along with a self-assessment of how each Board and Board Committee discharged their duties during the year. The composition of each Board Committee can be found within individual Committee reports.

The Board also delegates the review of the Bank's disclosure obligations to its Disclosure Committee, formed of the CEO, CFO, Company Secretary and General Counsel. The Disclosure Committee also has Terms of Reference approved by the Board, which set out its duties and authority under the listing rules.

Reports for each Committee can be found on pages:

Board leadership and company purpose
Continued

Effectiveness

A clear record of the time commitments of each Non-Executive Director is maintained and reviewed annually by the Group Nomination Committee and the Board is satisfied that the Chair and each of the Non-Executive Directors are able to devote sufficient time to the Bank's business to be effective in their roles. Each Director has committed to dedicate as much time as is necessary to the Bank in line with the time commitment expectation set out in the Non-Executive Directors' letters of appointment. Directors are expected to attend all meetings of the Board, and the Board Committees on which they serve. If Directors are unable to attend a meeting, their comments on matters being considered at the meeting are discussed in advance with the Chair and/or Company Secretary, so that their contribution can be included in the wider discussion.

A full report on the 2023 external Board effectiveness review is on page 68.

Board skills

As part of succession planning, the Group Nomination Committee maintains and reviews a clear record of the skillset of each Director. The Group Nomination Committee review allows the Board to determine that each Non-Executive Director has the skills and experience to constructively challenge strategy and scrutinise performance.

Independent Directors

The Board is satisfied that, as at 31 December 2023, seven NEDs and the Chair were independent.

Directors' continuing professional development

The Company Secretary ensures that all Directors are kept aware of changes in relevant legislation and regulations. In 2023, the Board and Board Committees received training sessions on listed company obligations and Consumer Duty. Non-Executive Directors attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Board Committees on which they serve. The Company Secretary provides the Board with relevant legislation and regulatory updates on a regular basis as necessary.

Induction of new Directors

New Directors undergo a formal, robust and tailored induction programme upon appointment, which is agreed with the Chair and coordinated by the Company Secretary. Non-Executive Directors meet the Chair and the CEO as part of the Group Nomination Committee's selection process and again on appointment for a thorough briefing on all relevant aspects of the Bank. They also meet other Directors, the Company Secretary, ExCo and our advisors for briefings on their responsibilities as Directors and on our business, finances, risks, strategy, procedures and the markets where the Bank operates. Directors receive an electronic induction pack upon their appointment, which includes relevant Board materials, Bank policies and corporate and financial information. New Directors also receive listed company director responsibilities training from the Bank's legal advisors.

External appointments

The Board reviews the external appointments of new Non-Executive Directors before they are appointed to the Board. The Board also authorises additional external appointments that Non-Executive Directors may wish to take up, following due consideration of conflicts, regulatory requirements and assurances provided that the Non-Executive Director would still be able to devote sufficient time to their Bank duties. The external time commitments of our Non-Executive Directors are reviewed on an annual basis by the Group Nomination Committee.

In appropriate circumstances, the Board may authorise Executive Directors to take non-executive positions in other companies and organisations. Such appointments should broaden their experience, provided the time commitment does not conflict with their fiduciary duties to the Bank. Any appointment is subject to prior approval by the Board. During the year ended 31 December 2023, none of the Bank's Executive Directors held directorships in any other quoted company.

Board culture

The Board places significant emphasis and importance on sustaining the Bank's unique culture.

During the year, the Board received regular reports about colleague, communities and customer-related activities across the business to support its understanding of how culture is embedded within the Bank. Presentations from ExCo members and relevant senior management colleagues to the Board during the year have provided culture-related data from across the Bank. The Board's activities and examples of key decisions taken during the year are set out on page 58. See page 59 regarding how the Board engages with its different stakeholders.

Colleague engagement

The Board has appointed a Designated Non-Executive Director for Colleague Engagement to engage with colleague representatives throughout the Bank. The Board has approved Terms of Reference setting out the duties, authority and reporting responsibilities required for this role. The Designated Non-Executive Director for Colleague Engagement reports to the Board biannually on the progress of workforce engagement, initiatives, and activities. This provides the Board with in-depth insight into how the culture is embedded across our different business areas and functions, and any issues that need to be addressed. In addition, the views of the Bank's colleagues are measured through a biannual anonymous Voice of the Colleague survey, which gives our colleagues the opportunity to give feedback and express their views on a variety of topics including their own remuneration, culture, leadership and policies and practices. An analysis of the results of employee surveys is presented to the Board. See pages 59 and 62-63 for more information regarding colleague engagement.

Board roles and responsibilities

Role	Name	Responsibilities
Chair	**Robert Sharpe**	The Chair leads the Board and is responsible for its effectiveness and governance. The Chair sets the tone for the Bank, including overseeing the development of culture and standards in relation to the conduct of business and the behaviour of colleagues. The Chair sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. They report to the Board and are responsible for the leadership and overall effectiveness of the Board, including responsibility for fostering a positive Board culture that reflects the values of the business. The Chair is also responsible for ensuring that there are strong links between the Board, ExCo and shareholders.
CEO	**Daniel Frumkin**	The Chief Executive Officer (CEO) is responsible for the day-to-day management of the Bank's operations, for recommending the strategic direction and for implementing the strategic direction agreed by the Board. The CEO is supported by the Executive Leadership Team. The CEO directly reports to the Chair and to the Board and is responsible for providing the Board with appropriate information and updates.
CFO	**James Hopkinson** (resigned 12 January 2024)	The Chief Financial Officer (CFO) is responsible for planning, implementing, managing and controlling all financial-related activities of the Bank, both day-to-day and long-term management. The CFO is responsible for managing the Bank's financial position, including allocation and maintenance of capital, funding and liquidity. They are also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. The CFO has oversight of the Finance, Treasury, Strategy and Corporate Transformation and Investor Relations functions of the Bank. On 12 January 2024, the Board announced that James Hopkinson would step down with immediate effect. An interim CFO[1], Cristina Alba Ochoa was appointed on 15 January 2024. Marc Page will join as permanent CFO in September 2024[2].
Company Secretary	**Clare Gilligan**	The Company Secretary is responsible for advising and supporting the Chair and the Board on good corporate governance and best boardroom practice.
SID	**Monique Melis** (resigned 31 December 2023) **Catherine Brown** (appointed 1 January 2024[2])	The Senior Independent Director's role is to act as a sounding board for the Chair and to serve as an intermediary for Directors when necessary. The SID supports the Chair in the delivery of their objectives and is available to shareholders to hear their views and address any concerns they may have that have not been resolved through normal channels. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chair and conducts the Chair's annual performance evaluation.

Role	Name	Responsibilities
DNED for Colleague Engagement	**Nicholas Winsor**	The Designated Non-Executive Director for Colleague Engagement (DNED) is responsible for bringing the views and experiences of our colleagues into the Boardroom. Working with the Board and particularly management, the DNED takes reasonable steps to evaluate the impacts of Board proposals and developments on colleagues. The DNED engages with management regarding colleague engagement and steps taken to address colleague concerns arising out of business-as-usual activities. Colleagues' views on remuneration concerns, including colleague views on executive remuneration as appropriate are reported to the People and Remuneration Committee by the DNED. The DNED reports regularly to the Board on activities undertaken and feedback received, as well as presenting the annual update for inclusion in the Annual Report and Accounts.
Consumer Duty Champion	**Catherine Brown** (until 26 February 2024) **Nicholas Winsor** (from 27 February 2024)	The Consumer Duty Champion supports the Chair and CEO in ensuring that Consumer Duty and customer outcomes are raised regularly in all relevant discussions, and that the Board is challenging management on how it is embedding the Duty and focusing on consumer outcomes. The Consumer Duty Champion will consider and challenge management on the quality of product reviews, the effectiveness of fair value assessments, communication standards and testing, the ability to meet customer needs (including those considered vulnerable) through the support the Bank provides, the prioritisation of delivering customer outcomes when considering this alongside other internal and external challenges, and how effectively management embeds Consumer Duty into our culture and governance.
Independent NEDs	**Catherine Brown** **Paul Thandi** **Michael Torpey** **Nicholas Winsor**	The role of the Non-Executive Director (NED) is to constructively challenge management on matters such as the strategic direction of the Bank. Each NED brings specific experience and knowledge to the Board and its Committees. The NEDs have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture.
Shareholder-nominated NED	**Dorita Gilinski**	The shareholder-nominated NED's role is to assist the Board in ensuring that shareholder views are considered in Board decision-making and that there is a shareholder voice in the Boardroom.

The composition of the Board Committees can be found at the beginning of each Committee report.

1. The Interim CFO does not sit on the Board.
2. Subject to regulatory approval.

Board effectiveness

Systems of internal control and risk management

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

Our approach to managing risk is further detailed on page 124. The Group Risk Oversight Committee reviews the effectiveness of the Risk function and risk management processes on the Board's behalf, and its approach can be found in the ROC Report on page 75. The Board confirms that there is an ongoing process for identifying, evaluating and managing the emerging and principal risks faced by the Company.

The Board has delegated responsibility to the Group Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Group Audit Committee Report on page 70.

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

Conflicts of interest

At each meeting, the Board considers the Directors' conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest. The Board will only approve a conflict of interest if it believes that it would not have an impact on the Director's ability to carry out their duties and responsibilities to the Company.

Prior to a new Director being appointed, potential conflicts of interest are disclosed and assessed to ensure that there are no matters which would prevent the incoming Director from taking the appointment. During their tenure, Directors are asked to consult with the Company Secretary and the Board Chair before taking up any external appointment or responsibilities that may be an actual or potential conflict of interest. Prior to taking up external appointments, the Board needs to provide approval so that the Board can consider whether the appointment could constitute an actual or potential conflict of interest. Each Directors' conflicts of interest are considered by the Nomination Committee annually.

Independent professional advice

Directors are permitted to take independent professional advice at the Company's expense if required to enable them to fulfil their duties. In addition, they have access to the advice and services of the Company Secretary, who is responsible for advice on corporate governance matters to the Board.

Indemnities and insurance

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

Appointment and retirement of Directors

The Board may appoint Directors to the Board. We also have a Relationship Agreement with our majority shareholder, Spaldy Investments Limited. The agreement sets out that Spaldy Investments Limited can appoint up to three shareholder-nominated NEDs to the Board for such time as it has and retains an interest that is equal to or greater than 30%. Full details of the Relationship Agreement can be found on our website metrobankonline.co.uk/investor-relations/.

All newly appointed Directors must stand for election by shareholders at the Annual General Meeting following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2024 Annual General Meeting. Under the Articles of Association, shareholders may remove a Director before the end of their term by passing an ordinary resolution at a general meeting.

Colleague engagement

For information on how the Directors have engaged with colleagues, had regard for colleague interests and how this has affected the principal decisions taken by the Company during the financial year, see page 59.

Other stakeholder engagement

For further information on how the Directors had regard to the need to foster the Company's business relationships with suppliers, customers and others, and what the effect of this consideration has been, including on the principal decisions taken by the Company during the financial year, see pages 57–61.

Relations with investors

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

Investor meetings are undertaken by the Chair, CEO and CFO, supported by the Director of Investor Relations. Institutional investors have the opportunity to meet with the Chair, Senior Independent Director and other Non-Executive Directors to discuss any areas of concern. In addition, the Board Committee Chairs seek engagement with shareholders on significant matters related to the areas of their responsibility.

The Board has one Non-Executive Director nominated to the Board by the Company's majority shareholder, Spaldy Investments Limited. This reflects the strong relationships the Bank has with its shareholders, shareholder nominated directors bring a shareholder perspective to Board discussions so that shareholder views are considered as part of the Board decision-making process. Details of major interests in the Bank's shares can be found on page 121.

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

Board effectiveness
Continued

Progress on actions from the 2022 internal evaluation

Board	
Agreed actions	**Progress**
Provide for additional focus on marketing and consumer strategy, product and store performance, the investment programme underpinning the strategy, and culture on the Board's agenda.	The Board dedicated time on the Board agenda in 2023 to focus on these topics, particularly at the Board's strategy away day in 2023.
Consider Board composition and skills as the Bank's priorities change.	The Board's composition and skills were regularly reviewed by the Nomination Committee throughout 2023. This will continue into 2024 following the recent changes to the Board.
Look for opportunities to refine papers presented to the Board.	Board papers, and the information contained within these papers, are continually reviewed to assist with Board effectiveness and a new Board paper template was designed and implemented in 2023.

2023 external Board evaluation

The Board commissioned an externally facilitated Board evaluation in 2023 in line with the Code requirement to carry out an external review once every three years. After a thorough selection process, the Chair and SID recommended the appointment of Ian White to deliver the external Board evaluation. Ian does not have any other connection with the Company or individual directors. The Directors were pleased with Ian White's approach and are grateful for his work undertaken through 2023 and into 2024.

Process and approach

The approach and process for the Board evaluation was agreed with the Chair and SID, and included director and colleague interviews as well as Board and Committee meeting observation. See page 69 for more details of the process.

The report highlighted the following:

- The Board is led by a highly respected and seasoned Chair who leads the Bank in an inclusive manner.
- The Board is engaged with an inclusive, positive, collegiate and collaborative culture.
- There is effective delegation to Board committees which are clearly connected with the Board.
- The NEDs provide a wide range of skills, experience and behaviours to the Board.
- Relationships between NEDs and the wider Executive are professional and positive.

Recommendations from the review, for which there are actions for the Board to take forward to ensure continued effectiveness include:

- The Board should implement a mechanism to regularly review major decisions in terms of process and outcomes, including a review of the major decisions made in 2023.
- While there is challenge at Board meetings, there could be more on matters proposed by Executives.
- The papers presented to the Board are improving but the quality and length of papers should be kept under review, as should the timing of papers sent to the Board.
- Succession planning should be a high priority for the Board, particularly following the changes to the membership of the Board at the end of 2023, at both executive and non-executive levels. The Board should also ensure a continued focus on diversity.

The Board has in place plans for the implementation of the recommendations to enhance its effectiveness. These recommendations will form the basis of the next internal evaluation where progress will be assessed, and further actions agreed if necessary.

Although work started in 2023, the evaluation did not complete until early 2024. Despite this delay, the Bank will look to complete its next external evaluation again in 2026 in keeping with the Code's three-year cycle.

2023 external Board evaluation process

Scope of review agreed with the Chair, Company Secretary and SID – this included the Chair and SID setting out what they wanted to achieve from this review.

Evaluation questionnaire – each of the Directors completed an anonymous online questionnaire. This provided some themes and context to the evaluator ahead of the main parts of the evaluation.

Individual interviews – interviews were conducted with each Board member, selected members of senior management, the Company Secretariat and a range of colleagues from across the Bank.

Documentation review – the external evaluator reviewed the Board's governance documentation, as well as Board packs and recent shareholder communications.

Board and Committee meeting observations – the external evaluation included external evaluator attendance at meetings to observe how Directors interacted with each other during Board and Committee meetings, as well as to assess the tone and culture set by the Board in its meetings.

Briefing with Chair and SID – the draft report was provided to the Chair and the SID for review and discussion prior to the report being presented to the Board.

Board presentation – the report was tabled for Board review and discussion in February 2024, with the external evaluator facilitating the discussion.

Recommendations – the Board will agree and oversee progress against an action plan to address the evaluation recommendations and assess progress against these regularly.

Group Audit Committee report

Committee composition and attendance for 2023

Members	Meetings attended	Meetings held during Director's tenure
Michael Torpey (Chair)	7	7
Ian Henderson[1]	7	7
Monique Melis[1]	7	7

1. Ian Henderson and Monique Melis stood down from the Committee on 31 December 2023. Catherine Brown and Nick Winsor were appointed to the Committee on 31 December 2023.

In addition to the Committee Chair, Michael Torpey, there were two members of the Committee in 2023: Ian Henderson and Monique Melis. Both were independent NEDs with a range of relevant business experience. Michael has recent and relevant financial experience and the Committee as a whole has competence in the banking sector. For further details of members' skills and experience, please refer to their biographies on pages 54–55.

The Committee meets at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required.

Regular attendees at the Committee include the Chief Internal Auditor, CRO, CFO, CEO, Board Chair and senior members of the Finance team, representatives from the External Auditor and the Deputy Company Secretary, who is the Committee Secretary. The Committee Chair also sits on the ROC and works closely with its Chair. The ROC Chair also sits on the Committee.

2023 highlights

- Assessed going concern and viability.
- Reviewed key accounting judgements.
- Reviewed the impact of the Group's implementation of a new holding company on financial and tax accounting.
- Reviewed advice received and accounting for the capital package announced in October 2023 and made recommendations to the Board to assist in the review of the relevant documentation.
- Had oversight of regulatory reporting.
- Reviewed the Bank's published financial information.
- Reviewed internal audit reports and regular updates from the Chief Internal Auditor.
- Monitored the Group's tax position.
- Recommended to the Board the appointment of the new Chief Internal Auditor.

Dear shareholders

I am pleased to present the Group Audit Committee (the 'Committee') report for the year ended 31 December 2023. This report aims to provide a comprehensive picture of the work we have undertaken as a Committee during the year.

Ian Henderson and Monique Melis stepped down from the Committee on their departure from the Board on 31 December 2023. Catherine Brown and Nicholas Winsor joined the Committee ahead of the 2023 year end audit cycle. On behalf of the Committee, I would like to thank Ian and Monique for their valued contributions during their tenure.

During the year we also said goodbye to Chit Ghee Yeoh as the Bank's Chief Internal Auditor. I would like to thank Chit Ghee for her invaluable input to the Committee. We welcomed Kathy Newman as the new Chief Internal Auditor and I look forward to continuing to work with Kathy as we move into a new year.

It was a busy year for the Bank and the Committee had oversight of the accounting impacts of both the insertion of a new holding company and the execution of a £925 million capital package.

Whilst monitoring some big changes for the Bank, the Committee's core duties remained unchanged; reviewing the integrity and quality of the Group's published financial information; reviewing the strength and effectiveness of the Bank's regulatory reporting framework; supporting the Bank's governance framework; and maintaining focus on evaluating the effectiveness of the Group's control environment.

The Committee continued to challenge and scrutinise financial reporting throughout the year, fulfilling our role of assisting the Board in determining the appropriateness of financial reporting.

The Committee's core duties remain unchanged; reviewing the integrity and quality of the Group's published financial information; reviewing the strength and effectiveness of the Bank's regulatory reporting framework; supporting the Bank's governance framework; and maintaining focus on evaluating the effectiveness of the Group's control environment.

Michael Torpey
Group Audit Committee Chair

Group Audit Committee report
Continued

One of the Committee's main responsibilities is to inform the Board whether we believe the 2023 Annual Report and Accounts is fair, balanced, and understandable, and that it contains all of the information essential for shareholders to evaluate the Group's position, performance, business model and strategy.

To form our opinion we scrutinise the work undertaken by the Financial and Regulatory Reporting Assurance team, who provide details on the process undertaken to ensure a balanced disclosure of developments throughout the year. We make sure that management's disclosures reflect the supporting facts, we urge them to explain and justify their interpretation and, if required, re-present the data. The External Auditor, PricewaterhouseCoopers LLP (PwC), assists this process by examining the Group's accounting records against approved accounting practices, relevant laws and regulations as part of the statutory audit. The audit report by PwC can be read on pages 159-166.

During the year, the Committee paid close attention to the financial position presented by management as we faced turbulent economic conditions and ensured robust oversight of the areas of judgement and estimation in the Group's results. The Committee received papers on this at half year and full year and will continue to keep this under close review.

In addition, the Committee continued to provide close oversight on key regulatory reporting matters including oversight of the Bank's committees for regulatory reporting and interpretation.

The Committee is kept abreast of UK audit and corporate governance reforms to ensure we are implementing any necessary or desirable changes to our audit and governance frameworks. The Committee will also oversee the implementation of the changes from the Global Internal Audit Standards which must be in place by January 2025.

Committee evaluation

During the year, the Committee has continually reflected on its effectiveness, considered how it discharged its duties as set out in its Terms of Reference, and reviewed and recommended changes to this document to the Board for approval. The Committee was satisfied that it addressed all of its duties during 2023 and is well placed to deliver on the same in 2024.

During 2023, an external Board effectiveness evaluation to assess the Committee's performance commenced. The evaluation concluded that the Committee and Committee Chair are performing well with members constructively challenging executives during meetings. However, while the Committee has a clearly defined role, the Committee could be better connected with the Board. This is an area that the Committee will work on during 2024.

Outlook for 2024

As the Bank continues into 2024, the Committee will continue to focus on management's approach to key accounting estimates and judgements, the Bank's capital and liquidity position and the impact of strategic changes on the Group's risk and control framework, remaining abreast of any updates to corporate governance reforms and providing continued oversight of financial reporting.

Michael Torpey
Group Audit Committee Chair
16 April 2024

The Group Audit Committee in brief

- The Committee is accountable to the Board and will assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the financial reporting process, the system of internal control, the internal and external audit processes, and the Bank's process for monitoring compliance with laws and regulations and the code of conduct.
- A key role of the Committee is to review the integrity of the financial reporting for the Bank. This includes:
  - Monitoring the integrity of the financial statements and formal announcements relating to the Bank's financial performance.
  - Reviewing and reporting to the Board on significant financial issues and material judgements.
  - Reviewing and challenging accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure.
- The Committee is responsible for overseeing the regulatory reporting framework to ensure it is strong and effective.
- The Committee is responsible for advising on whether the Annual Report and Accounts is fair, balanced and understandable.

Group Audit Committee report
Continued

Significant financial reporting areas	Review, challenge and conclusion by the Committee
Going concern and viability	The Committee considered management's approach to assessing and concluding on both going concern and viability. The assessment undertaken by management focused on operational risks, liquidity and capital. The Committee also considered the Group's strategy and Long Term Plan with a review of potential downside scenarios to management's central view and any mitigating actions that could be taken. After consideration, the Committee supported the approach adopted by management, which is set out in the viability statement on pages 49 to 50.
Implementation of new holding company	In May 2023, the Group completed the implementation of its new holding company. The Committee undertook a review of management's assessment in relation to the accounting arrangements for the implementation of the new structure. Notable areas of the review included : • The consideration of the reserves movements both to facilitate the insertion of the new company but to also create distributable reserves within both Metro Bank PLC and Metro Bank Holdings PLC. • The financial classification of the internal MREL assets within the stand-alone financial statements for Metro Bank Holdings PLC. The Committee agreed with management's assessment that these instruments failed the 'solely payments of principal and interest' test under IFRS 9 and as such were required to be held at fair value through profit and loss.
Capital package	The Committee reviewed the accounting treatment in relation to the £925 million capital package, approved by investors in November 2023. Specific consideration was given by the Committee to the judgements relating to the refinancing of the Group's existing debt and specifically whether this constituted a substantial modification. The Committee agreed with management's conclusion that the refinancing should be treated as a substantial modification and therefore the old debt should be fully derecognised with the replacement debt treated as a new issuance.
Measurement of the ECL allowance	The Committee regularly reviewed management's assessment of the adequacy of the allowance for ECL. The review included governance arrangements over provisioning and models, the use of post-model adjustment and overlays and a benchmark of the Group's ECL against its peers, as well as reviewing the components of the calculation (including SICR, definition of default, macroeconomic scenarios and scenario weightings). The Committee agreed with management's assessment that the measurement of the ECL allowance remained both a critical accounting estimate and judgement. Further details are set out on pages 172 and 204-205.
Deferred tax assets	The Committee considered whether a deferred tax asset should be recognised in relation to the Group's unused tax losses (which were written off in 2019) as at 31 December 2023. The Committee agreed with management's assessment that the criteria for re-recognising these had not been met.
Impairment review	The Committee has kept impairment indicators in relation to the Group's property, plant, equipment, intangible assets and subsidiary investments under review during the year. Management ran an impairment assessment as required by IAS 36 'Impairment of Assets' and the Committee considered the results of this including associated sensitivities. The Committee concurred with management's view that no impairment was necessary in relation to these assets.
Alternative performance measures	The Group continues to use alternative performance measures as it believes this provides readers with a greater understanding of underlying trends in the business. The Committee reviewed whether management's basis for underlying results remained appropriate, including reviewing assets classified as non-underlying. Details on the Group's alternative performance measures can be found on pages 230-234.

Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2023 Annual Report and Accounts is 'fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy'. The Committee is satisfied that the 2023 Annual Report and Accounts meets this requirement and, in particular, that there are appropriate disclosures for relevant developments in the year. The process which enabled the Committee to reach this conclusion included:

- The compilation of the 2023 Annual Report and Accounts was undertaken on a cross-functional basis including input from senior managers in Finance, Risk, People, Legal, Investor Relations and business lines. A review was undertaken by the Financial and Regulatory Reporting Assurance team and outcomes reported to the Committee.
- A formal review and challenge by the Committee of the draft 2023 Annual Report and Accounts, along with a review of any issues raised in the External Auditor's report, in advance of final sign off.
- A final review, performed by the Board of Directors.
- The preparation of a going concern and viability statement that highlighted the profitability, capital and liquidity position of the Bank over the planning period to 2027.

Internal Audit

Internal Audit is a critical component of the Group's governance, risk management and control functions, providing independent assurance over key controls. The Committee:

- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources and skills and were satisfied that Internal Audit had adequate resources available during the year.
- Assessed the effectiveness of the Internal Audit function throughout the year, including an internal evaluation process that involved a range of stakeholders.
- Monitored the delivery of the 2023 Internal Audit Plan, through reports provided by the Chief Internal Auditor, and discussed areas of significance identified in audits with management.
- Recommended the 2024 Internal Audit Plan to the Board for approval.
- Approved changes to the Internal Audit Methodology.
- Recommended to the Board the appointment of the new Chief Internal Auditor.

The Committee Chair also met regularly with the Chief Internal Auditor and made sure she had access to the Board if needed. As a new Chief Internal Auditor was appointed during the year, the Chair was involved in her recruitment and induction to ensure a smooth handover.

The 2024 Internal Audit Plan focuses on areas that present the greatest risk to the Bank and are of regulatory importance. The Committee will monitor the resources available to Internal Audit to make sure they can effectively deliver the 2024 Internal Audit Plan.

Systems of internal control and risk management

Details of the Bank's risk management framework are provided on pages 125–126. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor. In addition, management was invited to discuss significant issues raised by Internal Audit. Management action plans to resolve the issues raised were monitored by the Committee. The Committee also challenged management where appropriate on the timeframe of the delivery of these actions. In conjunction with ROC, the Committee reviewed and approved the statements in the Annual Report concerning internal controls and risk management.

Financial risk management processes and controls are in place and the effectiveness of these controls is assessed on an ongoing basis. The internal controls framework encompasses all key controls, including those relating to: financial reporting processes; preparation of consolidated Group accounts; formulation of the Group's strategic plans, budgets and forecasts; accounting policies and levels of delegated authority.

Assurance work within Finance is carried out by the Financial and Regulatory Reporting Assurance team. The team's remit is to ensure that processes are supported by robust systems and controls, and to ensure high quality output with risks and issues being identified, highlighted and rectified appropriately. Assurance provided during 2023 included business as usual assurance, such as review of core deliverables and external reporting, as well as performing deep dive reviews into processes where risks or issues have been observed, and focusing on providing an appropriate level of input into key projects being undertaken within finance and regulatory reporting. The Assurance team has been proactively involved in preparing the Bank for compliance with the revised Corporate Governance Code, specifically the internal controls-related elements which will become effective from 1 January 2026. The team has provided regular written updates to the Committee throughout 2023.

Regulatory reporting framework

The Committee has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Group.

The Committee has oversight of the Bank's Regulatory Reporting Committee and Regulatory Interpretation Committee, committees designed to further enhance the Bank's governance and control of regulatory reporting.

External audit

The Committee reviews and makes recommendations to the Board with regard to the appointment of the External Auditor, their remuneration and terms of engagement.

The Committee is also responsible for the oversight of the relationship with the External Auditor and the effectiveness of the audit process. During the year we:

- Reviewed and approved the scope of the 2023 External Audit Plan in advance of the annual audit.
- Reviewed and approved the audit engagement terms and proposed audit fee.
- Reviewed and approved in advance non-audit services provided by the External Auditor.
- Considered the continued independence and objectivity of the External Auditor.
- Reviewed and discussed the reports provided by the External Auditor and the quality of work undertaken.
- Met regularly with the External Auditor without management present.

Group Audit Committee report
Continued

The Committee is satisfied that the External Auditors demonstrated appropriate professional scepticism and challenged the key focus of the financial statements, including material and judgemental areas. The External Auditors have effectively provided insights in relation to the financial assessment of the business throughout the year and their insights have been appropriately investigative and valuable, and their expertise welcomed.

The Committee confirms that PwC continues to be effective. The Committee has recommended the reappointment of PwC as the Bank's External Auditors to the Board, and the Board has recommended the reappointment to shareholders for the next financial year at the 2024 AGM.

Independence

External Auditor independence is a key principle and contributing factor to audit quality. Independence is reviewed as part of the audit scope, as part of reports PwC presented to the Committee, and is further scrutinised prior to the accounts being approved and signed by the Board.

PwC has been appointed as the Bank's External Auditor since 2009. The Bank is required under law to put its audit out to tender at least every 10 years and to change its External Auditor at least every 20 years. Our last formal competitive tender exercise took place during 2018. In relation to the audit for the year ended 31 December 2023, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2023 AGM to reappoint PwC, which shareholders approved.

In line with the FRC's Revised Ethical Standard 2019, the lead audit partner for the Bank rotates every five years. Jon Holloway has led the Bank's external audit since the start of the 2021 financial year. The Committee maintained a good rapport with Jon and the PwC team throughout 2023.

Non-audit services

The Committee carefully monitors the level of non-audit services provided by PwC and considered and approved the Bank's Non-Audit Services Policy during the year. During 2023, in instances where PwC were engaged for non-audit services, they were chosen due to their unique position and knowledge of areas within the Bank and the services were in respect of audit or assurance-related matters consistent with the principles of independent assurance provision. All non-audit services provided to the Bank by the External Auditor must be approved in advance by the Committee subject to the guidelines and thresholds detailed in the policy.

Details of services provided and the fees paid to the External Auditor during the year can be found in note 8 to the financial statements on page 176.

The FRC's Ethical Standard sets out a specific list of permitted non-audit services for UK incorporated public interest entities and the Committee was satisfied that the Non-Audit Services Policy aligns to the ethical standard concerning auditor independence, and that the Bank complied with its policy during 2023.

Modern slavery

The Bank has a Modern Slavery Policy that is accessible to all colleagues via the Bank's intranet. The policy outlines the Bank's zero tolerance approach to modern slavery. The Chair of the Committee is the Bank's Modern Slavery Champion and reports to the Board at least annually on the effectiveness and integrity of the systems and controls in place to ensure compliance with the Modern Slavery Policy. In 2023, we continued to follow and progress our processes to support our policy. We continue to publish our Modern Slavery Statement yearly and the General Counsel provides regular updates to the Committee on progress against our statement and action plan.

Whistleblowing

The Committee is responsible for review of the adequacy and security of whistleblowing systems and controls and reviews these at least annually. The Bank has a Whistleblowing Policy that is accessible to all colleagues via the Bank's intranet and there is regular e-learning training for colleagues. The Chair of the Committee is the Bank's Whistleblowing Champion. The policy outlines the Bank's whistleblowing process which enables colleagues to raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the workplace.

Group Risk Oversight Committee report

Committee composition and attendance for 2023

Members	Meetings attended	Meetings held during Director's tenure
Ian Henderson (Chair)[1]	8	8
Catherine Brown[2]	8	8
Michael Torpey	8	8
Nick Winsor	8	8

1. Ian Henderson stepped down from the Committee on 31 December 2023.
2. Catherine Brown was appointed ROC Chair from 1 January 2024.

In 2023, in addition to the Committee Chair, Ian Henderson, there were three members of the Group Risk Oversight Committee: Catherine Brown, Michael Torpey and Nicholas Winsor. NEDs who were not ROC members were also permitted to attend meetings. The Board Chair, CEO, CFO, Chief Internal Auditor and CRO had standing invitations to attend as guests, unless the Chair of the Committee asked them to excuse themselves from a particular meeting or discussion.

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

The Committee met regularly throughout the year in accordance with its Terms of Reference.

2023 highlights

- Oversight of the Bank's capital and liquidity position.
- Ongoing review of the changing macroeconomic environment and the effect of this on credit risk.
- Review and endorsement of the ICAAP and ILAAP.
- Review and endorsement of the Bank's Resolvability Assessment Framework.

Dear shareholders

I am pleased to present the Group Risk Oversight Committee Report for the year ended 31 December 2023. It was a busy year for the Committee, during which it provided oversight of the implementation of Metro Bank Holdings PLC and the capital raise in October alongside its usual activities relating to oversight of key risks and internal controls and monitoring top and emerging risks.

Ian Henderson stepped down from the Board on 31 December 2023 and I have replaced him as Committee Chair. I have been a member of the Committee since May 2019 and look forward to chairing the Committee through the next phase of the Bank's growth. My fellow Committee members and I would like to thank Ian for his leadership of the Committee.

During the year, the Committee continued to monitor closely the Bank's capital and liquidity and recommended the ICAAP and ILAAP to the Board for approval. Regulatory capital management has been a focus for the Committee and the Bank's capital strength will continue to be monitored regularly following the successful completion of the capital raise and debt refinancing.

The Bank's ambition to be the number one community bank continues and in support of this the Committee received regular updates on customer outcomes, with particular focus on arrears management and vulnerable customers.

Throughout the year, the Committee considered carefully credit risk and the Bank's ability to support customers through the challenging macroeconomic environment. Regular updates were presented to the Committee on arrears management along with deep dives on the performance of business areas including retail mortgages, invoice finance, consumer lending, commercial lending and private banking.

The Committee also provided oversight of the implementation and embedding of the Consumer Duty and this will continue in 2024. Oversight of financial crime risk continued to be a priority during 2023. The Bank continues to deliver enhancements to its financial crime control framework which will be monitored closely by the Committee in 2024.

The Committee considered operational resilience throughout the year and received updates on technology and third-party risks alongside approving the Bank's annual Operational Resilience Self-Assessment.

At the centre of the Bank's community banking strategy are our people. People risks and culture were considered throughout the year by the Committee and, in addition, the CPO presented an in-depth annual update.

The Committee continues to focus on the Bank's management of climate-related risks and received updates on enhancements made to credit policies, measures taken to reduce carbon emissions and improved levels of disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD) and the Carbon Disclosure Project (CDP).

The Bank's ambition to be the number one community bank continues and in support of this, the Committee received regular updates on customer outcomes, with particular focus on arrears management and vulnerable customers.

Catherine Brown
Group Risk Oversight Committee Chair

Group Risk Oversight Committee report
Continued

As we go into 2024, the Committee will focus on the Principal Risks as fully discussed in the Risk Report on page 124 and supporting the Bank as it embarks on the next phase in its growth.

Evaluation
In line with best practice, an external committee effectiveness evaluation was conducted in 2023. The outcome of the evaluation concluded that the Committee members utilise their previous experiences to effectively challenge executives and the Committee effectively prioritises the important matters at each meeting. In 2024, management will work to continue to reduce the length of the papers for each meeting.

Outlook for 2024
The Committee will continue to have oversight of the Bank's risk governance and management in a changing macroeconomic environment with a focus on the following key risk categories:

- Strategy and business performance.
- Reputational.
- Capital.
- Liquidity and funding.
- Conduct (customer outcomes, including Consumer Duty requirements).
- Credit.
- Operational resilience.
- Fraud.
- Financial crime.
- People.
- Third party.

The following sections explain the role of the Committee and summarise the main areas of oversight for each of the Bank's key risks.

Catherine Brown
Group Risk Oversight Committee Chair
16 April 2024

Group Risk Oversight Committee in brief

- The Committee is a committee of the Board. Its specific responsibilities are set out in its Terms of Reference which are reviewed annually and available on the Bank's website. Accountable to the Board, ROC:
  - Provides oversight of risk and advises the Board, as appropriate, on the risks posed to the Bank from its continuing business activities and future strategy.
  - Provides leadership, oversight and direction regarding the Bank's risk governance and management. It is charged with helping the Board create an appropriate risk culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. The ROC is responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP document, ILAAP document, Resolvability Assessment Framework and major risk policies.
  - Oversees risk management procedures and reviews risk reports on key business areas.
  - Receives regular management information and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. Regular updates are received on regulatory developments, and consideration is given to how these will affect plans, processes, systems and controls.
  - As a key part of the Bank's governance framework, the ROC ensures that the CRO has unfettered access to the Committee and its Chair.

Key policy documents considered by the Group Risk Oversight Committee in 2023

- Pillar 3 Disclosure Policy.
- Operational Risk Management Framework.
- Conduct Risk Framework.
- Credit Risk Management Framework.
- Enterprise Risk Management Framework.
- Policy Governance Framework.
- Prudential Risk Management Framework.

Policies reviewed and recommended to the Board:

- Anti-Bribery and Corruption Policy.
- Anti-Tax Evasion Policy.
- Capital Management Policy.
- Liquidity Policy.
- Sanctions Policy.
- Conflicts of Interest Policy.
- Anti-Money Laundering and Combating Terrorist Financing Policy.

Group Risk Oversight Committee report
Continued

Oversight of the Bank's key risks

Bank risk report

This includes a summary from the CRO setting out items of note and assessing the Bank's performance against its risk appetite and risk metrics. The report also includes a summary of top risks, issues under management, the Bank's performance against risk appetite, regulatory engagement, an overview of operational incidents and credit portfolio insights.

Deep dives and in-depth reviews

The Committee received in-depth reviews on areas of emerging risk and regulatory interest throughout the year covering:

- Cyber, information security and IT resilience.
- Vulnerable customer outcomes.
- Outcomes for customers in arrears.
- People and culture.
- Operational resilience.
- Financial crime.
- Climate risk.
- Consumer Duty.

Credit risk

Execution of strategy requires prudent and controlled management of credit risk. To support this, one of the roles of ROC is to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a significant customer or loan has deteriorated. The Committee regularly reviews the performance of the loan portfolio including assessing the impacts of a changing macroeconomic environment and ensures that lending remains within risk appetite and policy exceptions are monitored.

Financial crime risk

Given the level of risk posed by financial crime to all banks, the Committee reviews management information and performance against the Bank's financial crime key risk indicators. In addition to the ongoing review, quarterly updates are escalated through the Bank's governance to the Committee to enable effective oversight of control enhancement activity.

Capital, Market, Liquidity and funding risk

The Treasurer provides a summary of relevant Treasury matters at each ROC meeting, including balance sheet performance and each of the principal prudential risks including liquidity and funding, capital and market risks. The Treasurer also submits the ICAAP, ILAAP, Recovery Plan, and relevant Treasury policies for approval and notes the minutes of the Asset and Liability Committee, which is the primary executive forum for in-depth discussion on Treasury and prudential risk matters. The Treasurer provides a report to the Committee summarising ALCO activities, which includes high-level management information on liquidity, funding, capital and market risks. In addition, the ALCO report includes updates on relevant regulatory matters.

The Committee also receives a regular update from the second line risk team on prudential risk, prudential risk appetite performance and model risk.

During the year, ROC reviewed and recommended to the Board for approval the ICAAP, ILAAP, Resolvability Assessment Framework and relevant policies.

Operational risk

The Committee receives reports concerning risk appetite and risk assessments for overall operational risk and the underlying operational risk categories including people, data, information security and systems availability, operational resilience, fraud, and the risk of poorly executed changes. Summaries of the material incidents which occur during the year and the related root cause analysis are presented to demonstrate how the Bank captures learnings and takes action to prevent or mitigate any potential recurrences. The Committee also receives reports from management on emerging non-financial risks and how these risks are monitored and, where appropriate, mitigated.

Model risk

Given the use of models to support a broad range of business and risk management activities, the Committee provides oversight of the effectiveness of the Model Risk Management Framework. This includes review of escalated findings in relation to specific modelling activities and exposure against model risk appetite.

Regulatory, Conduct and Legal risk

The Committee is updated regularly on legal and regulatory developments and changes that could impact the Bank together with measures taken to monitor and mitigate regulatory risk. The Committee receives updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and feedback from Voice of the Customer surveys. The Committee is also updated on how the Bank the management of manages expressions of dissatisfaction, claims and litigation, and on the ongoing compliance assurance work performed by the second line of defence.

Strategic risk

The Committee regularly considers a comprehensive risk review of the bank's strategy and Long Term Plan and receives updates on the management of risk within other key strategic initiatives as part of the monthly risk report.

Group Nomination Committee report

Committee composition and attendance for 2023

Members	Meetings attended
Robert Sharpe (Chair)	3/3
Catherine Brown	3/3
Monique Melis[1]	3/3
Paul Thandi	3/3

1. Monique Melis resigned from the Board and Nomination Committee as of 31 December 2023.

In 2023, in addition to the Committee Chair, Robert Sharpe, there were three members of the Committee — Catherine Brown, Monique Melis and Paul Thandi. On 31 December 2023, Monique Melis stepped down from the Board. On behalf of the Committee, I would like to thank Monique for her contribution to the Committee. The CEO and the Chief People Officer attend meetings by invitation. The Chief People Officer provides support to the Committee Chair and Committee as needed and the Company Secretary or their delegate acts as Secretary to the Committee. Following each meeting, the Chair provides an update to the Board. The Committee minutes are also tabled for noting at Board, as are papers that require a Board decision or are of particular interest to the Board such as the Board Diversity Policy and succession plans.

2023 highlights

- The Committee had oversight of the external search process for the Company Secretary position and recommended Clare Gilligan to the Board for approval.
- The Committee considered executive succession with a view to ensuring a robust and diverse pipeline for senior roles within the organisation and assessing the development plans for individuals.
- The Committee discussed non-executive succession planning to ensure the Board has the appropriate mix of skills, knowledge, experience, independence and diversity, having given due consideration to the length of service of Board members.
- The Committee reviewed the Board skills matrix and updated this to include ESG-related skills.
- The Committee reviewed the Board's diversity against targets in the Board Diversity Policy and assessed the objectives against the market to ensure they remain appropriate.

Dear shareholders

I am pleased to present the Group Nomination Committee (the 'Committee') Report. This was a pivotal year for the Bank and the end of 2023 saw a number of changes to the membership of the Board following completion of the capital raise. 2023 was largely a year of transition for the Board and I am pleased with the work that the Committee has undertaken to support the Board throughout the year.

In line with the continuously evolving landscape in which we operate, the Committee has continued to focus on diversity at all levels of the Bank, including our Board, Board Committees and the Executive Leadership Team. The Financial Conduct Authority introduced a new listing rule that requires the Bank to provide a statement on new diversity targets, so the Committee considered how this impacts the succession planning for the Bank and our broader diversity and inclusion initiatives. Inclusion at all levels of the Bank underpins our mission to become the UK's number one community bank and the Committee remains committed to ensuring the Board and Executive Committee have the right mix of skills, experience and diversity. The Committee also reviewed the membership and composition of our Board Committees and reflected on the time commitments of each Non-Executive Director to ensure they can carry out their respective responsibilities to the Bank.

The Committee reviewed and recommended to the Board for approval the appointment of our new Company Secretary, Clare Gilligan, who joined the Bank on 31 July 2023. I look forward to continuing to work with her in maintaining strong corporate governance throughout the Bank.

Our colleagues are our greatest asset. Attracting, developing and retaining strong and diverse talent through effective succession planning remains a core focus of the Committee.

Robert Sharpe
Group Nomination Committee Chair

Group Nomination Committee report
Continued

Non-Executive and Executive Director succession was another key focus for the Committee in 2023. During the year, the Committee enhanced its review of executive succession planning by looking in further detail at the pipeline for senior roles within the organisation and assessing the development plans for these individuals. It is important for the Committee to understand how our talented colleagues are developing in their careers and where the Bank would need to look externally for any recruitment needs that the business may require in the future. In light of Board and ExCo changes, the Committee's focus in 2024 will be to refresh Non-Executive Director and Executive succession planning.

The Committee was a part of the external Board effectiveness evaluation that took place during 2023. The feedback received was largely positive with members considering that the Committee meetings are effective with well-structured agendas. The Committee could improve with ensuring that the whole Board feels a part of the succession planning process and this will be a focus for the Committee in 2024.

Outlook for 2024

In 2024, the Committee will focus on the changes to the membership to the Board and ExCo, which will require refreshed succession plans and talent pipelines. This refresh will also include a review of the skills required for the Board and senior management to deliver the Bank's strategy.

I look forward to overseeing the work of the Committee in 2024, ensuring this supports the next steps of the Bank's strategy and growth.

Robert Sharpe
Group Nomination Committee Chair
16 April 2024

The Group Nomination Committee in brief

- The Nomination Committee comprises only Non-Executive Directors, the majority of whom are deemed to be independent, in accordance with the requirements of the UK Corporate Governance Code. The Committee Chair is also the Board Chair who was independent on appointment.
- The Nomination Committee leads the process for identifying and making recommendations to the Board for new Board appointments and Board Committee memberships. Its duties include:
  - Reviewing the structure, size and composition (including the balance of skills, knowledge, experience, independence, diversity and critical skills) of the Board as a whole and making recommendations to the Board as required.
  - Considering succession planning for members of the Board, including the length of service of members and the need to regularly refresh Board membership, taking into account the Bank's strategic priorities, market trends, regulatory requirements, and factors affecting the long-term success and future viability of the Bank and the skills and expertise needed on the Board in the future.
  - Reviewing and assessing the Board skills matrix against the skills required by the Bank as part of its strategy.
  - Reviewing the terms of appointment for Board members, including expected time commitments for NEDs to ensure these reflect current Board priorities and workloads, and to ensure that NEDs can dedicate sufficient time to their role taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board.
  - Reviewing the Board Diversity Policy and recommending any changes to the Board.
  - Considering Board candidates on merit, against objective criteria, with due regard for the benefits of diversity and taking care that appointees have time available to devote to the position.
  - Reviewing the results of the Board performance evaluation process relating to Board composition and succession planning.
  - Reviewing the talent and progression of colleagues for succession to ExCo.

Group Nomination Committee report
Continued

Board Composition
The Committee is responsible for keeping the composition, structure and size of the Bank's Board and its Committees under review and providing the Board with any recommendations for changes as deemed appropriate. The Committee ensures that the appointed Directors have the skills, knowledge and experience required by the Bank to provide effective challenge and oversight of the delivery of the Bank's strategic objectives, and to ensure there is a strong pipeline for the Executive Committee and senior management positions. In 2023, the Committee assessed the composition of the Board and concluded that the Board has the skills, leadership and ability to devote sufficient time to provide the necessary oversight and proper challenge to the Executive Directors, ExCo and senior management. The Committee also considered the skills that the Board may need to meet the Bank's future needs, as well as keeping the length of tenure of Non-Executive Directors under review, to ensure efficient succession.

The Bank announced that with effect from 1 January 2024, and subject to regulatory approval, Catherine Brown would become the Bank's Senior Independent Director and Chair of the Risk Oversight Committee. The Bank also announced that with effect from 1 January 2024, and subject to regulatory approval, Paul Thandi would become Chair of the People and Remuneration Committee. Ian Henderson, Anne Grim and Monique Melis stepped down from the Board on 31 December 2023. Following the changes to the Board composition, the Board (excluding the Chair) now comprises five Non-Executive Directors, four of whom are independent, and one Executive Director.

There were no Board appointments in 2023. The process for appointments to the Board is set out in the Committee's Terms of Reference. The Committee recognises the importance of ensuring a transparent and fair process for interviewing, assessing and appointing new candidates to the Board. The Committee recognises the requirement for a diverse list of candidates and remains fully committed to improving the diversity of the Board and Board Committees over the long term. In light of the strategic developments and revised Board composition, a key focus in 2024 is establishing a strong succession plan for the NEDs and Executive Directors.

Committee activities during the year
The roles and responsibilities of the Committee are detailed in its Terms of Reference which are available on the Bank's website: www.metrobankonline.co.uk/investor-relations/terms-of-reference/.

In 2023, the Committee met three times. The Company Secretary acts as a Secretary to the Committee and other colleagues, such as the CEO, CFO, Chief People Officer and external advisors may be invited to attend all or part of any meeting when appropriate.

The activities of the Committee during the year included the following:

- Approval for the reappointment of Nick Winsor as a Designated Non-Executive Director for Colleague Engagement (DNED) and review of DNED Terms of Reference.
- Review of Board and Executive Succession plans in May and November 2023, which included consideration of the Board's collective skills, experience, independence and diversity in reference to the Bank's strategic priorities, market trends and regulatory requirements.
- Review of Directors' external Board appointments. The Committee was satisfied that each Director had the capacity to meet their commitments to the Bank.
- Assessment of how the Committee discharged its duties during the year.
- Monitoring Directors' actual and potential conflicts of interest. The Board has formal procedures to appropriately manage any actual or potential conflict of interest identified and monitors each Director's independence. In accordance with the Company's Articles of Association, the Board reviews, and authorises as appropriate, situations where a Director has an interest that conflicts, or may possibly conflict.
- Review of Director induction plans.
- Review of the Board Diversity Policy and the progress made against the objectives set in the Policy. The Committee also considered additional diversity metrics to broaden existing diversity monitoring and assessment.
- Review and recommendation to the Board of the Nomination Committee Report for inclusion in the 2022 Annual Report and Accounts.

Board Diversity Policy and diversity statistics
The Board Diversity Policy (the Policy) sets out the Board's approach to diversity and inclusion. The Committee is responsible for monitoring progress towards the Board's diversity objectives, as set out in the Policy. The Policy acknowledges that a diverse Board appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, is more effective. The measurable objectives for achieving Board diversity are reviewed and discussed by the Committee at least annually. In November 2023, the Committee approved the inclusion of additional Board diversity metrics to measure cognitive and international diversity which will also be monitored and reviewed annually.

On gender diversity, the Board is committed to improving female representation on the Board to 40%. Throughout 2023, female representation on the Board was 36%. Following Anne Grim, Ian Henderson, James Hopkinson and Monique Melis' resignations, female representation on the Board is 29%, below the FCA target of 40%. We recognise that to date, the Bank has not met the FCA target of 40% female Board representation. In 2024, the Committee will continue to review Board diversity, recommending any changes as required.

The position of Senior Independent Director in 2023 was held by Monique Melis until 31 December 2023, with Catherine Brown appointed as SID from 1 January 2024 (subject to regulatory approval).

A summary of the objectives of the Board Diversity Policy and the progress made against these is listed in the table on the following page.

Group Nomination Committee report
Continued

Board Diversity Policy objectives

Objectives	Status
Only engaging executive search firms who are committed to sourcing diverse candidates and who have signed up to the voluntary code of conduct on gender diversity and best practice.	There were no Board appointments in 2023.
Considering candidates for appointment as non-executive directors from a wide and diverse pool, which include a combination of skills, experience, ethnicity, age, gender, social, educational and professional background and other relevant personal attributes such as cognitive and personal strengths to provide the range of perspectives, insights and challenge needed to support good decision-making.	There were no Board appointments in 2023. The appointment process, as laid out in the Committee's Terms of Reference, requires the Committee to put together a diverse list of candidates for any vacant Board role.
To improve the female representation on the Board to 40% as per the FCA's Policy Statement PS22/3.	Throughout 2023, female representation on the Board was 36%. Following Anne Grim, Monique Melis, Ian Henderson and James Hopkinson's resignations, female representation on the Board is 29%, below the FCA target of 40%. We recognise that to date, the Bank has not met the FCA target of 40% female Board representation. In 2024, the Committee will review the Board's diversity and recommend any changes as required.
Ensuring that at least one of the senior Board positions (Chair, Chief Executive Officer, Chief Financial Officer, or Senior Independent Director) should be held by a female.	Monique Melis was the SID until 31 December 2023, with Catherine Brown being appointed as SID on 1 January 2024, subject to regulatory approval. We are therefore meeting this objective in the Policy and the Listing Rules and Disclosure Guidance and Transparency Rule 9.8.6(9)(a).
Ensuring the Board's ethnic diversity meets and maintains a minimum of one Director from an ethnic minority background.	As at the date of publication of this report, we have two Directors from an ethnic minority background appointed to the Board. We are therefore meeting Listing Rules and Disclosure Guidance and Transparency Rule 9.8.6(9)(a).
Ensuring that the diversity of the Board's committees is considered for all committee appointments.	The Committee reviews committee memberships and considers that the membership of each of the Board committees are sufficiently diverse.
Reporting annually against our objectives and other initiatives taking place within the Bank which promote diversity.	More information on diversity initiatives can be found on pages 23–26 in the ESG report.
Reporting annually on the outcome of the Board evaluation including the composition, structure and diversity of the Board.	A disclosure on the external Board evaluation undertaken in 2023 is set out on pages 68–69.

Disclosures required under Listing Rule 9.8.6 as at 31 December 2023

a) Table for reporting on gender identity or sex

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management[1]	Percentage of executive management[1]
Men	7	64%	3	6	50%
Women	4	36%	1	6	50%

b) Table for reporting on ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number of executive management[1]	Percentage of executive management[1]
White British or other White (including minority-white groups)	9	82%	4	11	92%
Mixed/Multiple Ethnic Groups	1	9%	0	0	0%
Asian/Asian British	1	9%	0	1	8%
Black/African/ Caribbean/ Black British	0	0%	0	0	0%
Other ethnic group, including Arab	0	0%	0	0	0%
Not specified/ prefer not to say	0	0%	0	0	0%

1. Per the definition within the Listing Rules, executive management within the Bank is ExCo including the Company Secretary.

The data was collected by asking each member of the Board and Executive Committee to indicate their gender and ethnicity according to the categories presented in the table.

Group People and Remuneration Committee report

Committee composition and attendance for 2023

Members	Meetings attended	Meetings held during directors' tenure
Paul Thandi (Chair, effective 1 January 2024)[1]	5	6
Catherine Brown (former Chair)	6	6
Anne Grim[2]	6	6

1. Due to a prior arrangement, Paul Thandi did not attend the Committee meeting on 25 July 2023, which had been scheduled at short notice.
2. Anne Grim stepped down as a Non-Executive Director on 31 December 2023 and is no longer a Committee member.

Paul Thandi was appointed as Chair of the Committee, effective 1 January 2024 subject to regulatory approval, which was received on the 23 February 2024. The Committee consists of two other members, Catherine Brown (the former Committee Chair) and Robert Sharpe, the Board Chair. The CEO, the Chief People Officer and Director of Reward & Performance attend meetings by invitation, along with the Committee's appointed independent advisers.

2023 highlights

- Oversaw a detailed review of the Bank's identification process for Material Risk Takers.
- Completed a review of its remuneration advisers.
- Discussed the implications on remuneration of the establishment of the new holding company in Q2 2023 and the Capital Raise in Q4 2023. Approved new share plan arrangements for the new holding company.
- Undertook reviews on all employee remuneration matters including pensions and other benefits.
- Reviewed progress made by the Bank on its talent management and DEI strategies.

Dear shareholders

I am pleased to present the Group People and Remuneration Committee (the 'Committee') Report, my first as Committee chair.

Having been a member of the Committee since 2019, I have taken over as Chair from Catherine Brown, who had been the Committee Chair since April 2019. I would like to thank Catherine for the significant contribution she has made to the Committee as Chair and for working with me through a comprehensive handover process.

At the end of 2023, we had a further change to the Committee's membership as Anne Grim stepped down as a Non-Executive Director. Anne contributed to the performance of the Committee over several years including the formulation of the existing Remuneration Policy approved by shareholders in 2021. Robert Sharpe has been appointed as a member of the Committee for 2024, and I welcome his perspective on Committee matters.

The Committee's focus remains on attracting and retaining key talent to support delivery of our long term plan and ensuring a remuneration policy which meets the expectations of our stakeholders.

Paul Thandi
Group People and Remuneration Committee Chair

Our approach to Executive Directors' Remuneration in 2023

The Executive Directors' remuneration comprises a salary, market appropriate benefits, pension provisions and variable remuneration which in 2023 was delivered through an annual bonus with deferral and an award under our Long Term Incentive Plan (LTIP).

The Committee believes it is right to reward strong performance by the Bank's executive team, balanced with the interests of all of our stakeholders. This includes considering investor expectations, so that the interests of the executives are aligned to the interests of our shareholders, and our continued compliance with the regulatory requirements, which the Bank must observe as a proportionality Level 2 firm.

2023 variable remuneration

2023 was a pivotal year for the Bank. Whilst there were strong outcomes in relation to delivering operational changes whilst maintaining the focus on our customers and our colleagues, the Bank nevertheless had to undertake a refinancing (Capital Raise) in November 2023 which raised additional capital the Bank required to operate sustainably in 2024 and beyond. This meant that choices were required, which led to significant reductions in the cost base and colleague levels within the Bank. As such, against this backdrop, the formulaic outcome under the 2023 balanced scorecard which drives the annual bonus outturn was 37.8% recognising the mixed performance. However, given the context, management asked the Committee to exercise its discretion to reduce this outcome to zero for executive directors and for those that had been executive committee members during the year. The Committee accepted this recommendation, notwithstanding the broader achievements by the Bank and its colleagues in 2023. A zero bonus payout was considered appropriate for the executive population as the Bank continued to focus on returning to profitability and maintaining its capital position.

Group People and Remuneration Committee report
Continued

More information on the balanced scorecard outcomes and assessment of individual performance is set out on pages 107-108.

There were no payouts under the LTIP in respect of performance to 2023 given the 2021 Awards were granted with a four year performance period to 31 December 2024.

Outlook for 2024

The 2024 Directors' Remuneration Policy
The principal components of remuneration under the 2024 Policy remain consistent with the existing Policy which are salary, pension and benefits, along with an annual bonus with the structure being aligned with best practice, and a long-term incentive plan aligned with the future business strategy.

This approach will initially apply to the CEO as the only current Executive Director and potentially to any new Executive Director as and when appointed to the Board.

Fixed pay:
The current Policy on fixed pay is largely unchanged and as such will consist of salary, market competitive benefits and pension. The pension policy has been updated in line with current practice and will therefore limit the pension contribution for Executive Directors (or cash in lieu thereof) in line with the rates applicable to the workforce, at 8% of salary currently.

Variable Reward:
Variable reward will be awarded through an annual and bonus and the LTIP.

The opportunity under the annual bonus remains at 100% of salary. The structure is being updated to reflect governance, best practice and shareholder feedback. As such, the bonus will no longer be determined based on business and individual multipliers, but instead the balanced scorecard and individual metrics will determine distinct portions of the annual bonus. The balanced scorecard will determine at least 80% of the annual bonus and will continue to be predominantly based on Financial Performance with the remainder being based on Risk and Regulatory; Customer and People metrics. The balance of the bonus (i.e. up to 20% of the bonus) will be based on individual metrics linked to the strategy and culture of the Bank. An overview of the metrics for 2024 are provided on page 88. A portion of any payout will continue to be deferred, in line with regulatory requirements, which required at least 60% of variable remuneration (annual bonus and any long-term incentive) in respect of a financial year to be deferred with a vesting period of at least three years, increasing to up to seven years where required by regulation.

Three changes are proposed to the policy in relation to the LTIP. First, we have added flexibility under the individual limit to allow higher awards above the current limit of 100% of salary, up to 200% of salary, in exceptional circumstances. Such flexibility would only be used after careful consideration, looking at the package as a whole and may be helpful in a recruitment situation. Second, the share price used to determine the award value may be discounted by the expected dividend yield to recognise the value of potential dividends foregone on the share awards. Third and finally, currently Committee discretion can only be applied to reduce the value of an award on vesting. In line with normal market practice and the UK Corporate Governance Code, under the new policy there is also flexibility to use discretion to increase the value of an award on vesting. Any such discretion would only be used after very careful consideration.

Share ownership requirements
The share ownership requirements will remain unchanged with Executive Directors subject to a minimum shareholding requirement equivalent to 200% of salary, which will continue to apply for two years post cessation of employment.

2024 Implementation under the 2024 Policy

Salary adjustments
As a reminder, we indicated in the 2023 report that the Committee had reviewed Daniel Frumkin's salary and agreed a salary increase from £769,600 to £925,000 and that the increase would take effect from 1 January 2024. The increase has therefore been implemented and no further increase as part of the 2023/24 annual review has been applied.

The budget for salary increases this year has been used to continue to support our customer facing and junior colleagues, enhancing pay ahead of the real Living Wage whilst continuing our fair pay approach. In response, the Committee has approved a budget that results in a 6.2% increase across our eligible colleague population effective from April 2024, with the budget prioritised for our junior colleagues.

2024 Annual Bonus

Our new approach to variable reward focuses on growth and the long-term sustainable success of the business.

As noted above, the 2024 annual bonus will be structured in line with a market typical approach. As such, the balanced scorecard will determine 80% of the bonus with the remaining 20% being based on individual strategic and cultural objectives. The Corporate Scorecard will continue to be based 60% on financial measures, with the balance of 40% reflecting social and governance measures which underpin our ESG commitments.

Our aim is to build a sustainably profitable business to support our customers and communities. With this in mind, the 60% financial measures in the scorecard will reflect the Bank's progress in delivering the financial outcomes of its strategy. Within the remaining 40%, managing our risk levels within our risk appetite and maintaining positive relationships with our regulators remain important aspects, weighted at 20%. Customer satisfaction remains central to the success of the Bank and remains weighted at 10%. Our colleagues matter to us and we wanted to reflect this in our scorecard. We have enhanced our measures for colleague satisfaction and diversity with a weighting of 10%. The Committee is aware of investor sentiment for ESG measures to be relevant to strategy, measurable and quantifiable.

A summary of the metrics and weightings is provided on page 115 and full retrospective disclosure of the targets and performance against them will be set out in the 2024 Annual Report. A portion of the bonus will be deferred in line with regulatory requirements.

2024 LTIP awards

The CEO may participate in the LTIP. The performance conditions have been aligned to the strategic plan and are stretching. The LTIP measures for 2024 are Total Shareholder Return, Statutory Return on Tangible Equity and Cost: income ratio. More information on the weightings and measures can be found on page 116.

Review of wider People Agenda

The remit of the Committee also includes oversight of people-related matters. During 2023, the Committee continued to focus on colleague engagement through the voice of the colleague survey, strong executive and leadership succession planning and effective overview of people risks thereby gaining a greater understanding of the working environment experienced by the Bank's colleagues, providing the Committee reassurance that the Bank continues to move in the right direction towards a more diverse and inclusive organisation with appropriate talent development and succession in place. We also undertook a detailed review of the Bank's approach to material risk takers (MRTs), the consequence of which was an increase in the number of MRTs by nearly 31%.

Board changes

A number of Board changes are mentioned elsewhere in the Annual Report and Accounts; I will summarise them here in the context of reporting on the implications for remuneration.

James Hopkinson stepped down as an Executive Director on 12 January 2024. Details of the termination arrangements were outlined initially in the remuneration statement posted on the Bank's website on 21 February 2024. The Committee determined that these termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements.

On 29 February 2024, it was announced that Marc Page would be appointed CFO and become an Executive Director later in the year. His remuneration will be in accordance with the Remuneration Policy approved by the shareholders and was set out in an announcement to the London Stock Exchange on 29 February 2024. Marc Page will receive an annual salary of £500,000, a pension entitlement of 8% of salary and other standard benefits per the Policy. His variable remuneration opportunity will be consistent with the proposed Remuneration Policy. On appointment, Marc Page will be granted deferred cash and share awards (valued in aggregate at approximately £204,000) to replace, like-for-like, unvested Barclays Bank awards that are forfeited as a result of him joining Metro Bank. The awards to be granted match the vesting and retention period attached to the awards being forfeited. In addition, to acknowledge that Marc Page will lose his expected bonus awards from Barclays Bank for the 2023 performance year, a 'lost opportunity' bonus award of £210,000 will be made on hire, or as soon as reasonably practicable, thereafter. This award will be delivered in a mixture of cash and shares, with 40% deferred in shares for up to five years.

Concluding remarks

At the 2024 AGM there will be several remuneration-related resolutions for shareholder approval as summarised below:

1. Approval of the Directors' Remuneration Report (excluding the 2024 Policy section) – an advisory vote on how we have implemented the current Policy in 2023 and how we propose to implement the 2024 Policy in 2024.
2. The 2024 Directors' Remuneration Policy – the new Policy which will be subject to a binding vote.
3. The removal of the bonus cap – the regulatory bonus cap limiting variable remuneration to two times fixed remuneration has been removed from the financial services regulations applicable to UK banks. As such, in line with the 2024 Policy proposals, the Bank is proposing to remove the cap applicable to Metro Bank. The CEO's remuneration will, in any case, be subject to the limits set out in the 2024 Policy.
4. Amendments to DVRP and LTIP plan rules – the Committee has also reviewed the DVRP and LTIP plan rules and has proposed minor amendments to provide the commercial flexibility required to operate the Group Remuneration Policies going forward. Full details of the changes are set out in the Notice to the Meeting.

I hope that you understand the rationale set out for the proposed changes and will support the resolutions at the forthcoming AGM. Should you have any comments or questions, if you can direct correspondence through the Group Company Secretary (email: companysecretary@metrobank.plc.uk), I will be happy to provide further details.

Paul Thandi
People and Remuneration Committee Chair
16 April 2024

Committee performance evaluation

The Committee was evaluated as part of the Bank's wider external Board evaluation. The evaluation concluded that the Committee was working well with clear presentations and effective and constructive challenge from the Committee members. There were no material issues that needed to be addressed. For further details on the external Board evaluation, please see page 68.

Advice to the Committee

The Committee seeks advice from independent external advisers as appropriate. Aon McLagan were appointed as the Committee's independent advisers on executive remuneration in October 2021. During 2023, the Committee undertook a competitive tender process for the role of its independent adviser. As a result of this exercise, the Committee appointed Korn Ferry, effective October 2023, as its new adviser.

Neither Aon McLagan nor Korn Ferry had other connections to the Bank or any of its Directors. The Committee is satisfied with the support provided by Korn Ferry to date. The fees paid for services provided by Aon McLagan and Korn Ferry to the Committee in 2023 were respectively £20,442 (2022: £51,410) and £18,531 . Fees were determined on a time and expenses basis. The Committee is satisfied that the advice it receives is objective and independent, and that there are no conflicts of interest resulting from Korn Ferry's appointment, from inside and outside the Group. Internal support was provided by the Chief People Officer, the Director of Reward & Performance, and other senior leadership as appropriate. No individual was present when matters relating to their own remuneration were discussed.

The Group People and Remuneration Committee in brief

The Committee leads the process for reviewing the remuneration practices of the Bank and approving the executive remuneration structure and outcomes. It also has oversight of other activities of the Bank's People function, such as the Bank's D&I strategy and talent development. Its duties include to:

- determine the Directors' Remuneration Policy (the 'Policy') and recommend its approval to the Bank's Board and then the Bank's shareholders;
- review and have regard to the pay and employment conditions across the Company and the alignment of incentives and rewards with the Bank's culture;
- engage with the Bank's Colleagues on remuneration matters through the Board's DNED;
- approve the design of, and determine the targets for, any performance-related reward schemes operated by the Bank and approve the total annual payments under such schemes;
- oversee the Bank's D&I strategy;
- exercise independent judgement and discretion when authorising any remuneration outcomes;
- oversee the Bank's Senior Managers and Certification Regime, including appropriate competencies and Material Risk Takers and Certified Roles;
- seek advice from the CRO and Chair of the Risk Oversight Committee on risk adjustment as it applies to executive remuneration; and
- engage with the Bank's shareholders, and other stakeholders, on the Bank's remuneration decisions.

Remuneration at a glance

Executive Directors' remuneration in 2023

As a result of the Company's full year 2023 performance (against financial, ESG and strategic measures), the Balanced Scorecard outcome largely reflects the challenges the Bank faced in the run up to the capital raise, which acted as headwind on the financial results. On the non-financial measures, the Bank performed more robustly, despite the operating environment. The formulaic outcome under the 2023 Balanced Scorecard which underpins the annual bonus outturn was 37.8%. However, given the backdrop of 2023, management asked the Committee to exercise its discretion to reduce this outcome to zero for executive directors and for those who had been executive committee members during 2023. The 2023 total remuneration outcome is shown below and more details on the progress against individual performance measures is shown on pages 107 and 108.

2023 total remuneration

Daniel Frumkin
Chief Executive Officer
£834,507

James Hopkinson
Chief Financial Officer
£541,900

● Fixed remuneration ● Annual bonus – retained shares ● Annual bonus – deferred shares

No bonuses were awarded for the 2023 performance year.
There were no long-term incentive plan vestings for either executive director.

2023 variable remuneration outcomes

	Daniel Frumkin	James Hopkinson
2023 variable remuneration outcomes		
2023 annual bonus (% of salary)	0.00%	0.00%
LTIP vesting (as % of maximum)	n/a	n/a
Total single figure of remuneration (£'000s)	£834,507	£541,900

Pay for performance at a glance

The following table shows the 2023 balanced scorecard outcomes used to inform annual bonus outcomes. The formulaic outcome was 37.8%, the Committee accepted Management's recommendation that no discretion be applied to adjust the outcome.

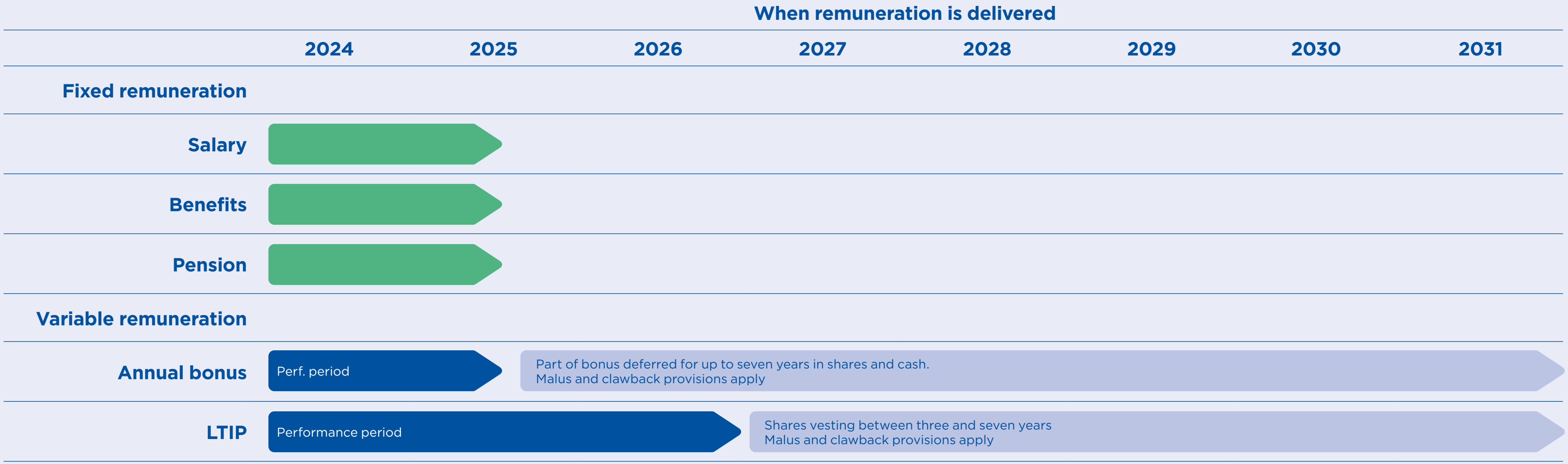
		Threshold	Target	Maximum	2023 weighted outcome
Financial	Underlying earnings				0.0%
	Deposit growth				0.0%
	Organic MREL growth				0.0%
Risk and Regulatory	Cost of risk and relationship with regulator				20.0%
Customer	Net promoter score and expressions of dissatisfaction				7.0%
People and community	Diversity, colleague engagement and financial literacy programme reach				10.8%
Total					**37.8%**

● Actual performance ● Range from threshold to maximum

Remuneration at a glance
Continued

Executive Directors' remuneration in 2024

The table below summarises how it is proposed that the remuneration policy will apply for Executive Directors in 2024.



Implementation in 2024

- Daniel Frumkin – £925,000.
- Marc Page – £500,000.
- Private healthcare cover.
- Life assurance and other standard benefits.
- Pension contribution and or allowance 8%.
- Bonus maximum of 100% of salary.
- Bonus measures 60% financial, 40% ESG and or other priorities.
- LTIP maximum of 100% of salary.
- LTIP measures 40% TSR, 30% ROTE, 30% cost: income ratio.
- In aggregate, at least 60% of variable remuneration deferred for between three and seven years.
- Any shares subject to further 12-month mandatory retention after each vesting date.

Remuneration at a glance
Continued

Aligning our remuneration approach to business strategy and stakeholder interests

Our service is what makes us special. Putting customers first is, and always will be, the key to our success. Through our dedicated colleagues, we build long-lasting and personal relationships with our customers and our communities, giving them the banking they need.

Our remuneration approach is aligned to our strategy, thereby incentivising, as appropriate, great customer service and the creation of long-term value for all of our stakeholders. The following table provides a summary of how our variable remuneration framework in 2024 is aligned with our business strategy and the results that it delivers.

The Committee believes that its executive remuneration policies and practices support the Bank's strategy and promote long-term sustainable success, with reward linked to the successful delivery of such long-term strategy. Remuneration, including variable remuneration, is aligned to the Bank's purpose and values (see page 2), with a focus on customers and other stakeholders an integral part of executive remuneration.

		Short Term			Long Term
Cornerstone	**Focus**	**Balanced Scorecard 2024**			**LTIP**
People People Banking remains our key differentiator	**SME/Commercial Banking** **Specialist Mortgages**	Financial		FY Underlying P/(L)BT FY Net Interest Margin FY Costs **Gateways** CET1 capital Liquidity Coverage Ratio	Total Shareholder Return
		Non Financial	Risk	Relationship with Regulators YTD/FY number of breaches of red limits for tier 1 appetite metrics	Return on Tangible Equity
	Community Banking		Customer	12mth NPS account opening 12mth NPS retail and business (relationships) YTD/FY EODs per 1000 accounts	Cost: Income Ratio
	People Focus		People & Community	E-sat (How happy are you working at Metro Bank) YTD/FY Diversity % ethnic minority in senior leadership roles YTD/FY Diversity % gender in senior leadership roles	**Gateway** Risk and Regulatory Performance

Remuneration at a glance
Continued

How the proposed Directors' Remuneration Policy addresses the key features set out in the UK Corporate Governance Code

The following table summarises how the proposed remuneration policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code ('the Code').

Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Committee is committed to providing open and transparent disclosures to shareholders and colleagues on its Executive Director remuneration arrangements. Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our DNED.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our approach to remuneration for Executive Directors is simple and transparent. It is consistent with structures used widely across the financial services industry.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	In line with regulatory requirements, our remuneration practices promote sound and effective risk management while supporting our business objectives. For 2024, 20% of our annual bonus balanced scorecard will be based on risk and regulatory measures, and the determination of annual bonuses is subject to a risk adjustment process and input from the Chief Risk Officer (CRO) and the Chief People Officer. The deferred portion of any bonus as well as LTIP awards granted to Executive Directors vest between years three and seven, during which malus can be applied. LTIP awards only vest assuming performance conditions have been met as well as satisfaction of a gateway test linked to satisfactory performance in relation to risk. Vested variable remuneration awards are subject to our clawback policy for a period of up to seven years from the award date (extending to ten years where an investigation is ongoing).
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Variable remuneration is delivered primarily through share based awards. The value of awards is therefore closely aligned to share price movements and the shareholder experience. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided later in the report.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Variable remuneration payments require robust performance against challenging measures and targets. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the individual's AMAZEING review. The Committee has discretion to override formulaic scorecard outcomes to ensure that they are appropriate and reflective of overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The primary objective of our remuneration framework is to support growth and our long-term success while reinforcing our unique culture. The bonus pool for any year is based on Metro Bank's overall performance in terms of culture and delivery in line with the balanced scorecard. All colleagues are able to participate in our HMRC approved share incentive plan, which supports our ethos of colleague buy-in and ownership.

In accordance with Code Provision 41, the Directors' Remuneration Report describes the work of the Committee, including those areas mentioned in that Provision. The table below highlights some of those areas:

Remuneration at a glance
Continued

Provision	Approach
Operation of policy	The Committee believes that the Remuneration Policy operates as intended in terms of Metro Bank performance and the quantum of remuneration delivered.
Shareholder engagement	We undertook substantial engagement with our shareholders as part of the development of the remuneration policy for Metro Bank PLC in the run up to the 2021 AGM. We are grateful for this feedback and subsequent input received that has shaped our thinking and decision-making. We have further engaged leading investors as we developed the remuneration policy for Metro Bank Holdings PLC and will continue to engage stakeholders in the run up to the 2024 AGM.
Workforce engagement	An outline of our approach to workforce engagement in set out on pages 62-63.

Remuneration for colleagues below Board level

Summary of the Remuneration Structure for colleagues below Board level

The Committee is directly responsible for the remuneration of the Executive Directors, the Executive Committee (ExCo) and other executives who have been identified as material risk takers under the relevant regulators' remuneration rules.

The Committee is also given regular updates and, as required, takes key decisions on benefit, pension and incentive arrangements that cascade through the organisation. During the year, the Committee received updates on key activities and discussed material changes to all employee remuneration policies and arrangements. In 2023, there was also a deep dive on how colleague pensions are structured and managed.

Metro Bank is committed to ensuring its workforce has the diversity of talent and expertise that it needs for the business to continue to grow and innovate. Our people are critical to us achieving our strategy and the Committee is committed to ensuring our people are rewarded fairly and competitively for their contribution to our success.

Our approach to remuneration for colleagues below Board and ExCo level is similar for all colleagues. Whilst variable remuneration for the ExCo is delivered differently to that for the wider colleague population, it is consistent across this small group of colleagues. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, whilst discouraging unnecessary risk taking.

Salary	Benefits	Pension	Variable Remuneration
• The quantum of salary increases is primarily driven by the external market, capability and affordability. • We also review salaries for roles that we deem are growing rapidly in scale and/or complexity and are critical to the business and for those colleagues which market data suggests are falling behind the market rates for their roles.	• All colleagues are eligible for private medical insurance funded at different rates of cover depending on their level. • All colleagues, including the ExCo, receive life assurance cover of four times their salary.	• All colleagues can participate in our Group Personal Pension Plan when they join the Bank. If they have exceeded the annual pension tax-free contribution limit, they may be eligible to take cash in lieu of pension for all or some of the benefit. • Employer pension contributions are up to 10%.	• Colleagues participate in the same annual bonus plan with a single scorecard and a consistent company performance adjustment factor. • For all colleagues whose personal behaviours and delivery are as expected or better, we apply an adjustment factor. • Where appropriate and required by regulations, variable remuneration may be deferred and/or delivered in shares.

Regulators' rules require the Bank to identify colleagues who are Material Risk Takers (MRTs): these are individuals who operate in roles deemed to have, or potentially have, a material impact on the risk profile of the Bank. Metro Bank classified 59 colleagues as MRTs in 2023 (2022: 45).

The remuneration approach taken for our MRT population differs from that of the wider colleague population. To align the interests of our MRT population with those of our shareholders, we may deliver a portion of variable remuneration in retained shares, deferred cash, deferred shares, and where appropriate, awards under the long-term incentive plan. Further information relating to remuneration of our MRT can be found in our 2023 Pillar 3 disclosure (pages 70-76).

Alignment between our approach to Directors' remuneration and other colleagues

In developing the proposed remuneration policy, the Committee carefully considered the remuneration arrangements across the Bank. The Committee receives information on wider workforce demographics and remuneration on a regular basis to ensure that the Committee has a good understanding of the structure and application of reward policies throughout the organisation.

When making decisions about executive remuneration, the Committee ensures, for example, that pay review budgets for Metro Bank executives are typically set at levels which mirror those being applied for other colleagues. In addition, all colleagues' annual variable remuneration is linked to the delivery of the Bank-wide balanced scorecard, through which the Executive Directors are incentivised.

Remuneration for colleagues below Board level
Continued

Gender pay gap reporting
The Company's 2023 Gender Pay Gap Report, published in April 2024, shows that on a median basis, our gender pay gap is 16.7% (2022: 17.2%). This compares with a national average gender pay gap of 14.3% across all industries, calculated by the Office of National Statistics (ONS) in November 2023: gender pay gaps tend to be higher in financial and banking organisations.

We expect to see small changes in the total pay gap each year due to changes in the composition of the workforce and hiring patterns, which can vary between men and women year-on-year. Further information can be found in the Environmental, Social and Governance section on page 26.

Year-on-year change in colleague and Directors' remuneration
We monitor year-on-year changes between the movement in remuneration for executives compared with the wider colleague population.

The relevant disclosure requirement is for this comparison to be made against the employees of the parent company. On the basis that Metro Bank Holdings PLC, the parent company, does not employee any colleagues, we have voluntarily disclosed this information.

The table below sets out the year-on-year percentage change in salary, benefits, and annual bonus for the Directors of the Board against an average full-time equivalent colleague. The Committee considers three consecutive measurement periods an appropriate level of insight. The percentage increases or decreases in the table below reflect changes in populations year-on-year or, in the case of Directors, changes in responsibilities, e.g., committee memberships, or that the individual was not a Director for the whole year. Percentages for Directors are calculated using the respective figures in the single total figure for the remuneration.

	Salary/Fees % change			Taxable benefits % change			Annual bonus		
	2023 vs 2022	2022 vs 2021	2021 vs 2020	2023 vs 2022	2022 vs 2021	2021 vs 2020	2023 vs 2022	2022 vs 2021	2021 vs 2020
All colleagues[7]	3.3%	3.7%	5.6%	1.6%	-4.1%	4.4%	-44.8%	12.9%	23.8%
Daniel Frumkin[1]	0.0%	3.0%	3.5%	-87.2%	91.9%	985.6%	-100%	-28.3%	20.2%
James Hopkinson[2]	207.0%	n/a	n/a	475.0%	n/a	n/a	-100%	n/a	n/a
Executive Committee[7]	-3.1%	8.4%	3.8%	-56.9%	-47.3%	71.7%	-100%	-45.5%	33.8%
Robert Sharpe[3]	0.0%	0.0%	500.0%	-64.1%	100.8%	0.0%	n/a	n/a	n/a
Catherine Brown	1.0%	10.7%	7.9%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Dorita Gilinski[4]	n/a	n/a	n/a	0.0%	0.0%	0.0%	n/a	n/a	n/a
Anne Grim[5]	2.8%	-17.4%	104.6%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Ian Henderson	0.7%	2.0%	65.2%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Monique Melis[6]	1.8%	27.6%	-20.7%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Paul Thandi	2.6%	6.4%	0.0%	0.0%	0.0%	0.0%	n/a	n/a	n/a
Michael Torpey	0.7%	2.0%	3.0%	-26.5%	100.0%	0.0%	n/a	n/a	n/a
Nicholas Winsor	15.5%	35.0%	56.3%	0.0%	0.0%	0.0%	n/a	n/a	n/a

1. Daniel Frumkin volunteered salary reductions in May, June, and July 2020 in light of the COVID-19 pandemic. Daniel's percentage change in salary also reflects his time as Interim CEO between 1 January and 18 February 2020. The year-on-year change in Taxable benefits for Daniel Frumkin has been heavily influenced by the decision to include the apportioned costs of a chauffeur and company car that was historically operated by Metro Bank (see commentary on page 105). There has been no year in year change in terms of Daniel's eligibility to standard benefits. The percentage change shown above in respect of 2022 versus 2021 has been adjusted from that disclosed last year.
2. James Hopkinson was appointed to his role on 5 September 2022, hence why his remuneration is recorded as increasingly significantly between 2022 and 2023.
3. Robert Sharpe became Chair of the Board on 1 November 2020, hence why his remuneration is recorded as increasingly by 500% between 2020 and 2021. The year-on-year change in taxable benefits for Robert has been heavily influenced by the decision to include the apportioned costs of a chauffeur and company car that was historically operated by Metro Bank. The percentage change shown above in respect of 2022 versus 2021 has been adjusted from that disclosed last year. This is consistent with the restatement of his 2022 emoluments (see commentary on page 117). As Chair of the Board, he is not eligible for standard benefits offered to other colleagues.
4. Dorita Gilinski was appointed to the Board on 26 September 2022 and has decided against receiving a fee.
5. The year-on-year movement for Anne Grim is largely a function of changes in responsibilities and her appointment to the Board in 2020.
6. Monique Melis was interim Senior Independent Director in 2020.
7. The data for 'all colleagues' and 'ExCo' is based on the population employed as at the relevant December year end. Average is calculated on a mean basis.

Remuneration for colleagues below Board level
Continued

CEO to colleague pay ratio disclosure

Year	Calculation methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	CEO salary	25th percentile salary	Median salary	75th percentile salary	CEO total pay	25th percentile total pay	Median total pay	75th percentile total pay
2023	A	30:1	21:1	13:1	£769,600	£25,400	£34,300	£58,200	£834,500	£27,600	£38,800	£66,100
2022	A	49:1	35:1	19:1	£762,200	£23,900	£32,600	£56,500	£1,276,200	£26,300	£36,900	£65,900
2021	A	55:1	40:1	22:1	£740,000	£23,000	£30,400	£55,000	£1,430,100	£25,800	£36,100	£64,700
2020	A	55:1	40:1	23:1	£714,800	£21,100	£27,400	£47,000	£1,297,000	£23,800	£32,200	£57,000
2019	A	36:1	27:1	16:1	£750,000	£20,700	£26,700	£43,400	£828,600	£22,900	£30,300	£51,200

Notes:
Salary and total pay figures have been rounded to the nearest £100.
We have not diverged from the single total figure methodology when calculating employee pay and benefits.

The respective quartiles were calculated using the Option A methodology which the Committee considers the most straightforward approach. Colleagues are included in the 2023 data set if employed as at 31 December 2023. Three colleagues were identified whose full-time equivalent total remuneration places them at the 25th, 50th and 75th percentiles. Colleague total remuneration includes salary, allowances, employer pension contributions, Bank-funded health and risk benefits and incentives in respect of the relevant performance year. For 2023 provisional annual bonus awards, figures have been used as the year end performance management process for colleagues remains ongoing as at the date of this report. We are confident that the colleagues identified at the lower, median and upper quartiles are remunerated in line with our wider policies on colleague pay, reward and progression.

There has been a reduction in the pay ratio between 2022 and 2023. The primary reason for this is the CEO did not receive any 2023 variable remuneration in contrast to 2022. The Committee is satisfied that the individuals identified within each relevant percentile appropriately reflect the employee pay profiles at those quartiles and that the overall picture presented by the ratios is consistent with our approach to colleague remuneration.

It is important to note that a high proportion of the CEO remuneration is based on performance against the short- and long-term incentive plans, and that payouts can significantly change year-on-year, significantly affecting the ratio going forward.

Directors' remuneration policy

The section below sets out the Remuneration Policy for Executive and Non-Executive Directors.

The current remuneration policy for Executive Directors, the Chair and independent Non-Executive Directors was adopted in 2023 following the Company's incorporation. The policy was summarised on pages 91-94 of the prospectus published on 22 March 2023 relating to the admission of the Metro Bank Holdings PLC shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange ('Admission').

The current remuneration policy is similar to that adopted by Metro Bank PLC and approved by its shareholders at its AGM in May 2021. The Company is required to seek shareholder approval for its remuneration policy no later than at its first annual meeting following the Company's Admission.

The new Remuneration Policy (the 'Policy') will be submitted for shareholder approval at our Annual General Meeting in May 2024. If approved, it will take effect from that date. Details of how the Policy (if adopted by shareholders) will be applied in 2024 are included in the next section of the Directors' Remuneration Report.

The Policy may apply for up to three years from the date of approval. The Committee will consider annually how the Policy is operated to ensure it remains aligned with the business strategy and regulatory requirements.

In determining the new Policy, the Committee has undertaken a thorough review of remuneration arrangements across the business, the Bank's strategic priorities, FTSE market practice and investor guidance. The views of our shareholders on remuneration matters are also important to us and, as a result, we take into account feedback and guidance from our key shareholders and the shareholder representative bodies and considered their guidelines in formulating proposals.

The Committee is satisfied that any conflicts of interest have been mitigated in the preparation of this Policy.

Summary of Policy changes

This section sets out the key changes in the new Remuneration Policy from that set out and summarised in the prospectus published by the Company on 22 March 2023.

Component	Overview of changes
Annual Bonus	The new structure aligns the operation with FTSE banking market practice with the majority of the bonus being based on the balanced scorecard and the remainder being based on individual strategic and cultural metrics. There is no change to the opportunity of 100% of base salary. Business and individual performance multipliers have been removed to provide a clearer link between performance and payouts, in line with shareholder feedback. Consistent with remuneration rules from Metro Bank's regulators, part of any bonus can be paid in cash (upfront and or deferred).
Long-Term Incentive Plan	The long-term incentive plan has been updated to allow the Committee to exercise upward discretion where appropriate on the vesting of an award, in addition to its existing power to make a downward adjustment in line with normal market practice. This is providing that no upward adjustment may allow vesting in excess of the maximum amount of the Award as originally granted. Flexibility has been added under the individual limit to allow higher awards above the current limit of 100% of salary, up to 200% of salary, in exceptional circumstances. Such flexibility would only be used after careful consideration looking at the package as a whole and may be helpful in a recruitment situation. The share price used to determine the award value may be discounted by the expected dividend yield, to recognise the value of potential dividends foregone on the share awards in line with normal UK banking market practice.

Executive Directors – Fixed remuneration

Component	Description
Salary	
Purpose and link to strategy	Salary is part of the total proposition at Metro Bank, including career and growth opportunities and long-term reward. We aim to set pay at a level which enables us to attract and retain the right calibre of colleagues, with the required level of skills, experience and cultural alignment.
Operation	Salaries for Executive Directors are reviewed annually by the People and Remuneration Committee (the Committee) with any increase usually taking effect from 1 April. When determining salary levels, the Committee considers factors including: • Relevant external market data and alignment to market-competitive levels • Scope and size of role • Individual's skills, expertise and experience and ability to grow with the role and organisation • Salary increases across Metro Bank • Economic factors, e.g. inflation and affordability.
Maximum potential	Salary increases in percentage terms for Executive Directors will normally be in line with increases awarded to other colleagues, but there may be instances where a higher amount is agreed at the discretion of the Committee, including, but not limited to, where there has been a clear increase in the scope of role or change in responsibilities.
Performance measures	There are no performance measures related specifically to salary.
Pension	
Purpose and link to strategy	The pension arrangements comprise part of a competitive remuneration package and facilitate long-term retirement savings for Executive Directors, and without exposing Metro Bank to any unnecessary financial risk or unacceptable cost.
Operation	Paid as a cash allowance and/or contribution to a defined contribution plan. Pension contributions may also be made in lieu of any waived salary (and the cash amount of any annual bonus).
Maximum potential	For current and any new Executive Directors, the pension allowance will be in line with employer contribution for the majority of the workforce.
Performance measures	There are no performance measures related specifically to pension contributions.

Executive Directors – Fixed remuneration Continued

Component	Description
Benefits	
Purpose and link to strategy	We support the health, wellbeing and security of our Executive Directors through additional core benefits.
Operation	A range of benefits may be provided, including standard benefits such as holiday and sick pay, and may also include the provision of a car and driver (or other car-related service), private medical insurance, health screening, life insurance, and tax preparation and tax return assistance. Benefits can be provided in kind and/or in cash in lieu of the benefit. Other benefits may be offered if considered appropriate and reasonable by the Committee. Executive Directors are reimbursed for expenses, such as travel and subsistence, and any associated tax incurred in the performance of their duties. Additional benefits may be provided in certain circumstances including, but not limited to, relocation. Executive Directors also have access to additional voluntary benefits which are available to all colleagues, including ShareBuy, our Share Incentive Plan (SIP).
Maximum potential	The maximum opportunity will vary according to the market, individual circumstances and other factors. Benefits are set at an appropriate level by the Committee based on the role and individual circumstances. The cost may fluctuate from year-to-year even if the level of benefit provided remains unchanged.
Performance measures	There are no performance measures related specifically to benefits.

Executive Directors – Variable Remuneration

Component	Description
Annual Bonus	
Purpose and link to strategy	To recognise and reward the delivery of annual financial and strategic objectives which contribute towards the delivery of longer-term strategy.
Operation	Annual bonus is determined by an assessment of the balanced scorecard outcome and personal performance. The balanced scorecard will normally determine at least 80% of the bonus outcome with the remainder based on achievement against individual performance objectives. The Committee has discretion to adjust the annual bonus outcome if it is not aligned with underlying financial performance, the current and future risks and the wider stakeholder experience. If Metro Bank achieves threshold performance on all metrics in the balanced scorecard, we would pay out up to 25% of the maximum opportunity and for target performance we would pay out 50% of the maximum. Annual bonus is delivered as a combination of cash, shares subject to holding requirements, deferred shares and deferred cash. Deferral and vesting of the bonus and LTIP are structured so that, in combination: • The proportion of variable remuneration that is deferred is no less than required by the relevant remuneration regulations (currently 60%). • The deferred remuneration vests no faster than permitted under the relevant remuneration regulations (currently pro rata over years three to seven after award). The Committee can, in specified circumstances, apply malus or clawback to all or part of annual bonus in line with the 2024 UK Corporate Governance Code. Deferred annual bonus will be granted as conditional share awards and/ or nil or nominal cost options. Deferred annual bonus can be delivered in cash as well. Dividends or dividend equivalents will only be payable during the vesting period if permitted under relevant regulatory remuneration guidelines. Dividends or dividend equivalents can be accrued from the vesting date. On the occurrence of corporate events and other reorganisation events, the Committee may apply discretion to adjust: the vesting of deferred annual bonus awards and/or the number of shares underlying a deferred annual bonus award.
Maximum potential	Up to 100% of salary for a financial year.
Performance measures	The choice of measures is reviewed by the Committee each financial year, with threshold, target and stretch levels of performance set for each measure. For 2024, the balanced scorecard will be based at least 60% on financial performance with the remainder on other metrics which may include Risk and Regulatory; Customer and People metrics. Additionally, the Committee has discretion each year to establish a gateway requirement of CET1 or a profit hurdle before any bonus is payable.

Executive Directors – Variable Remuneration Continued

Component	Description
Long-Term Incentive Plan (LTIP)	
Purpose and link to strategy	To incentivise and reward the creation of long-term shareholder value thereby creating shareholder alignment.
Operation	An Executive Director may be considered for LTIP awards on an annual basis. Awards will be in the form of nil/nominal cost options or conditional awards of shares. Awards will usually have performance assessed on the third anniversary of grant or, if later, when the Committee determines that the performance conditions have been satisfied. The vesting of the award will be in line with regulatory requirements In line with applicable regulations, which currently require the vesting to be in tranches over years three to seven from grant, subject to a holding period per regulatory guidelines. The Committee has the discretion to adjust the level of vesting where it is not considered to be in line with the underlying performance of the Company; the wider stakeholder experience; the Board's risk appetite framework; in relation to any individual conduct issues or in any other circumstances at the discretion of the Committee. Dividends or dividend equivalents will only be payable during the vesting period if permitted under relevant regulatory remuneration guidelines. Dividends or dividend equivalents can be accrued from the vesting date. Alternatively, the share price used to determine the award value may be discounted by the expected dividend yield, to recognise the value of potential dividends foregone on the share awards. Malus and clawback provisions will apply to these awards in line with the 2024 UK Corporate Governance Code. On the occurrence of corporate events and other reorganisation events, the Committee may apply discretion to adjust the vesting of LTIP awards and/or the number of shares underlying a LTIP award.
Maximum potential	Up to 100% of salary for a financial year, subject to an exceptional circumstances limit of 200% of salary. Threshold vesting performance for the LTIP will be set at 25% of maximum opportunity.
Performance measures	Awards are subject to the achievement of performance targets linked to the long-term success of the Company. Performance measures and weighting will be aligned to the Company's strategy. The performance measures will be determined prior to grant and ordinarily the majority of the award will be based on financial and/or relative Total Shareholder Return (TSR) metrics, with the remainder on other metrics which may include strategic, risk or customer metrics.

Directors' remuneration policy
Continued

Remuneration approach when appointing new Executive Directors

The Committee's approach to recruitment is to attract diverse experience and expertise by paying competitive remuneration enabling us to attract and retain key talent from the marketplace. Any new executive director's remuneration package would include the same elements and be subject to the same variable remuneration maximums as those for the existing executive directors. The policy is summarised below.

Element	Details
Salary	Base salary will be determined by virtue of the individual's role, experience and responsibility. External market commentary will also be considered.
Benefits and Pension	Dependent on circumstances but will be set in line with the policy for existing Executive Directors. Where the new Executive Director is required to relocate, Metro Bank may provide relocation support. The level of the relocation package will be assessed on a case by case basis but may include, for example, a housing allowance / support, school fees, periodic trips home, family travel, and the tax thereon, as well as reflecting cost of living differences.
Variable remuneration	The maximum variable remuneration opportunity for the performance period in which the Executive Director joined would be determined by the Remuneration Policy and the Committee would consider whether it is appropriate to reduce the award, subject to time in role.
Shareholding requirement	In line with the policy for existing Executive Directors.
Buyout	The Committee may consider buying out forfeited remuneration and forfeited opportunities and/or compensating for losses incurred as a result of joining Metro Bank subject to proof of forfeiture or loss. The value of any buy-out award will not exceed, in broad terms, the aggregate value of the remuneration forfeited. Any award will be structured within the requirements of the applicable remuneration regulations, and will be no more generous overall than the remuneration forfeited in terms of the existence of performance measures, timing of vesting and form of delivery. The value of buy-out awards is not included within the maximum variable remuneration level where it relates to forfeited remuneration from a previous role or employer.
Legacy matters	Where a senior executive is promoted to the Board, their existing contractual commitments agreed prior to their appointment may still be honoured in accordance with the terms of the relevant commitment, including vesting of any pre-existing deferred or long-term incentive awards.

Other policy matters – Executive Directors

Component	Description
Shareholding requirement	
Purpose and link to strategy	A requirement for Executive Directors to hold a specified value of shares for alignment with the interests of shareholders during employment.
Operation	Executive Directors are subject to a minimum shareholding requirement equivalent to 200% of salary, normally expected to be built up over a period of five years commencing from the date of appointment as an Executive Director (or, if later, from the date of any changes to the terms of the shareholding requirement). The shareholding requirement is reviewed by the Committee as appropriate. Executive Directors are expected to retain all shares vesting under the Deferred Variable Reward Plan (or equivalent) and the LTIP (in all cases net of tax and payment of any nominal exercise price) until such time as this shareholding requirement has been met. Shares that count towards the requirement are beneficially owned shares, vested share awards subject to a retention period and unexercised share awards for which performance conditions have been satisfied (on a net-of-tax basis). Executive Directors are expected to maintain the shareholding requirement (or their actual shareholding at date of leaving, if lower) for at least two years post-employment. For awards granted from the commencement of the policy approved at the 2021 AGM, Metro Bank will enforce this by way of a contractual requirement.
Contractual arrangements	
Purpose and link to strategy	Service agreements contain a maximum of 12 months' notice from the employer and the Executive Director.
Operation	May be required to work and/or serve a period of garden leave during the notice period and/or may be paid in lieu of notice if not required to remain in employment for the whole notice period.
Legacy arrangements	
Purpose and link to strategy	Honour existing commitment.
Operation	Any previous commitments or arrangements entered into with current or former Executive Directors will be honoured, including remuneration arrangements entered into under the previously approved directors' remuneration policy. The Committee reserves the right to make any remuneration payment and/or payments for loss of office notwithstanding that they are not in line with the Policy set out in this report, where the terms of the payment were determined before the Policy or any previous policy came into effect, or if the individual was not a Director at the date the remuneration was determined and the remuneration was not set in consideration or in anticipation of becoming a Director
External roles	
Purpose and link to strategy	To encourage self-development and allow for the introduction of external insight and practice.
Operation	Executive Directors are permitted to accept one appointment on a Board or Committee of a listed company, subject to approval of the Board. When reviewing the appropriateness of an external appointment, the Board will consider: • Any regulatory guidance that may be in place at the time. • Whether the appointment would interfere or conflict with the business of the Company. Any fees received in respect of these appointments can be retained directly by the relevant Executive Director.

Remuneration on or after termination

Component	Description
Salary/fees and benefits	The Executive Director is entitled to be given notice of termination of the relevant length and receive their normal base salary and benefits in that time. Metro Bank has discretion to make a payment in lieu of base salary in respect of any unexpired notice period and may decide to pay this in instalments, subject to reduction if the Executive Director finds alternative employment. Benefits continue until the last day of contractual employment and the accrued but unused holiday will be paid out. The Committee may pay reasonable reimbursement of professional fees, such as legal fees and tax advice (and any associated tax), in connection with such termination arrangements. Career transition (or outplacement) support may also be provided.
Variable remuneration	Variable remuneration may accrue during a notice period, however (unless decided otherwise by the Committee at its discretion) the Executive Director usually has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable remuneration is payable after termination and previous unvested variable reward deferred into share awards will usually lapse. However, if the Executive Director leaves for the reasons detailed in the Deferred Variable Reward Plan (or equivalent) and Long-Term Incentive Plan Rules (e.g. ill health, retirement with the agreement of the employer, sale of the employing company out of the group, redundancy or death) or in other circumstances at the Committee's discretion, their award under that plan will usually continue on the same terms (subject to reduction and clawback as described in the policy) and usually vest at the normal time provided any performance conditions are met with a time pro rata reduction of LTIP awards. The Committee may, at its discretion, determine that awards may vest, subject to performance, before the normal vesting date. If an individual dies, awards will ordinarily vest, subject to performance, on the date of death unless the Committee decides they should vest on the normal vesting date.
Pension	Pension contributions continue to be made during the notice period. No further payment in lieu of pension or pension contributions can be made after termination. Any benefits will become payable in the normal course in accordance with the rules of the scheme. There is no right to early payment of pension benefits unless this can be done without additional contribution from Metro Bank.
Post shareholding requirement	Executive Directors will be required to maintain the lower of the in-employment shareholding requirement or the level achieved at the cessation date for a period of two years post-cessation.
Other	Executive Directors' contracts can be terminated by either party on giving no more than 12 months' notice. On termination, additional payments can be made by way of damages for breach of any legal obligation or by way of settlement or compromise of any claim raised by the Executive Director.

Directors' remuneration policy
Continued

Notes to the remuneration policy for Executive Directors

Committee's judgement and discretion
In addition to assessing performance and making judgements on the appropriate levels of annual bonus and LTIP awards, the Committee has certain operational discretions that it may exercise when considering Executive Directors' remuneration, including but not limited to:

i. determining whether a leaver is an eligible leaver under Metro Bank's share plans and treatment of remuneration arrangements
ii. following a corporate event, the Committee may amend any performance conditions applicable to variable remuneration awards if any event occurs which causes the Committee to consider an amended performance condition would be more appropriate and not materially less difficult to satisfy
iii. deciding whether to apply malus or clawback to an award.

In the event of a variation of Metro Bank's share capital or a demerger, special dividend or any other event that may affect Metro Bank's share price, the number of shares subject to an award and/or any exercise price applicable to the award, may also be adjusted.

The delivery of deferred variable remuneration in the form of share options, shares and or deferred cash shall be operated in accordance with the rules of the respective plans. The Committee may exercise operational and administrative discretions under the respective plan rules as set out in those rules.

Ability for the Committee to amend the policy for emerging and future regulatory requirements
The Committee will follow any statutory requirements when operating the Policy and may make minor amendments to the Policy for regulatory, exchange control, or administrative purposes without obtaining shareholder approval for that minor amendment.

The Committee retains the discretion to make reasonable and proportionate changes to the remuneration policy if the Committee considers this appropriate to respond to changing legal or regulatory requirements or guidelines (including but not limited to any FCA or PRA revisions to its remuneration rules). Where proposed changes are considered by the Committee to be material, Metro Bank will engage with its major shareholders and any changes would be formally incorporated into the policy when it is next put to shareholders for approval.

Annual balanced scorecard used for determining annual bonuses
Assessment of Metro Bank performance is based on overall performance in line with the corporate scorecard. Typically the balanced scorecard comprises the following measures:

Measure	Rationale
Financial	To ensure delivery of strong growth in deposits, loans and profit.
Risk and regulatory	To safeguard the future of Metro Bank by focusing on our strategy to offer low-risk and diversified lending.
Customer	To support our business model centred around creating FANS through our integrated customer experience.
People	To ensure we have dedicated colleagues focusing on our AMAZEING culture and by doing the right things the right way for the people in the communities in which we operate.

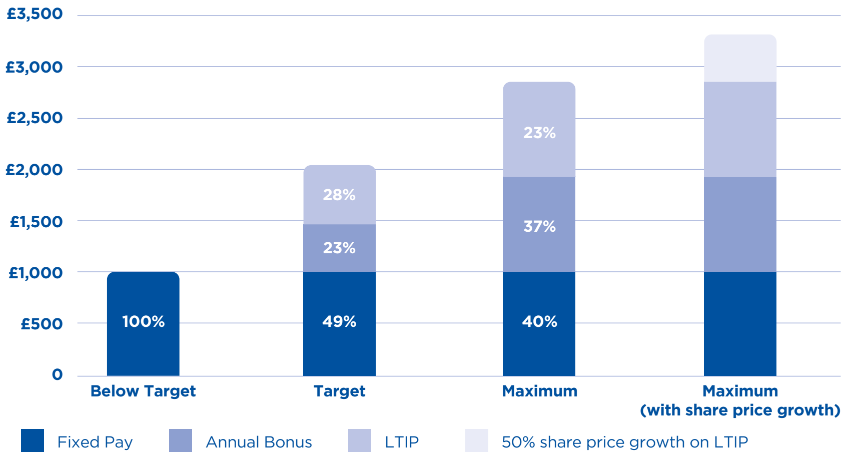
Directors' remuneration policy
Continued

Illustration of Application of Remuneration Policy
The charts below illustrate the potential total remuneration for each current Executive Director under the Policy for the 2024 performance year. Four scenarios are considered:

	Fixed pay	Annual Bonus	LTIP
Minimum:	– base salary (as at 1 January 2024) – pension contribution of 8% of salary – benefits (based on 2023 value)	0% payout	0% payout
On-target:		50% payout – assuming on-target performance	62.5% payout – assuming on-target performance
Maximum:		100% payout – assuming full payout	100% payout – assuming full payout
Maximum with 50% share price growth		As for Maximum	Maximum payout, illustrating a further 50% share price growth

Minimum (fixed pay only), on-target and maximum potential relates to annual variable remuneration that may be awarded:

Scenario charts: CEO



1. No account is taken of the effect of share price changes or dividends on the value received from share awards or shares received under them, other than as noted.

Chair and independent Non-Executive Directors' remuneration policy

Element	Details
Purpose and strategy link	Attract a Chair and Non-Executive Directors who, together with the Board as a whole, have a broad range of skills and experience to determine Metro Bank's strategy and oversee its implementation.
Fees	The Board sets NED fees and the Committee sets the Chair's fees. The Chair and NEDs do not participate in any discussion on their fees. Maximum aggregate annual fees that can be paid to the Chair and Non-Executive Directors are capped at £3,000,000.
Benefits	Non-Executive Directors do not participate in any pension, bonus or long term incentive arrangements or receive any other benefits. Travel and expenses incurred in the normal course of business, e.g. in relation to attendance at Board and Committee meetings, are met by Metro Bank. All Non-Executive Directors are reimbursed for reasonable expenses and any tax arising on those expenses will typically be settled by Metro Bank. In exceptional circumstances, the Chair and other NEDs may be accompanied by their spouse or partner to meetings or events. Such costs (and any associated tax) are paid by Metro Bank.
Fees on recruitment	Will be set in line with the Policy for the Chair and existing Non-Executive Directors.
Contractual	Appointment letters for the Non-Executive Directors provide for a notice period of three months, during which time they are entitled to be paid their normal fees or payment in lieu without liability for compensation. There is no provision for any other early termination compensation and no payment for loss of office.
Other	When appointing any new Non-Executive Directors to the Board, the Nomination Committee will consider regulatory guidance relating to outside appointments and whether the candidate can devote sufficient time to their Board roles.

Statement of consideration of shareholder views

The Committee welcomes shareholders' views on executive remuneration and seeks to maintain an active and open dialogue with investors regarding any changes to Metro Bank's executive remuneration arrangements. The Directors have regular open discussions with investors and are available for feedback on reward matters.

The Committee takes very seriously the view of shareholders when making any changes to executive remuneration and will continue to acknowledge any feedback in reviewing our policy in future.

Consideration of employment conditions elsewhere in Metro Bank

We offer a simple approach to reward for all colleagues which supports our unique culture and strategy as well as being aligned to shareholder needs. Our remuneration approach is consistent for all colleagues including our Executive Directors. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, focusing on long-term growth and discouraging unnecessary risk-taking.

During the year, the Committee received updates on overall pay and conditions for colleagues across Metro Bank and this was taken into account when setting pay for Directors and reviewing the Directors' Remuneration Policy. In particular, the base salary for Executive Directors is limited by reference to colleague pay, and ahead of our annual reward review process, the Committee review the quantum to be made available for salary increases, annual bonus awards and other incentives. Colleagues can express their views on pay through regular surveys and feedback, as well as through our DNED.

Workforce engagement

Metro Bank runs annual employee engagement surveys, as well as more regular 'pulse' surveys which provides colleagues with the opportunity to give feedback and express their views on a variety of topics including their own remuneration, working environment and workforce policies and practices. Any comments relating to Executive Directors' remuneration are fed back to the Committee and/or the Board. Nick Winsor, as the DNED, attends the Committee periodically, presenting to the Committee on his engagement with the Bank's Colleagues once per annum. People diversity in all its forms is a core element of our talent strategy and succession planning.

Annual report on remuneration

Annual report on remuneration

This section sets out how the existing remuneration policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2023.

Single total figure of remuneration – Executive Directors (audited)

Annual remuneration (£)

The following sets out the remuneration for the individuals who served as Executive Directors in the year. Daniel Frumkin was the highest paid director in 2023.

	Daniel Frumkin		James Hopkinson	
	2023	2022	2023	2022
Salary	£769,600	£762,200	£500,000	£162,879
Taxable benefits[2]	£2,434	£11,937	£995	£173
Pension benefits[3]	£61,568	£60,975	£40,000	£10,000
Other[4]	£905	£947	£905	£216
Total fixed remuneration	**£834,507**	**£836,059**	**£541,900**	**£173,268**
Annual bonus[5]	£0	£451,000		£54,500
Long-term incentive[6]	N/A	N/A	N/A	N/A
Total variable remuneration	**£0**	**£451,000**		**£54,500**
Total remuneration[1]	**£834,507**	**£1,287,059**	**£541,900**	**£227,768**

1. Remuneration shown above includes that paid to Daniel Frumkin and James Hopkinson as Executive Directors of Metro Bank PLC i.e. prior to the listing of Metro Bank Holdings PLC on the London Stock Exchange on 22 May 2023.
2. Taxable benefits include the cost of private medical cover (which for Daniel Frumkin was £994 and £1,039 in 2023 and 2022 respectively). The 2022 benefit figures for Daniel Frumkin have been restated to include travel related costs, which were historically not shown. Until December 2022, Metro Bank retained a company car with a chauffeur. The use of this car was principally reserved for the Chair and Chief Executive. The proportion of the chauffeur, car benefit and fuel costs attributed to the Chief Executive for financial year 2022 was £10,898 (which is included in the total above). Metro Bank has, in addition, settled the tax on these car benefits: the requisite gross up in respect of the benefit for 2022 amounted to £8,917 across the 2021-22 and 2022-23 tax years. Since January 2023, the Chief Executive occasionally uses an executive car service for travelling and family members may travel to attend Board or other events. If a tax liability arises on these including for any incidental personal use, the Bank may pay for this. The 2023 benefits figures for Daniel Frumkin includes car service costs of £1,439. A forecast UK tax gross up of £1,178 (on these car service costs) will paid by the Bank following the end of the 2023-24 tax year: this latter amount (the forecast tax gross up) is not included in the table above.
3. Pension benefits is the amount of cash in lieu of participating in a pension plan.
4. Other includes life assurance cover premium.
5. 2022 annual bonuses were delivered in a combination of retained and deferred shares.
6. No long-term incentive awards have a performance period ending in financial year 2023, hence there is no value disclosed.

Details of the single figure salary (audited)

	Salary as at 1 January 2023	Salary as at 1 April 2023	Total salary paid in 2023
Daniel Frumkin	£769,600	£769,600	£769,600
James Hopkinson	£500,000	£500,000	£500,000

Annual report on remuneration
Continued

2023 variable remuneration outcomes (audited)

How annual bonus is determined
Annual bonus outcomes across all colleagues is determined as follows:

Salary	x	On target annual bonus	x	Bank-wide balanced scorecard outcome 'Company performance adjustment factor' (0%–120%)	x	Individual AMAZEING Review rating multiplier 'Personal adjustment factor' (0%–200%)	=	Proposed annual bonus

Understanding the annual bonus corporate balanced scorecard and calculation of the Company performance adjustment
The annual bonus in relation to performance during 2023, for all colleagues including Executive Directors was based on a balanced scorecard of performance measures and objectives, weighted between financial (60%), risk and regulatory (20%), customer (10%) and people and communities (10%).

The table below illustrates performance against each of the balanced scorecard measures. This approach and adjustment factor are consistent with that applied for all colleagues across the Bank.

The performance adjustment factor can range from 0% to 120% for each measure. 80% weighting is applied for threshold performance, with a step progression of 5% in the adjustment factor of the weighted performance outcome from 80% to 120% (maximum performance).

Performance measure	Weighting	Target/Objective	Actual performance outcome	Adjustment factor	Weighted performance outcome
Total financial measures	60.0%	–	0	0	0.00%
Underling earnings	50.0%	Threshold £22.5m	-13.0	0.00x	0.00%
Deposit growth	5.0%	Target £404.0m	-404.0	0.00x	0.00%
Organic MREL accretion	5.0%	Target 0.49%	0.02%	0.00x	0.00%
Total non-financial	40.0%	–	–	–	37.8%
Risk and regulatory[1]	10.0%	Relationship with regulators	Qualitative	1.00%	10.00%
	10.0%	Breaches of red limits for tier 1 appetite metrics	6.6	1.00x	10.00%
Customer[2]	5.0%	Net promoter score account opening	76.0%	0.80x	4.00%
	2.5%	Net promoter score relationship	36.0%	0.00x	0.00%
	2.5%	Expressions of dissatisfaction	3.3	1.20x	3.00%
Colleague and community	4.0%	Colleague engagement	78%	1.05x	4.20%
	4.0%	Diversity in leadership positions	21.5%	1.15x	4.60%
	2.0%	Reach of Money Zone financial literacy programme	Qualitative	1.00x	2.00%
Overall balanced scorecard (prior to Committee discretion)	100.0%	–	–	–	37.8%

1. Captures risk factors not measured elsewhere in the Balanced Scorecard, to reflect the need to deliver business performance within the Board approved risk appetite constraints.
2. Measures customer expression of dissatisfaction per 1000 accounts.

2023 variable remuneration outcomes (audited) Continued

Commentary on the corporate balanced scorecard
The balanced scorecard outcome largely reflects the challenges the Bank faced in the run up to the Capital Raise, which acted as headwind on the financial results. The outflow of deposits seen in the run up to this announcement meant that the envisaged deposit growth targets were not met. Equally, the cost to replenish the deposits lost acted as drag on full year profitability and as such organic MREL accretion led to both these metrics falling short of the targets set.

On the non-financial measures, the Bank performed more robustly, despite the operating environment. Notably this included exceeding the people related targets for the year driven by record colleague engagement scores and discernible progress in delivering increased diversity in senior roles. Likewise, the Bank performed on target for risk and regulatory measures as it retained strong relationships with its regulators and continued to minimise breaches of its risk appetite measures. For customer related measures whilst the Group made positive steps in reducing its levels of EODs, with an outturn exceeding target, NPS for both new account openings and ongoing relationships continued to fall behind the aspired levels, although remain above industry standards – ensuring the reversal of this trend remains a key focus for Management in 2024.

Assessment of individual performance and behaviours and the calculation of the personal performance adjustment factor
A discretionary adjustment factor was applied to annual bonuses for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Set out below are details of the individual adjustment factor in respect of the Executive Directors as determined by the Committee.

Key objectives in 2023	Key achievements in 2023	Personal adjustment factor
Daniel Frumkin – Financial – Customer – People and Communities – Risk and regulatory	2023 was a year of two halves, which continued to demonstrate Daniels strength in leadership of the Bank. Daniel continued to deliver strong performance against the Banks turn around plan, which led the business to deliver a profit through the first half of 2023. The turn around plan entered a transitional phase and profitability was building. However, the events in quarter three created a difficult situation that required Daniel to deliver a recapitalisation of the Bank under tight timelines, which impacted on the financial measures. His ability to both deliver profitability in half year one, and then deal with the complexity in half year two was an exceptional performance from Daniel. The non-financial measures in the scorecard remained strong throughout 2023, with the people and community measures exceeding performance targets as we continued to focus on supporting our communities with the financial literacy programme. Given the impact on all stakeholders of the recapitalisation, Daniel has volunteered and the Board agreed that Daniel would not to take any bonus for his performance during 2023.	100%
James Hopkinson – Financial – Customer – People and Communities – Risk and regulatory	James was instrumental in establishing the bank's Holding company and delivering the recent capital package and has been a valued part of ExCo and the Board. James stepped down from the Board on 12 January 2024 and left Metro Bank on 16 February 2024, no bonus was awarded to James for performance year 2023.	100%

Finalising the 2023 variable remuneration levels for Executive Directors

Annual bonuses
In recognition of the corporate balanced scorecard outcome, the Committee determined that no bonus would be payable in respect of 2023 performance.

Executive Director	Salary for annual bonus	Company performance adjustment factor	Personal adjustment factor	Aggregate adjustment outcome[1]	Outcome after any discretionary adjustment	Target opportunity (as % of salary)	Annual bonus[2]
Daniel Frumkin	£769,600	37.8%	100%	37.8%	0.00%	50%	£0.00
James Hopkinson	£500,000	37.8%	100%	37.8%	0.00%	50%	£0.00

1. Aggregate adjustment outcome is "Company performance adjustment factor" multiplied by "Personal adjustment factor"
2. Annual bonus amounts are rounded to the nearest £500.

Long-term incentive awards
In addition, under the current Policy, Executive Directors are eligible to receive an LTIP award of 100% of their salary. Under the LTIP, the Committee has full discretion to ensure that the final outcomes are warranted based on the performance of the Bank in light of all relevant factors and that there have not been any windfall gains. The factors considered in making this assessment will be described at the time of vesting.

Relative importance of spend on pay

The table below shows total remuneration of all colleagues for 2023 compared to 2022.

	2023 £'million	2022 £'million	% change
Employee costs	201.7	196.8	2.4%

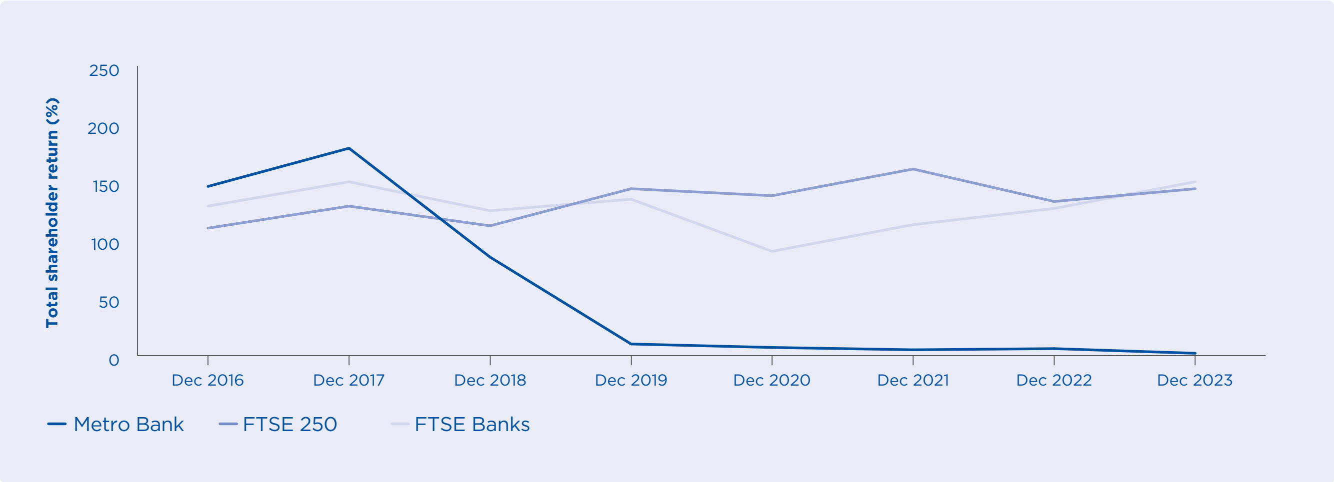
The costs above are wages and salaries, and exclude social security, pension costs, equity-settled share-based payments and costs capitalised or offset against the Credits and Investments grant. The year-on-year increase reflects a small increase in the average headcount during 2023.

We did not make any distributions by way of dividend or share buy-back during the year, or any other significant distributions. We therefore consider that at this time there is no information or data which would assist shareholders in understanding the relative importance of spend on pay.

Annual report on remuneration
Continued

Total shareholder return

The chart below shows our total shareholder return relative to the FTSE 250 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250) since our listing on the London Stock Exchange in March 2016. These indices have been chosen as they represent a cross-section of UK companies and banks.



CEO historic remuneration

Chief Executive Officer	Financial year	Single figure of total remuneration (£'000)	Annual bonus as a % of maximum	LTIP vesting as a % of maximum
Daniel Frumkin	2023	£834,507	0.0%	N/A
	2022	£1,276,161	59%	N/A
	2021	£1,430,076	85%	N/A
	2020	£1,297,176	35.7%	N/A
Craig Donaldson	2019	£828,565	0.0%	N/A
	2018	£800,944	0.0%	N/A
	2017	£1,518,893	62%	N/A
	2016	£1,304,919	52%	N/A

Payments to past Directors and payments for loss of office (audited)

As disclosed in last year's remuneration report, David Arden stepped down from the Board on 15 February 2022 and left Metro Bank on 1 April 2022. In line with his contractual entitlements, he was due to receive 12 monthly payments in lieu of notice (PILON) totalling £405,000, which represented his 12-month notice period. The final three PILON instalments were made in January, February and March 2023, each totalling £33,750.

Further details of the treatment of termination arrangements including his share awards and post-employment shareholding requirement were set out in the 2022 Annual Report.

James Hopkinson stepped down from the Board on 12 January 2024 and left Metro Bank on 16 February 2024. Details of the remuneration arrangements relating to James' termination are published on our website. The Committee determined that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with James' contractual entitlements.

James received his normal salary and contractual benefits up until his cessation of employment on 16 February 2024. Following cessation of his employment and in line with the Bank's approved Directors' Remuneration Policy, James will receive £500,000 (in monthly instalments) in lieu of his 12-month notice period. Although James remained eligible to receive an annual bonus, the Committee determined that no bonus would be payable in respect of 2023 performance.

The Committee determined that James would be treated as a good leaver for the purposes of any deferred share awards (granted in 2023). These awards will continue to vest over the original vesting period i.e. there is no acceleration of vesting. The awards remain subject to malus and clawback. The Committee decided this approach was appropriate not least as the deferred awards related to prior performance years and had already been earned. James received his reasonable legal fees in relation to his termination arrangements.

It was announced at the end of November 2023 that Anne Grim, Monique Melis and Ian Henderson would step down from the Board effective 31 December 2023. Ann, Monique and Ian received payments in lieu of notice in January 2024 of £11,667, £17,500, and £15,833 respectively. The amounts, for each Director, equate to two months' fees, being the balance of their notice periods.

Executive Director terms of employment and entitlement to fees from external positions (unaudited)

The Executive Directors are employed under service contracts with an indefinite term.

Executive Director	Notice period	Date of service contract	Date of appointment
Daniel Frumkin	12 months	18 February 2020	1 January 2020
James Hopkinson	12 months	5 September 2022	5 September 2022

Executive Directors are entitled to receive fees from external appointments. Daniel Frumkin and James Hopkinson did not hold any external appointments at other listed companies for the last reported financial year during the period they were appointed to the Board.

Annual report on remuneration
Continued

Dilution limits
The respective rules of the Metro Bank Holdings DVRP and LTIP contain limits on the dilution of capital. These limits are monitored to ensure that we do not exceed 5% or 10% (where applicable) of the issued share capital in any rolling 10-year period. For awards granted since the AGM in 2021, discretionary awards under the DVRP and the LTIP must also not exceed 5% of the issued share capital in any rolling 10-year period, in line with institutional investor guidance.

Shareholding levels (audited)

Directors' shareholding
These are the total shareholdings as at 31 December 2023 for each Director and any related connected persons.

Director	No. of shares[1,2,4]	Percentage of share capital
Robert Sharpe	46,000	0.01%
Daniel Frumkin	8,183,333	1.22%
James Hopkinson[3]	368,498	0.05%
Catherine Brown	100	0.00%
Dorita Gilinski	0	0.00%
Anne Grim	22,500	0.00%
Ian Henderson	0	0.00%
Monique Melis	1,690	0.00%
Paul Thandi	30,000	0.00%
Michael Torpey	20,000	0.00%
Nicholas Winsor	150,000	0.02%

1. This table includes vested shares where the Director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependent child under the age of 18 years.
2. For Directors who have stepped down from the Board during the year, the number of shares owned is shown as at the date they stepped down.
3. For James Hopkinson, the total of beneficially owned shares includes shares acquired through our ShareBuy share plan, an HMRC regulated staff share incentive plan.
4. Unless otherwise stated, there has been no change in the Directors' shareholding interests between the end of the financial year and 13 March 2024.

Shareholding guidelines
Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary. Executive Directors normally have five years from their appointment to build-up their shareholding requirement.

Executive Directors are required to retain 100% of their shareholding requirement (or actual shareholding, if lower) for two years post-cessation of employment.

	Salary	Requirement as a % of salary	Wholly owned shares	Value[1]	Shareholding requirement met?
Daniel Frumkin	£769,600	200%	8,183,333	£7,725,066	Yes
James Hopkinson[2]	£500,000	200%	368,498	£347,862	No

1. Value of beneficial shareholding based on average share price during 2023 of 94.4 pence. The value includes vested shares which remain subject to a retention period.
2. James Hokinson was appointed to the Chief Financial Officer role on 5 September 2022.

Annual report on remuneration
Continued

Outstanding Share Awards (audited)

The tables below show for each Executive Director any outstanding share awards as at 31 December 2023 (or if earlier the date they stepped down from the Board).

Daniel Frumkin

Share Plan Name	Shares under award	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Shares vested	Shares lapsed	Shares still subject to conditions	Exercised in year
DVRP 2023 – deferred shares	86,814	31/03/2023	£0.00	£90,200	31/03/2026	31/03/2030	–	–	86,814	
DVRP 2023 – retained shares	347,256	31/03/2023	£0.00	£360,800	31/03/2023	31/03/2023	347,256	–	–	
DVRP 2022 – deferred shares	91,153	31/03/2022	£0.00	£81,400	31/03/2025	31/03/2029	–	–	91,153	–
DVRP 2022 – retained shares	613,214	31/03/2022	£0.00	£547,600	31/03/2022	31/03/2022	613,214	–	–	–
DVRP 2021 – deferred shares	477,821	01/06/2021	£0.00	£523,214	01/06/2024	01/06/2028	–	–	477,821	–
LTIP 2023	740,712	31/03/2023	£0.00	£769,600	31/03/2026	31/03/2030			740,712	–
LTIP 2022	828,667	31/03/2022	£0.00	£740,000	31/03/2025	31/03/2029	–		828,667	–
LTIP 2021	675,799	01/06/2021	£0.00	£740,000	01/06/2025	01/06/2028	–	–	675,799	–
CSOP 2020 – Hiring Agreement	100,000	31/03/2020	£0.93	£93,000	30/04/2023	30/04/2027	19,999	–	80,001	–
Total	**3,961,436**						**980,469**	**0**	**2,980,967**	**0**

James Hopkinson

Share Plan Name	Shares and share options granted	Award date	Exercise price	Face Value of award	First vesting date	Last vesting date	Share options vested	Share options lapsed	Share options still subject to conditions	Exercised in year
DVRP 2023 – deferred shares	10,490	31/03/2023	£0.00	£10,900	31/03/2023	31/03/2030	–	–	10,490	–
DVRP 2023 – retained shares	41,963	31/03/2023	£0.00	£43,600	31/03/2023	31/03/2023	41,963	–	–	–
LTIP 2023	481,231	31/03/2023	£0.00	£500,000	31/03/2026	31/03/2030	–		481,231	–
Total	**533,684**						**41,963**	**0**	**491,721**	**0**

Notes
1. All awards granted prior to May 2023 were initially granted over shares in Metro Bank PLC. On the establishment of the holding company, these shares were rolled over into the same number of shares in the new parent company, Metro Bank Holdings PLC.
2. 100% of salary was awarded under the 2021 LTIP, 2022 LTIP and 2023 LTIP respectively as nominal cost options that are subject to performance conditions (see table below).
3. The number of shares under award / option was determined using the relevant closing price prior to the grant date. For 2021, 2022 and 2023 awards the prices were 109.5p, 89.3p and 103.90p respectively.
4. Options under the Company Share Option Plan (CSOP) have an exercise price that is equal to market value at the date of grant.
5. No dividends or dividend equivalents are payable on any share options or on any unvested share awards held.

Outstanding Share Awards (audited) Continued

LTIP performance conditions and targets

Performance conditions and targets together with corresponding weightings for LTIP awards. Unless otherwise stated, performance is measured over the relevant three-year performance period. The threshold for LTIP vesting is set at 25% of the award with maximum vesting at 100% of the award and straight-line vesting between threshold and maximum.

Measure	Weighting	Threshold	Maximum
2021 LTIP (granted on 1 June 2021)			
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity for FY 2024	40%	4%	7%
Risk and regulatory	20%	See notes below	
2022 LTIP (granted on 31 March 2022)			
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity for FY 2024	40%	4%	7%
Risk and regulatory	20%	See notes below	
2023 LTIP (granted on 31 March 2023)			
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity for FY 2025	40%	5%	8%
Risk and regulatory	20%	See notes below	

Notes
1. Under the risk and regulatory measure, the Committee shall determine the extent to which 20% of the award may vest by reference to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factors.
2. On 9 November 2023, the Company published a prospectus and circular outlining the proposed issuance of 500,000,000 new ordinary shares as part of a capital transaction. As outlined in the prospectus, the Committee may review, prior to the dates of respective vesting, the impact of the transactions on the ability to meet any existing performance conditions under the LTIP and consider adjustments. As appropriate, more information will be published in next year's directors' remuneration report.

Annual report on remuneration
Continued

Approach to risk adjustment including application of malus and clawback

Individual remuneration is aligned with Metro Bank's long-term interests and the time frame over which financial risks crystallise. For relevant colleagues including Executive Directors, a proportion of variable remuneration is delivered in the form of awards that are deferred for a sufficient period during which risk adjustments can be applied. In addition, performance adjustment is made through the reduction in the value of any deferred variable remuneration award through non-vesting due to performance considerations and share price movement over the deferral period.

The circumstance where malus and clawback may apply (as well as "in-year adjustment") is summarised in the following table.

	Criteria includes	Application
Individual level	• Deemed to have: (i) caused in full or in part a significant loss for or reputational damage to Metro Bank as a result of reckless, negligent or wilful actions, or (ii) exhibited inappropriate behaviours or conduct, or (iii) applied a lack of appropriate supervision and due diligence. • The individual failed to meet appropriate standards of fitness and propriety.	• In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion.
Business unit and/or Group level	• Material restatement of the Metro Bank's financials. • Material downturn in performance. • Significant failure in risk management. • Discovery of endemic problems in financial reporting. • Entering involuntary administration or insolvency process. • Financial losses, due to a material breach of regulatory guidelines. • The exercise of regulatory or government action to recapitalise Metro Bank following material financial losses.	• In-year adjustment, malus and clawback may be applied to all or part of an award at the Committee's discretion.

Cash bonus and unvested share awards may be delayed or reduced before they are paid/before they vest (through malus) or may be subject to clawback on or after payment should the Committee conclude that an adjustment needs to be made. Clawback may be applied, in respect of Executive Directors, up to seven years from the award date, or ten years where an investigation has commenced.

Annual report on remuneration
Continued

Implementation of remuneration policy for Executive Directors in 2024 (unaudited)

Remuneration for the Executive Directors in 2024 will be in line with our new directors' remuneration policy as detailed on pages 94 to 104 of this report, subject to shareholder approval at the AGM in May 2024.

The key elements of remuneration for 2024 include salary, pension, benefits, an annual bonus and normally an LTIP award. The Committee reviews the salaries of the Executive Directors on an annual basis, after considering any changes to the scope or responsibility of the role, the individual's development in the role, alignment with market-competitive levels, and consideration of the average salary increases made across the Bank. Pension may be delivered as a contribution to a defined contribution plan and / or as a cash allowance.

The charts on page 103 illustrate the potential remuneration outcomes under the proposed directors' remuneration policy being put to shareholders for approval at the AGM in May 2024 (i.e. based on 2024 performance and any salary with effect from 1 January 2024). Daniel Frumkin's salary for 2024 is £925,000.

The proposed variable remuneration measures and targets are set below in the subsequent sections.

2024 Annual Bonus corporate scorecard measures and weightings

The 2024 scorecard reflects our strategic priorities. The targets are set annually by the Committee, considering the Bank's annual financial plan, strategy and its priorities for the next few years within the context of the economic environment. The Committee considers financial and operational targets to be commercially sensitive and that it would be detrimental to the Bank's interests to disclose them before the end of the financial year.

Financial measures make up 60% of the scorecard. Social and Governance related measures are assessed by the Committee using a combination of quantitative and qualitative assessment. The Committee will, prior to reviewing scorecard performance, assess whether specific capital and liquidity gateways have been met and that the payment of annual variable awards is affordable.

Measure	Weighting	Measure type	Target
Underlying profit	45%	Financial	Disclosed retrospectively
Net interest margin	5%	Financial	Disclosed retrospectively
Cost	10%	Financial	Disclosed retrospectively
Sub-total (financial)	**60%**		
Risk and regulatory – Relationship with regulators (qualitative) – Breaches of red limits for tier 1 appetite metrics	20%	ESG	Disclosed retrospectively
Customer including – Net promoter score – EODs per 1,000 accounts	10%	ESG	Disclosed retrospectively
People including – Colleague engagement – Diversity in leadership positions	10%	ESG	Disclosed retrospectively
Total	**100%**		

Annual report on remuneration
Continued

2024 LTIP measures and targets
Daniel Frumkin may be granted an award under the LTIP. Any awards made will be subject to the satisfaction of the below performance conditions over a three year performance period.

2024 LTIP	Weighting	Threshold	Maximum
Total shareholder return relative to the FTSE 250 (excluding investment trusts)	40%	Median against peers	Upper quartile or above
Statutory return on tangible equity for FY 2026	30%	10%	13%
Cost: income ratio for FY 2026 (underlying)	30%	75%	65%

Risk and regulatory performance will be the Gateway to the LTIP, the Committee shall determine the extent to which the gateway is achieved by reference to a discretionary assessment of risk management over the performance period based on qualitative and quantitative inputs against a number of risk factors.

Non-Executive Directors' remuneration

Non-Executive fee levels (unaudited)
Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Board Committees and, if appropriate, other additional time commitments. During 2023, the Chair of the Board did not receive any additional fees for membership of Board Committees. The annual fees remained unchanged during 2023 and are set out below, together with the relevant annual fees effective from 1 January 2024.

Role			Annual fee as at 1 January 2023 (£'000)		Annual fee as at 1 January 2024 (£'000)	
Chair of the Board			350		350	
Fee arrangements for other Non-Executive Directors						
Non-Executive Director – basic fee			65		65	
Senior Independent Director			30		30	
Designated NED for Colleague Engagement			17.5		17.5	

	Chair	Member	Chair	Member
Audit Committee	20	5	20	5
Nomination Committee	n/a	5	n/a	5
People and Remuneration Committee	15	5	15	5
Risk Committee	25	10	25	10

Annual report on remuneration
Continued

Non-Executive Directors' fees and taxable benefits (audited)
The table below shows the actual fees paid to the Chair and NEDs.

	Fees		Other		Total	
£'000	2023	2022	2023	2022	2023	2022
Robert Sharpe[1]	£350,000	£350,000	£22,504	£62,664	£372,504	£412,664
Catherine Brown	£97,837	£96,875	£0	£0	£97,837	£96,875
Dorita Gilinski[2]	£0	£0	£0	£0	£0	£0
Anne Grim	£70,000	£68,125	£0	£0	£70,000	£68,125
Ian Henderson	£95,000	£94,375	£0	£0	£95,000	£94,375
Anna (Monique) Melis	£105,000	£103,125	£0	£0	£105,000	£103,125
Paul Thandi	£75,000	£73,125	£0	£0	£75,000	£73,125
Michael Thorpey[3]	£95,000	£94,375	£3,683	£4,677	£98,683	£99,052
Nicholas Winsor[4]	£97,500	£84,441	£0	£0	£97,500	£84,441

1. The 2022 benefit figures have been restated to include travel related costs , which were historically not shown. Until December 2022, Metro Bank retained a company car with a chauffeur. The use of this car was principally reserved for the Chair and Chief Executive. The proportion of the chauffeur, car benefit and fuel costs attributed to the Chair for financial year 2022 was £62,664 (as shown above). Metro Bank has also settled the tax on these benefits: the requisite gross up in respect of the benefit for 2022 amounted to £51,271 across the 2021-22 and 2022-23 tax years. Since January 2023, the Chair occasionally uses an executive car service for travelling and family members may travel to attend Board or other events. If a tax liability arises on these including for any incidental personal use, Metro Bank may pay for this. The 2023 benefits figures for Robert Sharpe includes car service costs of £22,504. A forecast UK tax gross up of £18,412 (on these car service costs) will also paid by the Bank following the end of the 2023-24 tax year. This latter amount (the forecast tax gross up) is not included in the table above.
2. Dorita Gilinski has waived her entitlement to fee.
3. Michael Torpey was reimbursed expenses in respect of his NED duties including travelling from overseas to attend Board and committee meetings, which are included in the benefits section above. Although these expenses are necessary and reasonable, under HMRC rules these are deemed taxable in the UK. Metro Bank therefore paid the tax on the above expenses, which in 2023 and 2022 amounted to £2,286 and £3,455 respectively.
4. The total above for Nicholas Winsor includes an additional annual fee of £5,000 payable chairing an internal steering committee since 1 April 2022.

Non-Executive Directors' fees and taxable benefits (audited)
Non-Executive Directors are bound by letters of appointment which are available for inspection on request at our registered office. Non-Executive Directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by shareholders at AGMs, with three months' notice. The Chair's letter of appointment was issued on 30 October 2023: his appointment may be terminated by either party upon three months' notice.

Fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Non-Executive Director Policy implementation in 2024 (unaudited)
The applicable Non-Executive Director fees for 2024 are shown in the table above.

Annual report on remuneration
Continued

Role and focus of the Remuneration Committee
The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and senior management, and for setting the remuneration packages for Executive Directors and senior management including material risk takers.

The table below outlines the activity undertaken by the Committee in its five scheduled meetings in 2023.

Committee activities	January	February	May	October	November
Directors' remuneration					
Review of the directors' remuneration policy and implementation				✓	
Review of individual performance, fixed and variable remuneration	✓	✓			
Senior management remuneration					
Contractual terms, joiners and leavers	✓	✓	✓	✓	✓
Review of individual performance, fixed and variable remuneration	✓	✓			
All colleague remuneration					
Annual salary review approach					✓
Incentive measures, targets and outcomes. Scorecard review	✓	✓	✓	✓	
Reward policies and rules review			✓	✓	
Share plans, pension and benefits			✓	✓	
Other					
Broader people activity e.g. talent management, colleague engagement					✓
Implications of new holding company, capital raising activity	✓	✓	✓	✓	
Risk review / input and risk adjustment related activity	✓	✓	✓		
Non-Executive Director Expenses Approach					✓
Reward governance					
Review regulatory, investor and market developments			✓	✓	✓
Remuneration disclosures (such as DRR and gender pay gap) and regulatory policy statement	✓	✓	✓	✓	
Review investor feedback			✓		
Terms of reference, Committee evaluation, advisers			✓	✓	

In addition, the Committee met in January, February and March 2024 to consider (and, where appropriate, approve):

- The draft Directors' Remuneration Report.
- The Directors Remuneration Policy.
- Salary and fixed remuneration for Executive Directors and other management.
- The extent to which any 2023 annual bonus performance measures had been satisfied, together with individual award levels.

Annual report on remuneration
Continued

Shareholder voting and consideration of shareholder views

At the Annual General Meeting on 26 April 2023, shareholders approved the Directors' Remuneration Report published in the Metro Bank PLC Annual Report and Financial Statements, receiving a strong vote in favour. Details of recent shareholder votes on remuneration are shown below.

Item	For no.	For %	Against no.	Against %	Votes withheld
Metro Bank PLC Directors' Remuneration Report – April 2023	84,129,882	91.35	7,965,230	8.65	751,503
Metro Bank PLC Directors' Remuneration Report – May 2022	69,619,984	91.23	6,692,221	8.77	2,780
Metro Bank PLC Directors' Remuneration Policy – May 2021	62,150,543	95.11	3,193,940	4.89	22,200

The Committee greatly values the continued dialogue with our shareholders and engages with shareholders and representative bodies to take their views into account when setting and implementing our remuneration policies. The Directors have regular open discussions with investors and are available for feedback on reward matters.

We undertook substantial engagement with shareholders as part of the development of the Metro Bank PLC remuneration policy in 2021 and then again as we developed the new remuneration policy for Metro Bank Holdings PLC. We are grateful for the feedback and input received during this time and the Committee looks forward to engaging with shareholders in the run up to the policy's renewal at the forthcoming AGM.

Directors' report

The Directors have the pleasure of presenting their Annual Report and Accounts for the year ended 31 December 2023. As set out fully in the summary of significant accounting policies within note 1 to the financial statements, this report for the consolidated Group has been prepared in accordance with IFRS and includes the Corporate Governance Report set out on pages 51 to 123.

The Directors consider the Annual Report for the year ended 31 December 2023, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Principal activities

Our principal activities during 2023 were the provision of banking and related services. We are a deposit-taking and lending institution with a focus on retail and small and medium sized commercial customers, offering consistent fair pricing and excellent customer service. We are authorised to accept deposits under the Financial Services and Markets Act 2000, have a Consumer Credit Act licence and are members of the Financial Services Compensation Scheme.

Results and dividend

The results for the year are set out in the consolidated statement of comprehensive income on page 167.

No dividend was declared or paid during 2023 (2022: £nil). The Directors do not anticipate declaring a dividend in the near future.

Significant events

In May 2023, Metro Bank Holdings PLC became the holding company of Metro Bank PLC and its subsidiaries and the new principal debtor under the £350,000,000 Fixed Rate Reset Senior Non-Preferred Notes due 8 October 2025.

In September 2023, the Bank announced that the Prudential Regulation Authority had indicated that our AIRB application for residential mortgages would not be attained during 2023.

On 8 October 2023, the Bank confirmed completion of a £925 million capital package. The package comprised of £150 million of new equity and £175 million of new MREL issuance, alongside £600 million of debt refinancing.

Articles of Association

The Articles of Association can be found on our website at: metrobankonline.co.uk.

Share capital

As at 31 December 2023, our issued share capital was £50,672.68 comprising 672,676,547 ordinary shares of 0.0001p each and 50,000 redeemable preference shares of £1 each. Further details of our called-up share capital, together with details of shares allotted during the year, are shown in note 26 to the financial statements on page 195.

There are no restrictions on the transfer of our share capital and there are no shares or stock which carry specific rights with regards to control of the Group.

The Directors seek annual authority from shareholders to allot new ordinary shares and to disapply pre-emption rights of existing shareholders in accordance with the Investment Association Share Capital Management Guidelines.

Holders of ordinary shares are entitled to receive dividends when declared, to receive the Group's Annual Report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights.

2024 Annual General Meeting

More information will be published in the Notice of Meeting.

Directors

Details of the Directors who served during the year and continue to serve at the date of approval of the Directors' Report are set out on pages 54 to 55. Monique Melis resigned as the Senior Independent Director and Anne Grim and Ian Henderson resigned as independent NEDs, effective 31 December 2023. James Hopkinson resigned on 12 January 2024. Catherine Brown was appointed as the Senior Independent Director with effect from 1 January 2024 (subject to regulatory approval).

Directors are appointed and replaced in accordance with the Company's Articles, the Companies Act 2006 and the UK Corporate Governance Code. The powers of the Directors are set out in the Company's Articles and the Companies Act 2006.

Directors who served on the Board during the year ended 31 December 2023

	Appointment date	Resignation date
Robert Sharpe (Chair)	1 November 2020	
Daniel Frumkin (CEO)	1 January 2020	
James Hopkinson (CFO)	5 September 2022	12 January 2024
Catherine Brown (Senior Independent Director)	1 October 2018	
Dorita Gilinski (Shareholder Nominated NED)	26 September 2022	
Anne Grim (Independent NED)	20 April 2020	31 December 2023
Ian Henderson (Independent NED)	20 April 2020	31 December 2023
Anna (Monique) Melis (Senior Independent Director)	20 June 2017	31 December 2023
Paul Thandi (Independent NED)	1 January 2019	
Michael Torpey (Independent NED)	1 September 2019	
Nicholas Winsor (Independent NED)	20 April 2020	

Directors' report
Continued

Directors' interests
Details of the Directors' beneficial interests are set out in the Annual Report on Remuneration on page 111.

Directors' indemnities and Directors' and Officers' liability insurance
Details regarding deeds of indemnity and Directors' and Officers' liability insurance are set out in the Corporate Governance Report on page 67.

The Company's existing share plans contain provisions relating to a change of control. Outstanding options and awards may vest and become exercisable on a change of control subject to the People and Remuneration Committee's discretion. As at 31 December 2023, save in respect of provisions of the Company's share plans, there are no other agreements between the Company and its Directors or colleagues providing for compensation for loss of office or employment that occur following a takeover. Certain of the Company's third party supplier agreements may become terminable upon a change of control of the Company.

Major interests in shares
Information provided to the Group by substantial shareholders pursuant to the Disclosure Guidance and Transparency Rules (DTR) is published via a Regulatory Information Service.

As at 10 April 2024, being the last practical date before publication of this report, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings. The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Group was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Shareholder	Ordinary shares held	% of total ordinary shares	Direct/ indirect interest
Spaldy Investments Limited	355,723,914	52.88%	Direct
Spruce House Partnership	15,500,000	8.99%	Direct
Davis Selected Advisers	9,191,516	5.33%	Indirect
Ruane, Cunniff and Goldfarb	5,020,755	5.15%	Direct
Kernow Asset Management Limited	5,522,224	3.20%	Direct

Greenhouse gas emissions
Our energy consumption and associated GHG emissions during 2023 are set out in the Strategic report on page 42.

Colleague involvement
We encourage colleague involvement in the Bank. Increasing colleague awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. More information on our colleagues and how we engaged with them can be found in the Corporate governance report on page 59.

Engagement with stakeholders
The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic in our decision making. More information on our stakeholders, how we engaged with them and how the Board took them into consideration when making decisions are set out in the Corporate governance report on pages 59 to 61.

Diversity
Our D&I Policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is not only a key part of a responsible business strategy, but also supports a strong customer experience. We give full and fair consideration to all applications for employment.

Our Board Diversity Policy, which sets out our commitment to D&I for the Board can be found on our website at: metrobankonline.co.uk/investor-relations.

We believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, is a more effective and responsible Board.

More information on our performance against our objectives within the policy can be found in the Nomination Committee report on page 80.

Disabled employees
For all colleagues and candidates we always look to make reasonable adjustments to ensure equality. In the event of colleagues identifying as disabled, we make every effort to ensure that their employment continues and to provide appropriate training and support. Our policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

Modern slavery

We are committed to supporting the communities in which we operate in order to enable them to develop both socially and economically. Our policy is to conduct all business in an appropriate manner and we have zero tolerance for modern slavery. We continue to be committed to acting professionally and fairly in all our business dealings and relationships wherever we operate, including enforcing appropriate systems and controls to ensure, on a risk basis, that modern slavery is not taking place in our business or supply chains.

The initiatives and how we have developed them during 2023 can be found on page 28. The Chair of the Audit Committee is appointed as our Modern Slavery Champion, who with the CEO monitors ongoing compliance with the Modern Slavery Policy.

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

Internal control and risk management systems

The Directors confirm that they have undertaken a robust assessment of the emerging and principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems, and details of risk management objectives and policies, are shown in the Risk Report on pages 124–157. Details around the processes in place in relation to financial reporting can be found in the Audit Committee Report on pages 70 to 74. As a result of normal business activities, we are exposed to a variety of risks. The principal risks and uncertainties that we face are shown in the Risk Report.

Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group and Parent Company have the resources to continue in business for a period of at least 15 months from the financial statements authorisation date. Further details can be found in note 1.2 to the financial statements on page 171 and in the Viability statement (details of which can be found below).

Viability statement

Our Viability statement is set out on pages 49–50.

Hedge accounting

The policy for hedging transactions is detailed in note 21.

Auditors

Our Auditors, PwC, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the 2024 AGM.

Controlling Shareholder Independence

On 9 November 2023, Metro Bank entered into a Relationship Agreement with Spaldy Investments Limited ("Spaldy") and Jaime Gilinski Bacal (together, the 'Controlling Shareholder') in relation to the company's obligations under the UK Listing Rules to put in place an agreement with any controlling shareholder (as defined for these purposes in the Listing Rules). The Relationship Agreement covers the three independence provisions mandated by the Listing Rules: (i) that contracts between Metro Bank and the Controlling Shareholder and/or any of its associates will be arm's length and normal commercial arrangements, (ii) that neither the Controlling Shareholder nor any of its associates will take any action that would have the effect of preventing the company from complying with its obligations under the Listing Rules; and (iii) neither the Controlling Shareholder nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules. The company has complied with the independence provisions in the relationship agreement and as far as the company is aware the independence and procurement provisions in the relationship agreement have been complied with in the period by the controlling shareholders.

Political donations

We made no political donations in the year ending 31 December 2023 (2022: £nil).

As part of our community engagement during 2023 we met with 25 Members of Parliament (MPs), including Government and opposition party figures as well as MPs visiting local Metro Bank stores in their constituencies.

Research and development

During the year, we spent £26 million on intangible assets and a further £25 million on research and development costs which were not capitalised.

Post balance sheet events

Our post balance sheet events are set out in note 38 to the financial statements.

Future developments

Our business and future plans are set out in the Strategic Report.

Financial instruments and financial risk management

Information relating to financial instruments and financial risk management can be found on pages 124-157 and in note 10 to the financial statements.

Listing Rules disclosures

For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R is set out in the Directors' Report, with the exception of the following set out elsewhere in the Annual Report.

Item	Location
Detail of long-term incentive schemes	Annual Report on Remuneration and in note 29 to the financial statements
Contracts of significance	Any contracts of significance or related party transactions can be found in note 35 to the financial statements
Waived emoluments	Annual Report on Remuneration

Directors' report
Continued

Corporate Governance Statement

Our Corporate governance report is set out on pages 52-123 in accordance with Rule 7.2 of the DTR and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- State whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Make judgements and accounting estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's financial statements published on its website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Board of Directors page in the Governance section confirm that, to the best of their knowledge:

- The Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company,
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and Company's Auditors are unaware.
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's Auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors' report comprising pages 120-123 has been approved by the Board of Directors.

By Order of the Board

Clare Gilligan
Company Secretary
16 April 2024

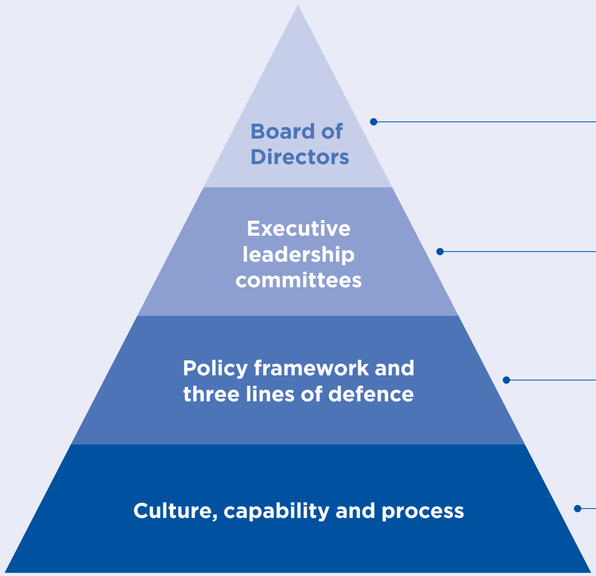
Risk

In this section

Risk report

Risk management framework

Approach to risk management
Effective risk management is critical to realising our strategic priorities and underpins our day-to-day operational activities and strategic change initiatives. We have an established Enterprise Risk Management Framework to manage and report the various risks that we face over the course of our daily business.



The Board sets the risk appetite, approves the risk management framework policies and maintains an appropriate control environment.

The Executive leadership committees oversee the risk management framework and policies, and the Bank's strategy for managing its risks.

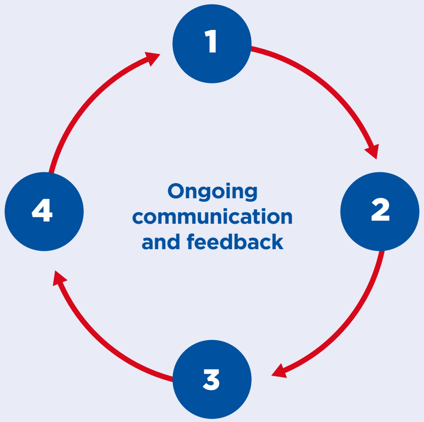
The Bank operates a 'three lines of defence' model for risk management. Policies are aligned with the Bank's principal risks and risk appetite.

The Bank fosters a strong risk culture enabled by procedures, standards and training, and operates a robust control environment with collective responsibility for managing risk.

Risk management process

Our risk management process comprises the following key stages that enable the Board to fulfil its obligations under the Corporate Governance Code 2018:

1. **Identification** of the risks we are exposed to at various levels, making use of the Bank's established Risk Taxonomy.
2. **Assessment** or measurement of the identified risks using suitable risk management tools.
3. **Response** to the risk exposures, applying and operating appropriate controls to mitigate the risks to acceptable levels.
4. **Monitoring and reporting** of these risks to ensure they remain within risk appetite.



1. Risk identification
2. Risk assessment
3. Risk response
4. Risk monitoring and reporting

Risk governance and oversight

All of our colleagues are risk managers, in accordance with our ‘Three Lines of Defence’ risk model, which is based on the overriding principle that risk capability must be embedded within the first line of defence (business) teams, overseen by our central Risk and Internal Audit teams in the second and third lines respectively.

Effective operation of the three lines of defence results from:

- Colleagues being equipped with the necessary skills and experience to manage risks and responsibilities being well understood.
- Proactive and transparent collaboration between colleagues across the lines, working with a common objective.
- Well-defined governance structures and processes that promote accountability and action.

	Risk management framework		
	First line	**Second line**	**Third line**
Lines of defence	• Own and manage the risks we face and agree, establish, embed and comply with appropriate frameworks, policies and standards (key executives). • Design, implement and maintain effective controls. • Align strategy with, and monitor exposure against, appetite. • Ensure adequate resources, tools and training are in place. • Promote and maintain an appropriate risk culture.	• Establish and communicate the framework, governance structure and underlying policies and standards. • Provide oversight and challenge the first line via review, enquiry and discussion. • Report/escalate to executive management and the Board. • Facilitate the development of risk appetite, tools and training.	• Independently verify that the framework is operating effectively. • Validate the first and second line approach to risk management. • Assess against regulatory developments and leading practices.
Risk governance committees	• Executive Committee. • Business Risk Committees.	• Risk Oversight Committee. • Executive Risk Committee. • Other executive-level risk committees.	• Audit Committee.

Stress testing

We use stress testing as a key part of our risk management, strategic, capital and liquidity planning. It provides insight into the impact of severely adverse events and provides confidence of our financial stability. We use stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

Board

Sets risk appetite and strategy

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

Risk Oversight Committee (ROC)

Oversees risk governance and management

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

Audit Committee

Oversees financial reporting

• Reviews our annual and half-year financial statements and accounting policies.	• Reviews the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place.	• Advises on the appointment of external auditors.	• Reviews internal and external audits and controls, monitors the scope of the annual audit and the extent of the non-audit work undertaken by external auditors.

Executive-level committees

Oversee the risk management framework

Executive Risk Committee (ERC)
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk frameworks for approval by ROC (and Board as appropriate).
- Oversees the quality and composition of the credit risk portfolio, and recommends strategies to adjust the portfolio.
- Oversees and advises on financial and non-financial risk matters, including those escalated from oversight committees.

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

Credit Approval Committee (CAC)
- Approves higher value lending requests.

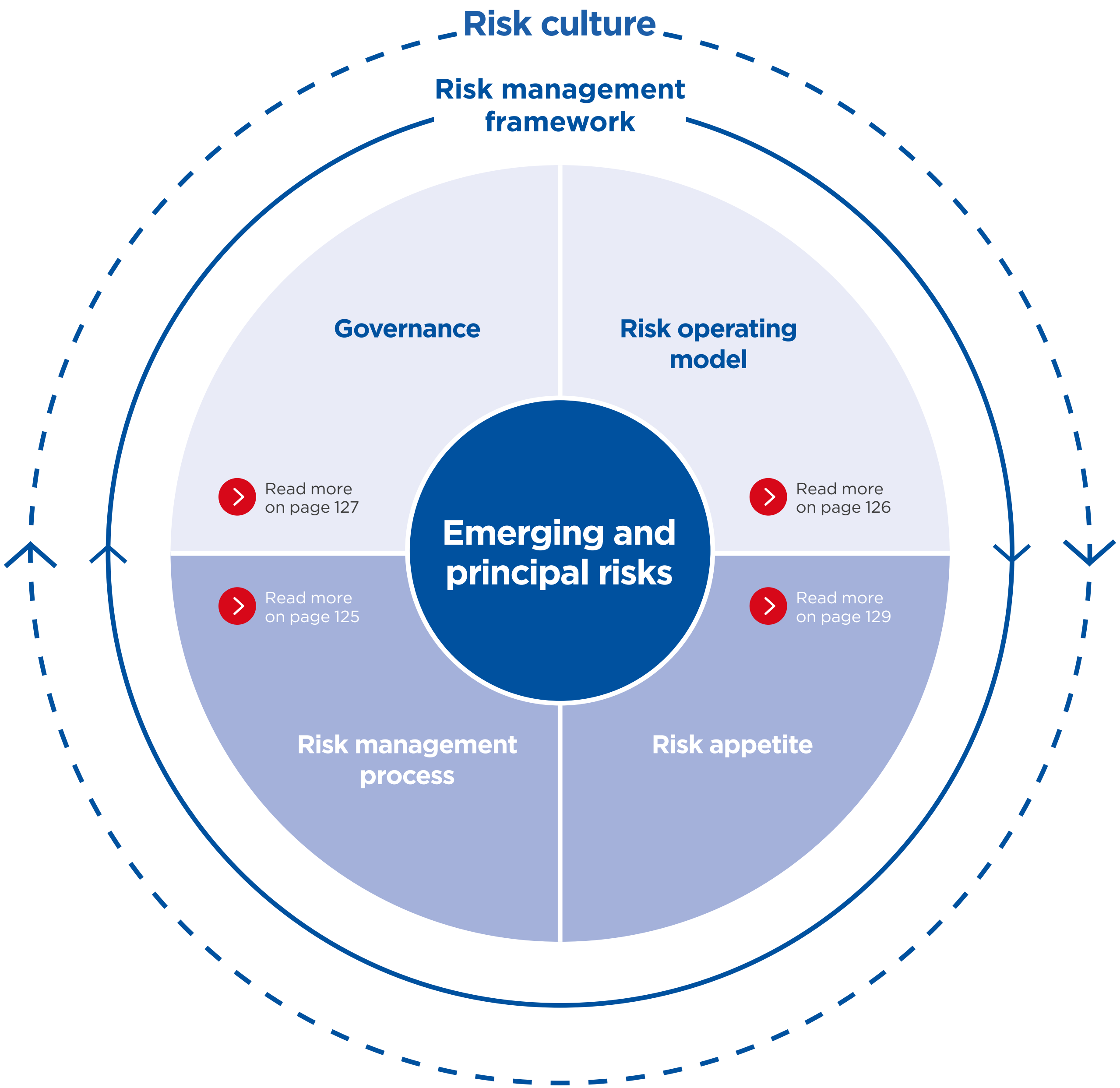
Impairment Committee (ICOM)
- Reviews and approves monthly portfolio-level impairment results.

Risk culture

We know that a culture that truly focuses on creating FANS by exceeding customers' expectations will reduce the risk of customer harm and deliver consistently good outcomes. We value open and honest feedback from our customers which allows us to identify problems, put them right and ensure we are consistently delivering the high level of service we expect. Managing risk is a key part of our AMAZEING values, which are at the heart of everything we do, and we continually seek to enhance our risk management framework to ensure effective risk ownership and management within risk appetite, in turn enabling delivery of our strategic plan.

Our risk culture is shaped by our executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation. Enabled through operation of the Senior Managers and Certification Regime and its principals of personal accountability, we encourage open and effective challenge and work to create an environment in which colleagues are encouraged and able to raise concerns.

Risk management is a key aspect of every colleague's objectives and is embedded within our scorecard, against which performance is measured. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they develop and maintain the required levels of competence. This supports colleagues in making decisions and judgements with risk in mind.



Risk report
Continued

Risk appetite
We define risk appetite as the aggregate level and types of risk that we are willing to accept in our pursuit of our business objectives. Qualitative statements are in place which articulate our risk appetite to stakeholders and provide a view on the risk-taking activities with which the Board is comfortable, guiding our decision-makers in their strategic and business decisions.

The risk appetite statements detail the risk parameters within which we seek to operate, promoting good customer outcomes and protecting us from excessive risk exposures. The Board-owned statements are reviewed at least annually and include quantitative metrics which inform strategies, targets, policies, procedures and other controls.

We actively monitor exposure against our stated risk appetite on an ongoing basis. Key risk indicators are in place for all principal risks and these are reported regularly to Executive and Board committees together with actions and assessment of the adequacy of response. Business areas supplement monitoring of risk appetite with additional key risk indicators that are set within the overall parameters of those reported to the Board. Our overall risk appetite statement is set out below.

Overall risk appetite statement
Metro Bank has a clear goal: to be the UK's best community bank, offering a superior level of service, whilst consistently delivering good customer outcomes and operating on an inclusive and socially responsible basis. It strives to achieve this by creating FANS, digitally and via its network of stores and AMAZE Direct, creating sustainable growth for its stakeholders, living by its AMAZEING values and taking active steps to reduce any negative impact on the climate and environment as a whole. We seek to balance risk and return as articulated in risk appetite statements which are separately defined for the Bank's principal risks, operating robust controls and processes and remaining within its impact tolerances at all times.

Policies and procedures
To support our colleagues in managing our key risks and operating within our risk appetite, a suite of policies and procedures is in place. These articulate our stance and approach to managing each of our key risk exposures and define the minimum control requirements that must be observed to achieve compliance. Policy documents are in place covering each of the Bank's principal risks and include policy documents defined and operated to meet legal and regulatory requirements such as those for Financial Crime and Conduct Risk.

Financial risks

Financial risk covers several categories of risk which have the potential to impact the Bank's capacity to support its customers and continue operating in a safe, sustainable and compliant way. Financial risks include Credit risk, Capital risk, Liquidity and Funding risk and Market risk.

Credit risk

Risk definition

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

Risk appetite statement

Our credit risk appetite reflects our position as a community bank, providing lending capacity to support UK retail and commercial customers. In line with the our strategy to return to sustainable profitability, and meet the credit product needs of our customers, our cautious credit risk appetite reflects our lending strategy and forecasted macroeconomic outlook. Our tolerance for credit losses has been set to reflect this and is consistent with the type of bank we are and with relevant peers. To enable us to remain within this tolerance, we control the quality of our credit assets through quantitative credit limits and a comprehensive credit risk management framework. We seek to control concentrations in credit exposures in line with the profile of a UK community bank.

Exposure and assessment

Our primary source of credit risk is through the loans, limits and advances we make available to our customers. We have exposures across three key areas: retail mortgages, consumer lending, and commercial. We continue to take a prudent approach to origination and our arrears profile and our ECLs reflect the high quality of our lending.

We manage credit risk throughout the lending activity lifecycle and within clear risk appetite limits via a comprehensive set of policies and lending criteria. Individual credit decisions are controlled through both quantitative models and review under delegated lending authority depending on the product, materiality, and complexity of the exposure. Prior to approval of a new or amended credit facility, the risk of the customer and transaction must be assessed and approved through an automated decision engine or though delegated lending authority using procedures in compliance with the relevant lending policy. Retail lending decisions are made in the first instance through an automated process. This includes a quantitative credit scorecard to assess likelihood of arrears, an affordability model to assess capacity to pay and assign a credit limit, and a set of rules that set credit criteria and automate credit policy. This assessment is further subject to verification of information such as financials, and valuation of collateral. A manual underwriter review is also performed as part of the credit approval process. Commercial exposures are individually assessed under delegated lending authority.

Credit risk measurement and management

We use a wide range of measures to assess, control and monitor credit risk including a suite of reports covering performance against risk appetite limits and key credit risk metrics such as new business flow, portfolio quality, early warning indicators, arrears and recovery performance, sector and geographical concentration, and exceptions to lending policy. Reports are provided periodically to the Executive Risk Committee, Risk Oversight Committee, Group Risk Oversight Committee and the Board. Where required, further insight on credit risk performance is obtained through portfolio reviews, and deep dives on material portfolios and key credit risk themes.

In addition, we measure credit risk through the application of models that use internal and external data to calculate ECL. These calculations are based on the application of IFRS 9 models and staging to determine the relevant term of the calculation (12 months or lifetime) and incorporate assessments of the probability of default (PD), loss given default (LGD), and exposure at default (EAD). There are individual assessments of defaulted commercial exposures (and in mortgage exposures in some circumstances), and where relevant management judgement via post model adjustments (PMAs) and post model overlays (PMOs). The impairment assessment for year-end 2023 has been undertaken in line with our Impairment Policy.

All models are subject to independent validation and are approved through the Model Governance Committee (MGC) and Model Oversight Committee (MOC). PMAs have also been reviewed and approved at MGC and MOC. The overall ECL position and methodology is reviewed and approved by the Impairment Committee (ICOM) which is a sub-committee of ERC. Individual impairments for defaulted commercial customers are approved by the Individual Impairment Committee, a sub-committee of ICOM.

Rigorous internal challenge is undertaken in order to assess the reasonableness of the impairment calculations, models, PMO/PMAs, individual assessments and overall level of impairments.

IFRS 9 staging and ECL recognition

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), with all other lending falling into Stage 1. IFRS 9 requires a higher level of ECL to be recognised for underperforming loans. For loans in Stage 2 and Stage 3 a lifetime ECL is recognised, with a 12-month ECL for performing loans (Stage 1).

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the PD over the remaining life of the financial instrument. Judgement may be required to determine when a significant increase in credit risk has occurred.

The assessment for a Retail financial instrument 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. The assessment for a Commercial financial instrument is based on quantitative and qualitative assessment, including financial performance, forecast economic conditions and our internal credit risk rating grade.

Financial risks
Continued

IFRS 9 requires a higher level of ECL 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 ECL** 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. For Commercial counterparties, Early Warning List is used to inform qualitative triggers for SICR. SICR includes the rebuttable presumption that financial instruments falling 30 DPD due on contractually defined payments are to be considered as having deteriorated significantly since origination and should trigger Stage 2.	**Lifetime ECL** 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 in Commercial who are categorised as Early Warning List 3 (EWL3) or forbearance.	**Lifetime ECL** 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 ECL** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime ECL are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime ECL are recognised as a loss allowance.

In light of the classifications our stage allocation criteria must include:

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

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

- Quantitative criteria – where the numerically calculated PD on a retail financial instrument 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 assessment for a commercial financial instrument uses the internal credit risk rating grade. The commercial approach recognises that credit rating at origination is not available for some commercial lending.
- Qualitative criteria – Early Warning List is used to inform allocation to Stage 2, regardless of the results of the quantitative analysis.
- Backstop criteria – instruments that are 30 days past due or more are allocated to Stage 2 (where they do not meet the criteria for Stage 3), regardless of the results of the quantitative and qualitative analysis.

There are additional SICR rules utilised across portfolios. These rules, as well as more granular detail on both quantitative and qualitative criteria, are captured within the IFRS 9 model methodology and are approved as part of the annual model review process by the Model Governance and Model Oversight Committees.

Financial risks
Continued

Non-performing loans (NPLs)
A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default. A loan will be classed as in default when the loan is greater than 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance. This definition of default is aligned with internal credit risk management policies, and accounting and regulatory definitions.

A loan is considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with due to financial difficulty; or
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

In some cases it may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

Where an asset which has been classified as Stage 3 is showing improving trends and is no longer considered non-performing or credit impaired, a probation period of 12 months is implemented before transferring a financial instrument from Stage 3 to Stage 2.

Credit exposure summary
The following provides an overview of the performance of our portfolios during 2023. Total loans and advances to customers have decreased in 2023 by £793 million from £13.3 billion to £12.5 billion. Reductions have been driven by the run-off of Government-backed lending and of the professional buy-to-let (PBTL) portfolio within commercial lending, and more limited new lending of Consumer products.

Table 1: Total expected credit losses by portfolio (audited)

	31 December 2023			31 December 2022		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	7,817	(19)	7,798	7,649	(20)	7,629
Consumer lending	1,297	(108)	1,189	1,480	(75)	1,405
Commercial lending	3,382	(72)	3,310	4,160	(92)	4,068
Total loans and advances to customers	12,496	(199)	12,297	13,289	(187)	13,102

Table 2: Total portfolio credit performance

	31 December 2023	21 December 2022
Coverage ratio (including Stage 3)	1.59%	1.41%
% loans in Stage 2	12%	16%
% loans in Stage 3	3%	3%
90+ days past due	2%	1%

Our retail mortgages portfolio grew by £168 million during 2023 whilst consumer lending and commercial reduced by £183 million and £778 million respectively.

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

Table 3: Non-performing loans

	31 December 2023		31 December 2022	
Group	NPLs £'million	NPL Ratios	NPLs £'million	NPL Ratios
Retail mortgages	146	1.87%	111	1.45%
Consumer	77	5.94%	50	3.38%
Commercial	166	4.91%	191	4.59%
Total	389	3.11%	352	2.65%

NPLs increased to £389 million (31 December 2022: £352 million) with the overall NPL ratio increasing to 3.11% (31 December 2022: 2.65%). The NPL ratio for mortgages has increased to 1.87% (31 December 2022: 1.45%). This is driven by new defaults primarily due to accounts moving to 90+ day arrears. The NPL ratio for consumer customers has increased to 5.94% (31 December 2022: 3.38%) driven by the maturation of the RateSetter loans portfolio together with the runoff of the legacy portfolios. NPLs have decreased for Commercial due to successful BBLS claims, repayments and write-offs of a small number of large commercial exposures; however, due to the reduction in overall Commercial lending, the NPL ratio has increased to 4.91% (31 December 2022: 4.59%).

Financial risks
Continued

Expected credit loss
Expected credit losses (ECL) have increased during the year by £12 million to £199 million (31 December 2022: £187 million) predominantly driven by maturation of the consumer portfolio, offset by repayments in commercial and improvements in macroeconomic scenarios. Metro Bank continues to hold overlays to reflect the continued macroeconomic uncertainty given the cost-of-living pressures, higher interest rates and anticipated property price falls not fully captured in the latest macroeconomic scenarios and IFRS 9 models. Overlays continue to be retained given the continued economic uncertainty, more details of which can be found on pages 204 to 205.

Cost of risk
The below table provides information on the cost of risk. Cost of risk is the credit impairment charge expressed as a percentage of average gross lending over the year.

Table 5: Cost of risk

Group	31 December 2023	21 December 2022
Retail mortgages	(0.01%)	0.02%
Consumer	3.29%	2.26%
Commercial	(0.30%)	0.11%
Total	0.26%	0.32%

The overall cost of risk (CoR) is primarily driven by increased ECL for consumer lending (resulting from maturation of this portfolio) which carries a higher CoR than retail mortgages and commercial. The CoR for retail mortgages has reduced due to improvements in the macroeconomic scenarios. The CoR for Commercial has reduced due to improvements in macroeconomic scenarios, and repayments of a small number of large commercial exposures.

Credit risk exposure by internal PD rating
The table below summarises balances by PD bandings and IFRS 9 production stage at a total bank level. All PDs include forward looking information and are based on 12-month values for all stages.

Table 4: Credit risk exposure, by IFRS 9 12-month PD rating and stage allocation (audited)

	31 December 2023											
		Gross carrying amount (£'million)					Loss allowance (£'million)					
All Portfolios	IFS 9 PD range %	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	ECL coverage %
Band 1	0.00 – 3.00	8,928	499	–	–	9,427	29	3	–	–	32	0.34%
Band 2	3.00 – 17.00	1,664	883	–	–	2,547	33	27	–	–	60	2.36%
Band 3	17.00 – 99.99	4	129	–	–	133	1	13	–	–	14	10.53%
Band 4	100	–	–	389	–	389	–	–	93	–	93	23.91%
Total		10,596	1,511	389	–	12,496	63	43	93	–	199	1.59%

	31 December 2022											
		Gross carrying amount (£'million)					Loss allowance (£'million)					
	IFS 9 PD range %	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	ECL coverage %
Band 1	0.00 – 3.00	8,042	549	–	–	8,591	32	5	–	–	37	0.43%
Band 2	3.00 – 17.00	2,209	1,313	–	–	3,522	33	29	–	–	62	1.76%
Band 3	17.00 – 99.99	598	226	–	–	824	1	17	–	–	18	2.18%
Band 4	100	–	–	352	–	352	–	–	70	–	70	19.89%
Total		10,849	2,088	352	–	13,289	66	51	70	–	187	1.41%

The information in the tables above has been presented at a total bank level including BBLS.

The migration observed across bandings, in particular band 1, is primarily driven by the improvement in macroeconomic scenarios feeding through the IFRS 9 models resulting in customers moving to lower PD bands.

Financial risks
Continued

Stage 2 balances

Stage 2 balances are identified using quantitative and qualitative tests that determine the SICR criteria. In addition, customers that trigger the 30 days backstop classification are also reported in Stage 2, in line with IFRS 9 standards. The Bank's SICR assessment is set out in Section 3.3.1.

Table 6: Stage 2 balances

	31 December 2023 £'million		31 December 2022 £'million	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Quantitative	1,353	30	1,845	38
Qualitative	103	5	189	7
30 days past due backstop	55	8	54	6
Total Stage 2	1,511	43	2,088	51

Note: Where an account satisfies more than one of the Stage 2 criteria above, the gross carrying amount and loss allowance has been assigned in the order presented. For example, an account that triggers both Quantitative and Qualitative SICR criteria will only be reported as Quantitative SICR.

Stage 2 balances have decreased in 2023, with the quantitative SICR criteria continuing to be the primary driver. Improvements in macroeconomic outlook have resulted in customers no longer triggering SICR, and consequently transferring back to Stage 1. Marginal decreases in Stage 2 balances have also been observed in the qualitative criteria. As at 31 December 2023, 90% (31 December 2022: 88%) of Stage 2 balances triggered quantitative SICR criteria, 7% (31 December 2022: 9%) triggered qualitative SICR and the remaining 4% (31 December 2022: 3%) triggered the 30 days past due backstop criteria.

Portfolio level analysis – Retail mortgages
Table 7 summarises key credit performance metrics for the retail mortgages portfolio.

Table 7: Retail mortgage credit performance

	31 December 2023 £'million	31 December 2022 £'million
Loans and advances	7,817	7,649
Loss allowance	19	20
Coverage ratio	0.24%	0.26%
% loans in Stage 2	10%	18%
% loans in Stage 3	2%	1%
90+ days past due	1%	1%

Mortgage balances have grown slightly during 2023 to £7,817 million (31 December 2022: £7,649 million) with modest organic book growth outstripping the run-off of our legacy acquired portfolios.

The credit performance of the portfolio has seen some impact from the economic environment resulting from house price reductions, and rising cost of living and interest rates. Portfolio average DTV has increased by 2% to 58% as at 31 December 2023 (31 December 2022: 56%) as a result of falling house prices. Early arrears cases (>1 to < 3 months in arrears) have increased to 0.97% at 31 December 2023 (31 December 2022: 0.63%). Accounts that are 3 or more months in arrears have increased from 0.73% at 31 December 2022 to 1.08% at 31 December 2023. Increases in arrears have been seen to a greater extent in the legacy acquired portfolios that are in run-off and have greater sensitivity to interest rate rises.

Retail Mortgage new lending has continued to be of good quality during 2023. The average LTV was 63% (2022: 69%) and the proportion of lending with an LTV over 90% was only 1% due to restrictions on this lending. The proportion of new lending that is buy-to-let reduced in 2023 to 7% from 34% in 2022. Credit quality measured through credit score has remained stable over the last 3 years. Near Prime lending has continued to make up a small proportion of new lending (December 2023: 1.5%) and contributes a small proportion of the portfolio (December 2023: 0.6%).

27% of loans at December 2023 are on interest rates ≥4%, and 8% of loans are on variable rates; the remaining 65% remain on existing fixed rate mortgages and will migrate to higher rate products at the end of the fixed period. We expect that owner-occupied customers have a degree of protection against increasing interest rates as a result of origination credit criteria and underwriting approach; all of our organically originated owner-occupied loans were underwritten at a stressed interest rate allowing for at least a 2% increase, and in the majority of cases (88%) customers did not borrow the maximum lending amount that was available creating an additional buffer against interest rate and inflationary rises. Rental coverage for buy-to-let lending is strong, providing capacity to absorb increases in mortgage payments. All organic buy-to-let mortgages have been underwritten at a minimum 140% rental cover and at a stressed interest rate.

The buy-to-let portfolio consists of simple retail loans on prime residential housing stock; there is no cross-collateralisation and there are no houses in multiple occupation. Landlord portfolios are a small proportion of lending.

Financial risks
Continued

Impairment
There has been an increase in coverage ratio for Stage 1 (Stage 1: 0.10% in 2022 to 0.11% in 2023) driven by new business lending and improvements in macroeconomic scenarios resulting in fewer customers with higher PDs triggering SICR into Stage 2. There has been a decrease in coverage ratio in Stage 2 (0.82% in 2022 to 0.72% in 2023) driven by improvements in macroeconomic scenarios, and improvements made in the measurement of SICR in the IFRS 9 lifetime PD model (introduced as an overlay in 2022), resulting in an overall reduction in modelled ECL. There has been an increase in Stage 3 coverage ratio (Stage 3: 2.70% in 2022 to 4.05% in 2023) due to one single name case that triggered default.

Payment performance
Portfolio arrears have increased from a low base during 2023 due to the impact of the cost of living and interest rate rises. The proportion of the portfolio with >1 and >3 months in arrears has increased from 0.63% to 0.97% of the total retail mortgage portfolio, and the proportion of the portfolio with three or more missed payments has increased from 0.73% to 1.06%. A greater increase in arrears has been observed on the legacy acquired portfolios due to the portfolios being in run-off and there being a larger proportion of mortgages with variable rates in these portfolios. The acquired portfolios were not written under Metro Bank credit criteria and do not represent similar arrears profiles to organic lending. We also observe a higher increase in arrears in the buy-to-let portfolio due to this containing a larger proportion of interest only mortgages that are more sensitive to interest rate rises. Forbearance levels also remain low with 0.19% of our non-arrears portfolio subject to forbearance measures, increasing from 0.02% at December 2022.

Interest-only lending
Interest-only lending holds the additional risk of balance repayment at the end of the mortgage term. This risk arises principally in the mortgage book where the exposure to interest-only loans stands at £3.8 billion (31 December 2022: £4.1 billion).

All borrowers of interest-only facilities are assessed as being able to refinance the lending at the end of the term or have an appropriate repayment plan in place. These loans are also appropriately collateralised with lower LTV thresholds compared to capital and interest mortgage lending. The table below shows the amounts of the retail mortgage that are subject to either interest only, or capital and interest payments.

Table 8: Retail mortgage lending by repayment type (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
Repayment type	Retail Owner Occupied	Retail BTL	Total	Retail Owner Occupied	Retail BTL	Total
Interest only	1,933	1,878	3,811	2,005	2,047	4,052
Capital and interest	3,918	88	4,006	3,502	95	3,597
Total	5,851	1,966	7,817	5,507	2,142	7,649

Geographic exposure
The geographic distribution of our retail mortgages customer balances is set out below. 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 customer base and store footprint. We are expanding our footprint which will reduce the geographical concentration of lending over time.

Table 9: Retail mortgage lending by geographic exposure (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
Region	Retail Owner Occupied	Retail BTL	Total	Retail Owner Occupied	Retail BTL	Total
Greater London	2,040	1,091	3,131	1,937	1,201	3,138
South east	1,564	381	1,945	1,435	408	1,843
South west	487	87	574	476	99	575
East of England	590	150	740	531	163	694
North west	268	65	333	263	68	331
West Midlands	240	71	311	226	76	302
Yorkshire and the Humber	185	32	217	184	34	218
East Midlands	180	53	233	168	54	222
Wales	111	17	128	109	18	127
North east	60	8	68	63	10	73
Northern Ireland	–	–	–	–	–	–
Scotland	126	11	137	115	11	126
Total	5,851	1,966	7,817	5,507	2,142	7,649

Financial risks
Continued

Collateral
Table 10 shows the distribution of the retail mortgage portfolio by DTV. The portfolio DTV profile has increased slightly during 2023 as a result of falling house prices.

Table 10: Retail mortgage lending by DTV (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
DTV ratio	Retail Owner Occupied	Retail BTL	Total	Retail Owner Occupied	Retail BTL	Total
Less than 50%	1,994	439	2,433	2.007	568	2.575
51–60%	1,069	375	1,444	961	463	1,424
61–70%	1,044	642	1,686	1,088	660	1,748
71–80%	1,100	493	1,593	990	434	1,424
81–90%	550	16	566	374	13	387
91–100%	89	–	89	87	–	87
More than 100%	5	1	6	–	4	4
Total	5,851	1,966	7,817	5,507	2,142	7,649

Portfolio level analysis – Consumer
Table 11 summarises key credit performance metrics for the consumer lending portfolio.

Table 11: Consumer credit performance

	31 December 2023 £'million	31 December 2022 £'million
Loans and advances	1,297	1,480
Loss allowance	108	75
Coverage ratio	8.33%	5.07%
% loans in Stage 2	24%	17%
% loans in Stage 3	6%	3%
90+ days past due	5%	3%

Portfolio and credit risk profile
Consumer balances have reduced to £1.3 billion as at 31 December 2023 (31 December 2022: £1.5 billion) following a reduction in, and subsequent cessation of lending through the RateSetter brand. The portfolio is now composed of 96% lending through the RateSetter brand. The performance of this portfolio is aligned with expectations; increases in arrears and non-performing loans are in line with the growth of the book and normal portfolio maturation, and as a result of very low levels of write-offs causing an accumulation of cases in arrears. A batch write-off planned for 2024 is expected to reduce arrears levels. New lending in 2023 remained strong across fixed term and revolving products with average income and application scores remaining stable. Continual enhancements have been performed in relation to the affordability in light of the economic environment.

Impairment
The total ECL coverage position for consumer has increased to 8.3% as a result of the continued maturation of the portfolio and a post model overlay to reflect the uncertainty due to high inflation not fully captured in the IFRS 9 model (31 December 2022: 5.1%).

Portfolio level analysis – Commercial
Table 12 summarises key credit performance metrics for the commercial portfolio.

Table 12: Commercial credit performance

	31 December 2023 £'million	31 December 2022 £'million
Loans and advances	3,382	4,160
Loss allowance	72	92
Coverage ratio	2.13%	2.21%
% loans in Stage 2	12%	12%
% loans in Stage 3	5%	5%
90+ days past due	2%	2%

Table 13: Summary of Commercial lending

	31 December 2023 £'million	31 December 2022 £'million
Professional buy-to-let	465	731
Bounce back loans	524	801
Coronavirus business interruption loans	86	127
Recovery Loan Scheme	328	385
Other term loans	1,341	1,578
Total commercial term loans	2,744	3,622
Overdrafts and revolving credit facilities	172	122
Credit cards	4	4
Asset and invoice finance	462	412
Total commercial lending	3,382	4,160

Portfolio and credit risk profile
Our commercial lending remains largely composed 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 £4,160 million to £3,382 million during 2023 reflecting the reduction in our portfolio of buy-to-let and Real Estate lending, and run-offs in Government-supported lending.

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. The percentage of the portfolio in Early warning categories has remained broadly flat since December 2022, however, some deterioration within early warning categories has been observed. Close customer management is key to identifying issues and supporting our customers.

Impairment
The ECL allowance has reduced to £72 million in 2023 (31 December 2022: £92 million) with coverage reducing to 2.13% (31 December 2022: 2.21%). The proportion of commercial lending in Stage 2 has remained flat at 12% (FY 2022: 12%) as a percentage of total balances. Reduced coverage reflects repayments received and reduction of cases with higher coverage, including conclusion of some larger single name cases as well as improvements in macroeconomic scenarios.

Our commercial book consists predominately of SME lending which is reflected in the coverage. The operating environment continues to be challenging and Commercial customers may be impacted by interest rates which remain higher than observed in recent years, and the impact of inflationary increases on discretionary spending and business expenses. We continue to hold appropriate levels of ECL to reflect the higher risk of default.

Interest-only lending
Interest-only lending in our commercial loans is concentrated towards professional buy-to-let where interest-only lending makes up 94% of professional buy-to-let lending (31 December 2022: 95%).

Table 14: Commercial term lending – excluding BBLS by repayment type (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
Repayment Type	Professional buy-to-let	Other term loans	Total	Professional buy-to-let	Other term loans	Total
Interest only	438	222	660	691	253	944
Capital and interest	27	1,533	1,560	40	1,837	1,877
Total	465	1,755	2,220	731	2,090	2,821

Geographic exposure
The below table summarises the geographic distribution of the commercial term loans portfolio. 72% of commercial term loans are to companies in London and the South East (31 December 2022: 73%), which reflects the historical concentration of our store network.

The following table reflects the geographic distribution of the commercial term loans portfolio excluding BBLS.

Table 15: Commercial term lending – excluding BBLS by geographic exposure (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
Region	Professional buy-to-let	Other – term loans	Total	Professional buy-to-let	Other – term loans	Total
Greater London	298	880	1,178	472	1,052	1,524
South east	88	340	428	149	377	526
South west	15	111	126	22	143	165
East of England	31	122	153	45	147	192
North west	11	106	117	13	153	166
West Midlands	4	101	105	8	112	120
Yorkshire and the Humber	2	17	19	3	23	26
East Midlands	9	44	53	12	43	55
Wales	3	8	11	3	11	14
North east	3	19	22	3	19	22
Northern Ireland	1	2	3	1	3	4
Scotland	–	5	5	–	7	7
Total	465	1,755	2,220	731	2,090	2,821

Financial risks
Continued

Sector exposure
We manage credit risk concentration to individual borrowing entities and sector. 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 2022. There has been an overall reduction in commercial real estate and professional buy-to-let. The following table shows the distribution of the commercial portfolio across business sectors.

Table 16: Commercial term lending – excluding BBLS by sector exposure (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
Region	Professional buy-to-let	Other – term loans	Total commercial term loans	Professional buy-to-let	Other – term loans	Total commercial term loans
Real estate (rent, buy and sell)	465	509	974	731	681	1,412
Hospitality	–	368	368	–	372	372
Health & social work	–	298	298	–	334	334
Legal, accountancy & consultancy	–	150	150	–	196	196
Retail	–	136	136	–	161	161
Real estate (develop)	–	14	14	–	6	6
Recreation, cultural & sport	–	72	72	–	87	87
Construction	–	48	48	–	62	62
Education	–	19	19	–	17	17
Real estate (management of)	–	7	7	–	9	9
Investment & unit trusts	–	7	7	–	11	11
Other	–	127	127	–	154	154
Total commercial term lending	465	1,755	2,220	731	2,090	2,821

Collateral
DTV is calculated for property and cash backed lending in commercial. As of 31 December 2023, 76% of this 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 but does provide an additional level of credit risk mitigation. DTV >100% also includes government-backed lending where the facility does not also benefit from property collateral. The decrease in DTV >100% in 2023 reflects a reduction in government-backed lending. The following table shows the distribution of the commercial portfolio DTV.

Table 17: Commercial term lending – excluding BBLS by DTV (audited)

	31 December 2023 (£'million)			31 December 2022 (£'million)		
DTV ratio	Professional buy-to-let	Other term loans	Total	Professional buy-to-let	Other term loans	Total
Less than 50%	160	707	867	278	817	1,095
51 to 60%	59	319	378	158	433	591
61 to 70%	105	185	290	219	112	331
71 to 80%	76	79	155	62	76	138
81 to 90%	60	21	81	3	53	56
91 to 100%	2	11	13	5	12	17
More than 100%	3	433	436	6	587	593
Total	465	1,755	2,220	731	2,090	2,821

Financial risks
Continued

Government-backed lending
The table below summarises government-backed lending.

Table 18: Government-backed lending

	31 December 2023			
	No. of loans	Drawn balance £'million	Average loan amount £'000	% of total business lending
Bounce Back Loan Scheme	22,062	524	24	18.8%
Coronavirus Business Interruption Loan Scheme	240	86	358	3.0%
Coronavirus Large Business Interruption Loan Scheme	2	8	3,920	0.3%
Recovery Loan Scheme[1]	1,304	328	252	11.6%
Total government-backed lending	23,608	946	40	33.7%

	31 December 2022			
	No. of loans	Drawn balance £'million	Average loan amount £'000	% of total business lending
Bounce Back Loan Scheme	26,824	801	30	21.7%
Coronavirus Business Interruption Loan Scheme	279	127	455	3.4%
Coronavirus Large Business Interruption Loan Scheme	4	26	6,580	0.7%
Recovery Loan Scheme[1]	1,349	385	285	10.4%
Total government-backed lending	28,456	1,339	47	36.2%

1. Recovery loan scheme includes £71 million acquired from third parties under forward flow arrangements (31 December 2022: £97 million). The loans are held in a trust arrangement in which we hold 99% of the beneficial interest, with the issuer retaining the remaining 1% (the trust retains the legal title loans).

Undrawn commitments
At 31 December 2023, we had undrawn facilities granted to retail and commercial customers of £718 million (2022: £1,120 million).

As part of our retail and commercial operations, this includes commitments of £327 million (2022: £250 million) for credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

Investment securities
As well as our loans and advances, the other main area where we are exposed to credit risk is within our Treasury portfolio. At 31 December 2023 we held £4.9 billion (31 December 2022: £5.9 billion) of investment securities, which are used for balance sheet and liquidity management purposes.

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

Table 19: Investment securities by credit rating (audited)

	31 December 2023 £'milion			31 December 2022 £'milion		
Group	Investment Securities held at amortised cost	Investment Securities held at FVOCI	Total	Investment Securities held at amortised cost	Investment Securities held at FVOCI	Total
AAA	3,400	256	3,656	3,649	356	4,005
AA- to AA+	1,003	220	1,223	1,694	215	1,909
Total	4,403	476	4,879	5,343	571	5,914

We have a robust securities investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2023, 75% of our investment securities were rated as AAA (31 December 2022: 68%) with the remainder rated AA- or higher, the majority of which comprises of UK gilts.

Additionally, we hold £3.9 billion (31 December 2022: £2.0 billion) in cash balances, which is either held by ourselves or at the Bank of England.

Response
We have a strong credit risk framework in place that manages lending within risk appetite limits, provides a comprehensive set of policies and lending standards, and sets out a clear set of procedures for managing our portfolios and customers in financial difficulty.

We control credit risk through a set of quantitative limits that measure the aggregate level and type of credit risk that we are willing to accept in order to support our business objectives. These limits, which are set at total portfolio and product level, are supported by a suite of product-level policies and lending criteria which define the parameters within which individual exposures can be approved and which manage new lending within the risk appetite. Credit risk is further controlled through the use of automated decision tools, underwriter approval and monitoring of individual transactions. Independent oversight is provided by the Credit risk function, and includes independent underwriting of commercial lending, monitoring of performance against limits, ongoing portfolio monitoring and regular portfolio reviews.

Financial risks
Continued

The 2023 credit risk appetite limits were set with reference to the appetite for credit impairments as well as analysis of past performance, peer comparisons and qualitative approaches using expert judgement. These limits reflect the Bank's strategy as well as the macroeconomic outlook.

We continue to maintain our climate change risk management capabilities and have policies that outline prohibited commercial sectors which are of particular concern for climate change. In addition, our policies provide for enhanced borrower assessment where borrowers operate in other carbon-intensive industries. In retail mortgages, there are policies in place to mitigate property risk, including the risks that could result from climate change. These include requirements concerning the durability of the property for the lifetime of the loan, the requirement that properties must be insurable, and limits for lending on certain products where the property has received a low EPC rating.

Individual credit decisions are controlled through both quantitative models and review under delegated lending authority depending on the product, materiality, and complexity of the exposure. These assessments take into account the potential for future stress in customers' financial positions. We mitigate credit risk through holding collateral against our retail mortgage and commercial term loan portfolios.

This robust framework continues to support underlying portfolio resilience as cost-of-living and interest rate pressures have materialised.

Mitigation
We mitigate risk through regular monitoring and analysis of our customers and their ability to maintain contractual obligations, as well as the external factors that can impact customer credit risk. We have established Credit Risk policies and lending criteria, and assess customer affordability under different scenarios where appropriate. We employ specialist expert underwriters in our assessments of our commercial customers, and categorise customer risk as part of our Closer Monitoring and Early Warning List as described above. This allows for the early identification of customers who may develop financial difficulties, which have not yet fully materialised. Monthly analysis and reporting provide insight into portfolio credit performance and highlight where deterioration is taking place or is likely to occur.

In addition to active management and monitoring of our portfolios and customer affordability, we mitigate credit risk through holding collateral against our retail mortgage and commercial term loan portfolios. Collateral is usually held in the form of real estate, guarantees, debentures and other liens that we can call upon in the event of the borrower defaulting. The management of this is governed by our collateral management policy. At 31 December 2023, 80% (31 December 2022: 78%) of our loans consisted of retail mortgages and commercial term loans, with average debt to value of 58% (31 December 2022: 56%) and 55% (31 December 2022: 55%) respectively.

Subject matter experts further mitigate the risk of credit losses through regular review and assessment of cases at an individual level. Specialist teams provide customers with support where financial difficulties are identified, and the use of automated and manual credit assessments help to ensure good customer outcomes and to maximise the likelihood that customers maintain the ability to meet their contractual obligations.

Supporting our customers
We work with our customers who are in arrears, have payment shortfalls or are in financial difficulties to obtain the most appropriate outcome for both the Bank and the customer. The primary objectives of our policy are to ensure that appropriate mechanisms and tools are in place to support customers during periods of financial difficulty, and to minimise the duration of the difficulty and the consequence, costs and other impacts arising.

We will always seek to understand the customer's individual circumstances and ensure a considered, measured, and consistent approach is taken which is, to the best of our knowledge, appropriate for their individual circumstances. Where a customer's financial difficulty is due to them being impacted by a vulnerable situation, we will seek to provide tailored and flexible solutions and services appropriate to the circumstances of the vulnerability. As part of this process, we have a range of treatments that may be considered to support the customer through the period of financial difficulty, alongside working with them to understand and agree how to return their account to good standing where possible. This includes the forbearance options outlined below.

Commercial customers who are showing signs of potential financial difficulty are supported through our relationship teams, and where appropriate, our Business & Credit Support team. Each situation is individually assessed, and our preference is to provide flexibility where possible to help a customer avoid financial difficulty and to resume normal contractual obligations. Forbearance may be offered where this is sustainable and appropriate to the nature of the customer's financial distress.

Forbearance
When our customers show signs of financial difficulties, we may seek to continue our support through the provision of a concession such as a modification of the terms and conditions of the loan, or a total or partial refinancing of an existing loan. Concessions can often result in more favourable terms than those offered or available under normal circumstances. Such events are considered to be acts of forbearance and are dealt with and monitored in accordance with our forbearance policies and regulatory guidelines.

Financial risks
Continued

Monitoring/reporting

Governance

Credit risk is managed within our Enterprise Risk Management Framework, as part of our overarching three lines of defence model. Management of credit risk is split primarily into the firsrt and second lines of defence. The first and second lines are operationally independent and have separate reporting lines.

The first line management of credit risk is shared across the Bank's functions that design, distribute, approve and service credit facilities, referred to in this document as the 'lending functions'. These are the functions under the management of the Managing Director, Corporate and Commercial Banking, Managing Director, Retail and Business Banking, and the Chief Commercial Officer. The first line lending functions are responsible for proposing and implementing lending propositions and are responsible for conducting lending activity in accordance with Credit Risk Appetite and Credit Policies and Standards.

The second line Credit Risk function reports to the Chief Credit Officer (CCO) who, in turn, reports to the Chief Risk Officer. The CCO, supported by the Credit Risk team, is responsible for:

- Recommending and overseeing Credit Risk Appetite limits
- Developing and overseeing credit risk policies and standards
- Overseeing credit risk strategies in accordance with policies and risk appetite
- Developing and monitoring credit risk models
- Providing an independent review and approval of individual commercial credit proposals and renewals of loan facilities
- Developing and overseeing retail arrears management strategies
- Managing commercial and Business Support strategy and activities
- Ensuring appropriate IFRS 9 credit provisions are held, and
- Monitoring and reporting credit risk performance.

Monitoring

The credit risk function monitors the risk profile using a broad range of risk metrics, reporting against risk appetite limits and regular portfolio reviews. This includes oversight of credit risk performance indicators such as arrears levels, modelled risk measures, such as probability of default and loss given default, and measures of concentration risk. Stress testing is conducted to assess the impact on ECL and RWAs.

Credit risk appetite metrics are measured and reported regularly to oversight committees to ensure we remain within risk appetite and continue to support our strategic objectives. These metrics include a focus on particular segments of the portfolio which may be susceptible to or indicative of increased levels of risk, and which are crucial to our strategy. These include modelled risk parameters and performance metrics such as probability of default and loss given default, as well as concentration metrics such as sector or geographical concentration. More granular performance metrics are also tracked to assess the likelihood of potential breaches and their drivers. The limit framework includes early warning thresholds which identify where action may need to be taken to avoid a breach of appetite limits. If necessary, a plan is presented to bring the measurements back to approved levels.

A monthly portfolio insight report is presented to ERC and ROC to provide oversight of key indicators and performance trends. This is supplemented by a detailed suite of portfolio-level reports which are reviewed by the Credit Risk Oversight Committee. In addition, we perform regular portfolio asset quality reviews as well as monitoring and reporting on our credit decisioning. We have developed statistical models that utilise both internal and external data for the purposes of estimating ECL under IFRS 9, as well as Internal Ratings Based (IRB) models as part of our journey to seek permission to use the IRB approach to calculate risk-weighted exposure amounts for credit risk.

Commercial customers are also monitored through our Closer Monitoring and Early Warning List. The objective is to identify the potential risks at an individual level before they materialise and mature. Customers are categorised into one of four categories. The first is 'closer monitoring', followed by early warning list categories one to three. Closer Monitoring and Early Warning List categories support IFRS9 stage classification.

We monitor the effectiveness of our policies and management framework through the various credit risk committees outlined above. These committees provide oversight of portfolio quality and help inform on where changes to our strategy or policies are required in response to ongoing developments in the external environment. In addition, we assess and estimate the risks associated with climate change through developed models and we continue to develop our quantitative capabilities to further support our longer-term objectives and increased focus in this area.

Future focus

Our overall approach to credit risk management, level of provisions and portfolio shape has put us in a strong position to remain resilient throughout 2024.

We remain focused on monitoring emerging trends and the impact of high inflation and interest rate pressures on our customers. We have taken a number of steps to further enhance our support for customers that may be facing financial difficulty through this period, and will continue to work with our customers to support them where needed.

As we develop our future product offering, we will continue to update our credit risk policies and processes to ensure that these remain appropriate for the developing balance sheet.

Financial risks
Continued

Capital risk

Risk definition
The risk that financial resources are not adequate in terms of capital, in order to ensure that these resources can cover the nature and level of the risks to which the Bank is or might be exposed.

Risk appetite statement
The Bank has a cautious appetite for Capital Risk. The Board has determined that the Bank shall be able to maintain a surplus of regulatory capital resources above its total regulatory capital requirement plus public buffers, as communicated by the regulator, with a buffer to include the amount of capital identified as required through the Bank's ICAAP, utilising an appropriate mix of regulatory capital.

Exposure and assessment
Capital risk exposures arise from the depletion of our capital resources which may result from:

- Increased risk-weighted assets (RWAs).
- Losses.
- Unfavourable changes to regulatory minima or other regulatory rule changes.

Our capital risk management approach is centred around ensuring we can maintain appropriate levels of capital to meet regulatory minima and support our strategic objectives under both normal and stressed conditions.

Capitalisation is a core component of our annual planning process, involving the creation of our budget and Long Term Plan. This sets the forecast of our capital position through the planning horizon and is further assessed through our ICAAP scenarios, where the scale of risks to capital is fully considered, and allows the Bank to make informed judgements on risks, the adequacy of capital carried to support them and the overall robustness of our capital risk management approach. Management actions to preserve capital are identified and applied, where relevant to those scenarios. Further details on this process are set out in our Viability statement on pages 49 and 50.

Capital risk is a core focus and our current and forecast capital position is regularly monitored by the ALCO and ExCo and reported to ROC and the Board. This involves the production of reports including capital forecasts for the Board and management, which are compared to our risk appetite and limits for acceptable capitalisation.

The regulatory environment in which we operate continues to evolve. Consequently, a core component of our capital risk thinking involves horizon scanning of prudential developments to ensure we continue to monitor potential future capital impacts and anticipate appropriate capital resources.

Table 20: Key regulatory metrics and ratios

	31 December 2023	31 December 2022
CET1 ratio	13.1%	10.3%
Tier 1 ratio	13.1%	10.3%
Total capital ratio	15.1%	13.4%
MREL ratio	22.0%	17.7%
Leverage ratio	5.3%	4.2%

Capital resources
The capital raise completed in November saw the Bank issue £150 million of new equity and £175 million in new MREL eligible debt. We ended the year with CET1, Tier 1 and total capital plus MREL ratios of 13.1%, 13.1% and 22.0% respectively (31 December 2022: 10.3%, 10.3% and 17.7%).

In addition to raising new capital, we also refinanced all of our existing regulatory debt. This consisted of £350 million of MREL, which now has a call date of 30 April 2028, providing additional runway for us to deliver our strategy. Alongside this, we replaced our existing £250 million of Tier 2 debt with £150 million of new instruments.

Financial risks
Continued

Our capital resources as at 31 December 2023 are summarised below:

Table 21: Regulatory capital

	31 December 2023 £'million	31 December 2022 £'million
Share capital	–	–
Share premium	144	1,964
Retained earnings	978	(1,015)
Other reserves	12	7
Intangible assets	(193)	(216)
Other regulatory adjustments	44	79
Total Tier 1 capital (CET1)	985	819
Debt securities (Tier2)	150	250
Total Tier 2 capital	150	250
Total regulatory capital	1,135	1,069

Capital requirement
We calculate our capital requirement in line with the regulatory requirements set out in the PRA Rulebook. This consists of a Pillar 1 calculation of RWAs and a Pillar 2A assessment that captures point in time risks not covered by the Pillar 1 calculation. The Pillar 2A assessment is conducted through the ICAAP process, which is documented and approved by the Board on an annual basis and discussed with the PRA as part of the Supervisory Review and Evaluation Process.

Table 22: Capital requirements

	31 December 2023		31 December 2022	
	CET1	Total capital	CET1	Total capital
Pillar 1	4.5%	8.0%	4.5%	8.0%
Pillar 2A	0.2%	0.4%	0.3%	0.5%
Total capital requirement	4.7%	8.4%	4.8%	8.5%
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%
UK countercyclical buffer	2.0%	2.0%	1.0%	1.0%
Total (excluding PRA buffer, if applicable)	9.2%	12.9%	8.3%	12.0%

Capital landscape
Basel 3.1
The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market risk, credit valuation adjustment risk, counterparty credit risk, and operational risk, with the remaining elements of the standards expected to be published in Q2 2024. Discovery sessions are ongoing to develop more precise estimates of the likely impact on the Bank.

Resolvability regime
Financial institutions, with total assets greater than £15-25 billion, are subject to stringent MREL 'bail-in' requirements meaning that we will need to continue to hold and issue MREL eligible debt. In order to give further effect to the resolvability regime, the Bank has established a holding company.

Resolvability assessment framework
The Bank of England (BoE) introduced its Resolvability Assessment Framework (RAF), with implementation for UK mid tier-firms from 1 January 2023. We fall into this category.

In light of the proportionate requirements for mid-tier firms, we conducted an internal resolution readiness assessment during 2023. The assessment concluded that we have put in place capabilities to facilitate the management of a potential resolution event, if required, acknowledging that the firm's capabilities will continue to be enhanced as the Resolvability Assessment Framework is embedded into our business-as-usual activities. Following a review of our RAF and the successful issuance of MREL, the BoE confirmed that the Bank is resolvable.

Ring-fencing
In 2019, legislation came into force for banks with greater than £25 billion of 'core deposits', requiring them to separate their retail banking from other parts of their business including investment and international activities. Given our current level of deposits we are not subject to this separation (referred to as 'ring-fencing'), although our planned level of growth could see us become subject to it in the future. As we are purely a UK-focused retail bank the impacts of ring-fencing should have limited consequences, beyond the costs of ensuring compliance.

Financial risks
Continued

Risk-weighted assets
Our RWAs decreased over the course of 2023 to £7,533 million (31 December 2021: £7,990 million).

Table 23: RWAs

	31 December 2023			31 December 2022		
	Exposure	Risk density	RWAs	Exposure	Risk density	RWAs
Loans and advances	12,297	46%	5,597	13,102	45%	5,949
Treasury portfolio	8,770	3%	242	7,870	3%	265
Other assets	1,181	75%	886	1,147	75%	859
Total Assets	22,248	30%	6,725	22,119	32%	7,073
Off-balance sheet			79			169
Credit risk (exc. CCR)			6,804			7,242
CCR, Market risk and Operational risk			729			748
Total RWAs			7,533			7,990

Response
Capital risk management is focused on three key components:

- A return to sustainable profitability that will allow us to generate organic capital growth.
- The continued optimisation of our balance sheet to both ensure we are maximising our return on regulatory capital and managing our RWAs.
- Continuing to assess the raising of external regulatory debt capital, as and when market conditions and opportunities allow.

Sustainable profit growth
The main long-term management approach to capital is the sustainable generation of additional capital through the accumulation of profits. The Board and ExCo are focused on ensuring the successful delivery of a return to sustainable profitability.

Balance sheet optimisation
Another key mitigation used to manage capital risk is efficient deployment of our existing capital resources. One of our strategic priorities is ensuring we continue to optimise our balance sheet to ensure we maximise our risk-adjusted returns, while remaining above regulatory requirements. This approach saw us take active measures during the year to enhance our capital ratios by matching originations to the level of asset run-off.

Raising of additional capital
The ability to raise additional capital, as well as the associated cost, is dependent upon market conditions and perceptions and is monitored closely..

Monitoring/reporting
We measure our capital resources in line with regulatory requirements in order to appropriately manage our capital resources. The PRA expects prudential reporting, which includes capital reporting, to be as rigorous as that for financial reporting. Over the past few years we have invested in our regulatory reporting systems as well as making enhancements to our control environment to ensure we are continuing to produce accurate and reliable capital reporting and deliver against these expectations.

Liquidity and funding risk

Risk definition

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

Risk appetite statement

Liquidity – The Bank has a cautious appetite for Liquidity risk. The Board has determined that the Bank shall be able to survive a combined name-specific and market-wide liquidity stress event for at least three months, at a level of severity determined by the Bank's internal risk appetite stress test, utilising the Bank's Liquidity Pool, having identified the Bank's material liquidity risks.

Funding – The Bank has a cautious appetite for Funding risk. The Board has determined that the Bank shall maintain a prudent funding profile by using stable funding to fund illiquid assets, without undue reliance on wholesale funding markets, whilst ensuring that funding is not inappropriately concentrated by customer, sector or term, as identified during the Bank's liquidity stress testing.

Encumbrance – The Bank has a cautious appetite for Encumbrance risk. The Board has determined that encumbrance of its balance sheet should be no greater than 30% of the Bank's total assets in business-as-usual conditions, and unlimited in relation to any encumbrance relating to repo or use of Bank of England facilities in order to manage through a liquidity stress situation – and to test the adequacy of those facilities from time to time.

Exposure and assessment

Liquidity risk concerns our ability to meet short-term obligations as they fall due. This requires liquidity management to maintain investor and market confidence in both business-as-usual and stressed environments. Funding risk concerns any mismatch between asset liquidity and how the assets are funded. The primary aim is to ensure assets that are slow to monetise are supported by funding which is behaviourally or contractually stable.

At the start of October 2023, speculative media reports contributed to uncertainty around the Bank's capital negotiations and led to an increased outflow of customer deposits. Our strong levels of liquidity and prudent approach meant these outflows were manageable and, as at 31 December 2023 we had returned to broadly the same customer deposit levels as we reported for the third quarter, with strong liquidity and funding regulatory ratios. This was largely achieved by a successful targeted deposit campaign. As at 31 December 2023, our liquidity coverage ratio was 332% (31 December 2022: 213%) and our net stable funding ratio was 145% (31 December 2022: 134%).

We measure our liquidity and funding resources in line with regulatory requirements, with the key metric for liquidity being the liquidity coverage ratio and for funding, the net stable funding requirement where we remain above our minimum regulatory requirements. This is supported by monitoring of the encumbrance ratio and other balance sheet metrics.

In order to appropriately manage our liquidity and funding resources, we run an ILAAP exercise which considers the risks that we are exposed to in both normal and stressed conditions. The ILAAP process also sets appropriate limits and determines the Bank's liquidity risk appetite, and internal liquidity stress scenario. We produce regular reports on the current and forecast level of liquidity and capital, which are tracked against limits both at the operational level in Treasury and at the Executive level at ALCO.

Response

Our liquidity and funding risk management is focused on three key components:

- We retain a deposit-funded approach, with a broad customer deposit base covering both retail and commercial customers. This means we are not reliant on wholesale funding, although we continue to utilise the Bank of England's TFSME as an additional stable source of funding.
- We continue to maintain prudent liquidity levels through the holding of high-quality liquid assets in the form of investment securities with strong credit ratings as well as cash balances held at the Bank of England.
- We monitor and manage the behavioural maturity of our assets and liabilities on an ongoing basis to ensure we are not taking undue risk.
- We monitor encumbrance levels and contingent funding capacity.

Deposit-funded approach

We aim to attract service-led core deposits which are less sensitive to competition within the deposit market. At 31 December 2023, 43% of our deposits came from commercial customers (31 December 2022: 51%) with the remaining 57% (31 December 2022: 49%) coming from retail customers. Additionally, 36% of deposits at year end 31 December 2022: 49%) were in the form of current accounts, with the remainder split between a combination of instant access and fixed-term savings products.

Liquidity management (audited)

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

Financial risks
Continued

Table 24: Contractual maturity (audited)

Table 24 sets out the maturity structure of our assets and liabilities, by their earliest possible contractual maturity date. The contractual maturity will differ from the behavioural maturity characteristics in both normal and stressed conditions. The behavioural maturity of customer deposits is much longer than their contractual maturity. On a contractual basis, such deposits are repayable on demand or at short notice. In reality, they are static in nature and provide long-term stable funding for our operations and liquidity. Equally, our loans and advances to customers, specifically mortgages, are lent on longer contractual terms, but may be redeemed or remortgaged earlier. The total balances set out in the analysis do not reconcile with the carrying amounts as disclosed in the consolidated balance sheet. The difference arises from the maturity analysis incorporating all the expected future cash flows (including interest), on an undiscounted basis.

	31 December 2023								
Group	Carrying value	Repayable on demand £'million	Up to 3 months £'million	3-6 months £'million	6-12 months £'million	1-5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
Cash and balances with the Bank of England	3,891	3,891	–	–	–	–	–	–	3,891
Loans and advances to customers	12,297	–	562	486	911	5,078	15,811	381	23,229
Investment securities	4,879	–	454	117	397	4,110	52	57	5,187
Other assets	1,178	–	–	–	–	–	–	1,178	1,178
Total assets	22,245	3,891	1,016	603	1,308	9,188	15,863	1,616	33,485
Deposits from customers	(15,623)	(13,430)	(391)	(398)	(931)	(484)	–	(67)	(15,701)
Deposits from central banks and repurchase agreements	(4,241)	–	(347)	(551)	(67)	(3,621)	–	–	(4,586)
Debt securities	(694)	–	–	(35)	(42)	(829)	(160)	–	(1,066)
Other liabilities	(553)	–	(6)	(6)	(11)	(107)	(238)	(319)	(687)
Total liabilities	(21,111)	(13,430)	(744)	(990)	(1,051)	(5,041)	(398)	(386)	(22,040)
Equity	(1,134)	–	–	–	–	–	–	(1,134)	(1,134)
Total equity and liabilities	(22,245)	(13,430)	(744)	(990)	(1,051)	(5,041)	(398)	(1,520)	(23,174)
Derivative cashflows		–	2	–	(3)	37	1	–	37
Cumulative liquidity gap		(9,539)	(9,265)	(9,652)	(9,398)	(5,214)	10,252		

Financial risks
Continued

Table 24: Contractual maturity (audited) Continued

Group	Carrying value £'million	Repayable on demand £'million	Up to 3 months £'million	3 to 6 months £'million	6 to 12 months £'million	1 to 5 years £'million	Over 5 years £'million	No contractual maturity £'million	Total £'million
	31 December 2022								
Cash and balances with the Bank of England	1,956	1,956	–	–	–	–	–	–	1,956
Loans and advances to customers	13,102	–	573	507	942	5,472	17,525	341	25,360
Investment securities	5,914	–	576	206	951	4,312	164	59	6,268
Other assets	1,147	–	–	–	–	–	–	1,147	1,147
Total assets	22,119	1,956	1,149	713	1,893	9,784	17,689	1,547	34,731
Deposits from customers	(16,014)	(15,310)	(139)	(136)	(201)	(162)	–	(75)	(16,023)
Deposits from central banks and repurchase agreements	(4,038)	–	(215)	(41)	(147)	(4,147)	–	–	(4,550)
Debt securities	(571)	–	–	(272)	(17)	(383)	–	–	(672)
Other liabilities	(540)	–	(6)	(6)	(12)	(111)	(263)	(292)	(690)
Total liabilities	(21,163)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(367)	(21,935)
Equity	(956)	–	–	–	–	–	–	(956)	(956)
Total equity and liabilities	(22,119)	(15,310)	(360)	(455)	(377)	(4,803)	(263)	(1,323)	(22,891)
Derivative cashflows		–	(2)	(1)	(3)	–	–	–	(6)
Cumulative liquidity gap		(13,354)	(12,567)	(12,310)	(10,797)	(5,816)	11,610		

Monitoring/reporting

We consider the effective and prudent management of liquidity to be fundamental to our ongoing resilience and viability. The Board has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of our liquidity and funding risks. We are committed to ensuring that at all times we have sufficient liquidity resources – in terms of both quantity and quality – to ensure we can meet payments as they fall due.

The Treasury function has responsibility for our compliance with liquidity policy and strategy. We have a dedicated prudential risk team who independently monitor our liquidity and funding risk daily including ensuring compliance with the policies we have developed. A regulatory reporting team also monitors compliance with relevant metrics.

Financial risks
Continued

Market risk

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

Risk appetite statement
Our market risk appetite is determined by reference to a number of sub-risk appetites:

Earning sensitivity – We have a low appetite for earnings risk, with the Board determining a limit calibrated to ensure net interest income does not exceed an amount recommended and scrutinised by the ALCO and approved by ROC. The limit is calibrated using a 2% instantaneous shock in both directions.

Economic value sensitivity – We have a low appetite for economic value risk, with the Board determining a limit calibrated to ensure that a change to the present value of our balance sheet does not exceed an amount as recommended and scrutinised by ALCO and approved by ROC. The limit is calibrated by calculating the impact of a 2% instantaneous shock in both directions.

Revaluation risk – We have a low appetite for revaluation risk, with the Board prescribing that we should avoid situations where the potential losses caused by changes in market prices shall not exceed capital held under standard risk weights, taking account of any offsets, determined by our Revaluation Risk stress scenario.

Foreign exchange risk – We have no appetite for foreign exchange risk, with the Board determining that exposures in foreign currencies should not represent a material portion of our capital resources.

Exposure and assessment
We do not have a trading book and we do not actively seek to create value through taking interest rate positions. While we support our customers in making payments or hold accounts in foreign currency, we actively avoid exposing our own balance sheet to foreign exchange risk.

The primary source of our market risk exposure is structural interest rate risk in the banking book mismatch between the fixed rate assets and liabilities and any differences in bases. Interest rate risk in the banking book crystallises in, and is measured through, the sensitivity of our current and future net interest income and our economic value to movements in market interest rates. During 2023, we reached the peak of the current interest rate cycle and at year end remain well within our risk appetite and supervisory outlier tests.

The Board is responsible for setting market risk appetite. Market risk is mitigated through a risk management framework that allows it to be monitored and managed by first line management and second line risk, with oversight from ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control the interest rate risk in the banking book in line with the approved strategies and policies.

Management limits are set at the ALCO for economic value and net interest income sensitivity to ensure prompt action and escalation. Limits and the relevant metrics are also reported to ROC and the Board.

The Teasury function has responsibility for managing market risk within our market risk policy and strategy. We have a dedicated prudential risk team who independently monitor our market risk daily including ensuring compliance with the policies we have developed. The Prudential risk function runs additional interest rate risk simulations monthly to assess other threats that may not be evident in the standard parallel shock metrics or supervisory outlier tests.

Response
We have a low appetite for those market risks which we do take, with clear limits set for net interest income and economic value. These limits are sufficient to allow proper management of operational and financial hedging, but low enough to prevent active use of open positions.

Interest rate risk
We benefit from natural offsetting between certain assets and liabilities, which may be based on both the contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes. Our treasury and prudential risk teams work closely together to ensure that risks are identified and managed appropriately – and that we are well-positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure
We have very limited exposure to foreign exchange risk. Foreign currency denominated assets and liabilities are matched off closely in each of the currencies we operate, and we eliminate our foreign exchange exposure as far as is practical on a daily basis. In any event the risk is strictly capped at 2% of our capital base. We offer business current accounts in foreign currency and foreign exchange facilities to facilitate customer requirements only.

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

- Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.
- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities over the horizon of our balance sheet and then evaluating the change in value arising from an instantaneous 2% change in the yield curve in both directions, taking into consideration any embedded customer optionality. Our economic value sensitivity risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. Additionally, we evaluate the PRA's outlier test in line with regulatory requirements.
- Net interest income sensitivity: calculating repricing mismatches across our assets and liabilities over a one-year horizon and then evaluating the change in net income arising from an instantaneous 2% change in the yield curve in both directions. Our net interest income risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. We also assess basis risk by considering divergences between the Bank of England base rate and the Sterling Overnight Index Average (SONIA), which replaced the London Inter-Bank Offered Rate (LIBOR) from January 2022.

Financial risks
Continued

Interest rate risk

Table 25 sets out the interest rate risk repricing gaps of our balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods, after applying expected prepayments in line with our policy.

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

Table 25: Repricing analysis (audited)

31 December 2023	Up to 3 months £'million	3 to 6 months £'million	6 to 12 months £'million	1 to 5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances at central banks	3,817	–	–	–	–	74	3,891
Loans and advances to customers	3,803	860	1,499	6,063	71	1	12,297
Investment securities	2,029	3	154	2,642	51	–	4,879
Other assets	–	–	–	–	–	1,178	1,178
Total assets	9,649	863	1,653	8,705	122	1,253	22,245
Deposits from customers	(6,829)	(734)	(1,607)	(5,897)	(556)	–	(15,623)
Deposits from central banks and repurchase agreements	(4,241)	–	–	–	–	–	(4,241)
Debt securities	–	–	–	(544)	(150)	–	(694)
Other liabilities	–	–	–	–	–	(553)	(553)
Total liabilities	(11,070)	(734)	(1,607)	(6,441)	(706)	(553)	(21,111)
Equity	(23)	(23)	(47)	(374)	–	(667)	(1,134)
Total equity and liabilities	(11,093)	(757)	(1,654)	(6,815)	(706)	(1,220)	(22,245)
Interest rate derivatives	(145)	(2)	–	(3)	150	–	–
Interest rate sensitivity gap	(1,589)	104	(1)	1,887	(434)	33	–
Cumulative gap	(1,589)	(1,485)	(1,486)	401	(33)	–	(4,192)

Financial risks
Continued

Table 25: Repricing analysis (audited) Continued

31 December 2022	Up to 3 months £'million	3 to 6 months £'million	6 to 12 months £'million	1 to 5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances at central banks	1,881	–	–	–	–	75	1,956
Loans and advances to customers	4,154	915	2,010	5,850	173	–	13,102
Investment securities (AC & FVOCI)	2,163	–	539	3,052	160	–	5,914
Other assets	–	–	–	–	–	1,147	1,147
Total assets	8,198	915	2,549	8,902	333	1,222	22,119
Deposits from customers	(6,186)	(613)	(1,154)	(7,456)	(605)	–	(16,014)
Deposits from BoE and repos	(3,978)	–	(60)	–	–	–	(4,038)
Debt	–	(249)	–	(322)	–	–	(571)
Other liabilities	–	–	–	–	–	(540)	(540)
Total liabilities	(10,164)	(862)	(1,214)	(7,778)	(605)	(540)	(21,163)
Equity	(760)	(10)	(21)	(165)	–	–	(956)
Total equity and liabilities	(10,924)	(872)	(1,235)	(7,943)	(605)	(540)	(22,119)
Interest rate derivatives	(68)	40	(62)	105	(15)	–	–
Interest rate sensitivity gap	(2,794)	83	1,252	1,064	(287)	682	–
Cumulative gap	(2,794)	(2,711)	(1,459)	(395)	(682)	–	(8,041)

Table 26 shows the sensitivity arising from the standard scenario of a +200bps and -200bps parallel interest rate shock upon projected net interest income for a one year forecasting period. This is a hypothetical scenario based on a constant balance sheet as well as a full pass through of the increase to all of our variable rate assets and liabilities.

Table 26: Interest rate sensitivity (audited)

	200bps increase £'million	200bps decrease £'million
At 31 December 2023	(13.8)	14.3
At 31 December 2022	(8.3)	8.4

Non-financial risks

Non-financial risk covers the remaining categories of risk which have the potential to impact the Bank's operations, service quality and ability to operate in a safe and compliant way. Non-financial risks include Financial crime risk, Operational risk, Conduct risk, Regulatory risk, Legal risk, Model risk and Strategic risk.

Financial crime

Risk definition

Financial crime risk is the risk that Metro Bank's products and service offerings will be used to facilitate financial crime. Financial crime risks include money laundering, violations of sanctions, bribery and corruption, facilitation of tax evasion and terrorist financing.

Risk appetite statement

We have a low appetite for customer relationships or activity that pose a high financial crime risk and have no appetite for customer relationships or activity that violate our sanctions obligations. The nature of our business model as a UK retail bank inherently exposes us to financial crime risk and as a result of this exposure, strong and effective controls are required to mitigate this. We have defined a set of quantitative and qualitative key risk appetite metrics against which we monitor performance. We do not accept customers outside of our financial crime risk appetite and likewise where customers are reassessed and found to be outside of appetite (i.e. where the risks are too great to manage effectively) they are exited.

Exposure and assessment

Failure to prevent financial crime may result in harm to our customers, the Bank and third parties. In addition, non-compliance with regulatory and legal requirements may result in enforcement action which will have an adverse effect on Metro Bank from a financial and reputational perspective.

Our overall inherent financial crime risk remains the same as last year and continues to be medium based on our 2023 risk assessment (anti-money laundering/combating terrorist financing, anti-tax evasion facilitation and sanctions inherent risks are rated medium, anti-bribery and corruption inherent risk is rated low).

Response

We continue to deliver enhancements to our financial crime control framework to ensure that it remains fit for purpose, identifying and mitigating financial crime risk as well as delivering our financial crime strategy.

Investment in our systems and controls
We continued to deliver strategic enhancements to our financial crime systems throughout 2023 with equal focus on embedding previously implemented controls, as well as introducing new controls to strengthen our control framework.

Horizon scanning
We continue to identify emerging trends and typologies through conducting horizon scanning activity, through information obtained from investigative and intelligence teams and through attending key industry forums (or associations) such as those hosted by UK Finance. As required, we continue to update our control framework to ensure emerging risks are identified and mitigated.

Resourcing and training
Resourcing continues to be a significant focus to ensure our Financial Crime Framework is implemented effectively. All colleagues have a key role to play in the detection and management of financial crime risk. To this extent, all colleagues receive financial crime training, ensuring they are able to meet their personal obligations as well performing effectively in role. For colleagues in specialist financial crime roles, we continue to invest in their development to improve capabilities through industry-recognised financial crime qualifications.

Sanctions compliance
We comply with all applicable sanctions regimes. We continue to invest in our sanctions control framework and keep under review the effectiveness of controls we have in place in order to ensure that sanctions risk is managed in line with risk appetite. We will not tolerate any deliberate breach of financial crime laws and regulations (including sanctions) that apply to our business and the activity we undertake.

Anti-money laundering and combating terrorist financing prevention
We comply with all relevant UK anti-money laundering and combating terrorist financing legislation and have a framework in place to support the implementation and ongoing monitoring of these requirements into our systems and controls.

Anti-bribery and corruption and anti-tax evasion compliance
We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships and comply fully with the UK Bribery Act 2010 and Criminal Finances Act 2017. We do not give or receive improper financial or other benefits in our business operations, nor do we help facilitate tax evasion.

Monitoring/reporting

We monitor compliance with policies and standards through a range of activities completed by specialist colleagues. These include quality checking and assurance within operational and first line risk teams, supported by assurance and internal audit reviews of key financial crime controls carried out by second and third line teams. The results of these reviews and the status of follow up actions are escalated through our governance bodies.

Our financial crime risk appetite is reflected in key risk appetite metrics – a set of quantitative metrics, reported monthly through our governance. Where control performance is assessed as outside of our risk appetite, the issue and remediation activity is escalated and tracked through our risk committees.

Future focus
We are committed to safeguarding the Bank and our customers from financial crime. The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters, and the FCA's enquiries remain ongoing.

Operational risk

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

Risk appetite statement
We maintain a cautious appetite for operational risk and aim to minimise incidents, losses and adverse customer impacts arising from operational risk issues. We do this by maintaining a resilient infrastructure, including robust systems, employing and training the right colleagues, minimising the impact of external events and having a framework in place to ensure that operational risks are identified, assessed, responded to and monitored. Operational risk events and losses are recorded and assessed, corrective actions completed and steps taken to avoid recurrence.

Exposure and assessment
We operate with both a physical and a digital presence and are exposed to a broad range of operational risks across our distribution channels, businesses and functions. Operational incidents and other risk events have the potential to cause service disruption and outages, impacting internal processes, customers, as well as leading to financial losses.

Operational risks arise from day-to-day business activities and the Bank's operational resilience is an outcome that we actively monitor and oversee, including through the identification of important business services and setting of impact tolerances. Our business model, activities and processes have remained broadly consistent with those of last year and as such our material operational risk exposures are largely unchanged.

Our Operational Risk Management Framework sets the approach we take to the management of operational risks including the performance of Risk and Control Self-Assessments, consideration of a variety of disruption scenarios and recording and management of incidents and resultant operational risk losses. Operational risk is overseen by the Chief Risk Officer and teams in the first and second lines of defence, monitored via reporting to Business Risk Committees, the Non-Financial Risk Oversight Committee run by the second line, ERC and ROC.

Top operational risk exposures through the course of 2023 have included:

Information Security and Cyber – The risk that the confidentiality, integrity or availability of our information, data and / or systems are compromised or not compliant with regulatory requirements.

Technology – The risk of inadequate performance of IT infrastructure.

Data – The risk of the inability to identify and maintain data within agreed data standards.

Fraud – The risk of loss due to colleagues, customers or third parties carrying out fraud.

Third Party – The risk that reliance on third parties impairs the bank's performance/operational resilience, including the ability to provide excellent customer service and to manage risk effectively.

People – The risk of the inability to attract, retain or engage colleagues who have the right capabilities to carry out the required roles within the Bank.

Response
We aim to minimise incidents and losses arising from operational risk events by maintaining a resilient infrastructure, including robust systems and employing and training the right colleagues. We consider and prepare for a range of potential disruption events and when they do occur, we respond effectively and ensure that operational risk incidents and losses are recorded and assessed, and corrective steps taken to avoid recurrence. In accordance with regulatory requirements, we hold capital appropriate to potential severe yet plausible operational risk exposures, informed by an assessment of a range of operational risk scenarios.

We have put in place detailed policies, standards and controls to mitigate the variety of operational risks to which we are exposed. These are designed to both minimise impacts suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

Responses to our top operational risk exposures have included:

Information Security and Cyber
Refreshed this year, our Information Security Policy sets out that all colleagues have an important responsibility to safeguard the systems and sensitive information we hold. We continuously invest in our cyber and information security infrastructure to identify and respond to threats, protect customer data and minimise the risk of disruption. We recognise the dynamic cyber threat landscape in which we operate and the risks that come from increased digitisation, responding by continuing to enhance the control environment and operating advanced tools to identify and resolve potential vulnerabilities.

Technology
We continue to invest and improve our key technology capabilities that underpin the Bank's customer service proposition and maintain our operational resilience. The Bank's technology estate is continuously reviewed to ensure it remains fit for purpose and work has been progressed to deliver required and strategic updates, risk and performance reviews of our material third-party technology providers and independent assessment of our technology resilience. We continue to patch and upgrade our systems and platforms and keep an open dialogue with our regulators on actual or potential disruption events.

Non-financial risks
Continued

Data
The effective use and maintenance of our data underpins the success of our strategy as well as our ability to deliver good customer outcomes. This year our Data Management Policy has been comprehensively refreshed, reflective of good practice and designed in line with regulatory requirements concerning the creation, storage, distribution, usage and deletion of data. Ownership and accountability for data is defined and controls are in place to safeguard its access and use. A dedicated Data Governance forum is in place to oversee adherence to standards and data management maturity, with representatives from across the three lines of defence.

Fraud
The safety and security of our customers and their money is of the highest importance. Our dedicated teams monitor the rapidly evolving threats posed to both ourselves and our customers and quickly respond by deploying a range of preventative and detective measures. Authorised push payment fraud remains an increasing threat across the banking industry and we continuously review and enhance our prevention and detection capabilities in response, notably implementing Confirmation of Payee for our customers in 2023. We share fraud prevention trends and best practice via our various communication channels and pay close attention to supporting customers that fall victims of fraud to ensure they receive a good outcome.

Third Party
We operate in close collaboration with numerous third parties, with those relationships underpinning many of our operational processes and customer service offering. Our Procurement and Supplier Risk Policy sets out our robust approach for safely managing our third-party relationships, including the potential impacts to our important business processes. Our supplier risk team provides ongoing oversight and monitoring of our material third parties in line with regulatory requirements and undertakes independent assurance as required.

People
Our people are central to our community banking strategy, building strong relationships by living our AMAZEING values, meeting and exceeding customer expectations. Our dedicated people team provides business support in resource management, talent identification and training and the Bank has continued to actively manage its resource mix to ensure we have the right colleagues, in the right place, at the right time.

Monitoring/reporting
Material operational risk events are identified, reviewed and escalated in line with criteria set out in the Enterprise and Operational Risk Management Frameworks. Incidents and losses are recorded and root-cause analysis is undertaken with action plans implemented to prevent recurrence and continually improve our processes. Quantitative metrics are used to measure our material operational risks and assess our exposure against our stated risk appetite. We conduct regular operational risk scenario workshops to identify severe yet plausible events which could impact us. This enables us to quantify the potential losses that such events could cause and hold sufficient capital against them, as well as highlighting potential areas for ongoing enhancements to our operational risk capabilities.

Business Risk Committees manage operational risks at business area level, supported by forums and working groups. Key risk indicators are in place to monitor our operational risk exposures against stated risk appetite and these are reported to the Non-Financial Risk Oversight Committee which further escalates to ERC and ROC where appropriate.

Future focus
Work to further mature our management of operational risk will continue in 2024. Making use of tooling introduced and embedded over the course of the year, increased use of data driven insights will empower business teams to further refine their risk assessments and enhance and streamline the control environment. Our operational risk profile will remain under close review as the Bank implements its strategy, with particular focus on increased use of technology and automation.

Non-financial risks
Continued

Conduct risk

Risk definition
The risk that our behaviours or actions result in poor outcomes or detriment to customers and/or undermines market integrity.

Risk appetite statement
We are built around a culture of supporting our customers, offering them a range of relatively simple retail products. We have a low appetite for conduct risk and seek to minimise risks which may result in poor outcomes or lead to customer detriment. Where poor outcomes are identified they must be remediated effectively to minimise risk, prevent recurrence, reduce customer harm, and reasonably avoid foreseeable harm.

Exposure and assessment
We are built on a people-focused culture of supporting our customers, offering them a range of relatively simple retail products. We remain exposed to conduct risk resulting from of our normal day-to-day business activities and the provision of services and products to customers. Our key focus remains on those customers with additional support needs who may be increasingly vulnerable following specific life events, or facing financial difficulties due to the cost-of-living pressures, or who may be the victim of fraudulent activity.

Conduct risk is considered by all three lines of defence as part of their oversight and assurance activities. A combined Risk Assurance plan, approved by the Audit Committee on an annual basis, independently assesses our ability to appropriately mitigate this risk.

Response
We have enhanced our conduct risk management framework to improve oversight of the conduct agenda and have implemented programmes to address the key drivers of potential customer harm to further support the delivery of good customer outcomes in line with the requirements of Consumer Duty.

- A Conduct Risk Framework (with supporting policy and standards) sets out our Conduct Risk Appetite Statement, key regulatory requirements, principles and expectations including drivers of customer harm, defined governance and approach to risk identification and monitoring.
- Ongoing development, maintenance and reporting of conduct risk appetite measures (aligned to the risk taxonomy) inclusive of customer outcome measures, to ERC, ROC and the Board.
- Oversight and ongoing review of conduct risks and issues in relevant business risk and oversight risk committees, including progress against key customer remediation projects, conduct-related regulatory change initiatives, complaints, vulnerable customers and arrears management.
- Maintenance of proactive and coordinated engagement with our regulators around key customer initiatives.
- Consideration of customer profiles, target markets, fair value, and customer needs and vulnerability in the context of product and proposition development, ongoing review, and associated appropriate governance.
- Ongoing quality assurance and review measures to assess delivery of good customer outcomes, supported and embedded through training.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring/reporting
Conduct risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against key conduct priorities set by the regulators, as well as a defined set of Board-approved risk appetite metrics relating to complaints, arrears management, product performance, colleague training and customer outcome delivery.

A clear governance structure is in place which enables escalation of conduct risks from the first line risk committees through to the relevant second line oversight committees, including tracking and challenging adherence to our risk appetite through our Bank Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on managing appetite against this risk. As well as the Bank Risk Report, this also includes periodic reporting on key conduct themes, alongside supporting key risk appetite measures and frameworks.

Future focus
In line with the requirements of Consumer Duty, we will continue to ensure our products and services meet customer expectations and can deliver good outcomes, enabling customers to pursue their financial objectives. We will continually assess our internal processes in line with regulatory changes, ensuring we meet our regulatory requirements and can reasonably prevent customer harm and avoid foreseeable harm.

Regulatory risk

Risk definition
The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.

Risk appetite statement
We have a low appetite for regulatory risk and seek to minimise this risk by maintaining robust systems and controls that are designed to meet existing regulatory requirements and to ensure we comply with future changes to the regulatory landscape.

Exposure and assessment
We remain exposed to regulatory risk arising from our normal day-to-day business activities, as well as significant ongoing and new regulatory changes. We manage regulatory risk through a combination of clearly defined risk frameworks covering our principal risks, and a comprehensive set of risk appetite measures and limits, together with appropriate compliance policies and standards. We undertake a range of mitigating actions to manage regulatory risk, including a risk-based assurance programme designed to assess areas of the control framework underpinning regulatory compliance, oversight of key regulatory developments and proactive and coordinated engagement with our key regulators. Our risk oversight committees monitor and assess compliance with our regulatory requirements.

Regulatory risk is measured on a quantitative and qualitative basis, which includes a progress review of top risks and issues under management against material regulatory initiatives and our relationship with our regulators, as well as a defined set of Board-approved risk appetite metrics relating to our principal risks. This includes measures around major/critical regulatory, financial crime and operational impacts, impairment provisioning, credit, model and capital risk exposure, regulatory breaches, high risk assurance and audit findings, incidents and implementation of material regulatory change.

Response
Investment in our systems and controls
We continue to invest in and develop our core systems and controls to enable us to meet existing and new regulatory requirements. Key areas of focus in 2023 included:

- Financial crime.
- Outsourcing and third-party management.
- Operational resilience.
- Open banking.
- Implementation of the Holding Company.
- Consumer Duty.
- New Payment requirements (confirmation of payee).

Monitoring/reporting
Horizon scanning
We undertake ongoing horizon scanning to identify and address upcoming regulatory change. As part of this process, we engage proactively with our regulatory authorities as well as industry bodies in respect of any proposed changes. Additionally, a clear governance structure is in place which enables escalation of regulatory risks from the first line risk committees through to the relevant second line oversight committees, including track and challenge of adherence to our risk appetite through our Risk Report. ERC, ROC and the Board in turn monitor and oversee our focus on maintaining regulatory compliance. As well as our Risk Report, this also includes periodic reporting on regulatory themes and key focus areas aligned to the regulator's strategic priorities, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk appetite measures and Board-approved frameworks.

Future focus
We continue to place significant focus on overseeing and ensuring compliance with regulatory requirements. We undertake regular reviews of our risk frameworks, appetite limits and monitoring processes to ensure that these remain up to date and reflect current regulatory priorities. During 2024, we will focus on key developments such as Basel 3.1, enhancements to internal control requirements under the revised UK Corporate Governance Code and Consumer Duty.

Non-financial risks
Continued

Legal risk

Risk definition
The risk of loss, including to reputation, that can result from lack of awareness or misunderstanding of, ambiguity in or reckless indifference to, the way the law applies to the Directors, the business, and its relationships, processes, products and services.

Risk appetite statement
We have a low appetite for legal risk, limited to those events where there is a minimal chance of material financial, reputational or commercial negative consequences.

Assessment and exposure
We remain exposed to a range of legal risks in relation to our normal business activities. These risks may arise from:

- Defective contracts.
- Claims and litigation against us.
- Failure or inability to take appropriate measures to protect intellectual property.
- Failure to comply with specific legislation (e.g. Market Abuse).

Given the pervasive and fundamental nature of legal risk, rather than having a separate framework, the methodology for the robust management of legal risk is set out in reporting to ERC and ROC.

Response
We minimise legal risk via a range of mitigants, including:

- In house legal expertise, maintained via appropriate training and development and specialist recruitment.
- Selective use of expert external legal advice via an approved panel of lawyers.
- Appropriate policy documentation and training related to specific legal requirements.
- Monthly reporting of metrics to measure compliance with our legal risk appetite.

Monitoring/reporting
A range of key risk indicators are used to measure our exposure to legal risk, including the risk of defective contracts and claims made against us. Details of our material legal and regulatory matters can be found in note 32 to the financial statements on page 213.

Future focus
We will continue to ensure that we work within legal parameters for all aspects of our activities and measure compliance with risk appetite. Further to the enhancements made to the Enterprise Risk Management Framework in respect of legal risk, further refinement to the suite of key risk indicators is planned in 2024.

Model risk

Risk definition
The risk of potential loss and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the development, implementation, or use of such models.

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

Assessment and exposure
We use models to support a broad range of business and risk management activities, including informing business decisions and strategies, measuring, and mitigating risk, valuing exposures (including the calculation of impairment), conducting stress testing, and assessing capital adequacy.

Model risk is assessed via our Model Risk Index and underlying key risk indicators, which include monitoring of the materiality and complexity of our models.

Model risk remains stable, while closely managed, with ongoing enhancements to risk governance, risk appetite metrics and scope having been implemented. This has in turn helped to mitigate potential increased risk from the impacts and uncertainties arising from macroeconomic challenges.

Response
The main mitigant to model risk is the robust governance process, including two dedicated model committees, the Model Oversight Committee, and the Model Governance Committee. There is also an expert panel to opine on contentious issues. The committees monitor the effectiveness of the Model Risk Management Framework. This includes a review of findings in relation to specific modelling processes, escalating to ERC and ROC as appropriate.

We have in place a well-qualified independent model validation function that performs model validations prior to model implementation, when a model is changed and on a periodic basis.

Monitoring/reporting
Our Model Risk Management Framework sets out the roles and responsibilities of the various stakeholders, underpinned by robust governance of model risk supported by model development, monitoring, validation, implementation and risk appetite standards.

Exposure against the key risk indicators is reported to the model risk committees, ERC and ROC on a monthly basis and periodic, more detailed assessments are also reported through the risk governance structure.

Future focus
We continue to enhance and evolve governance of model risk. Whilst we are a standardised bank and do not need to comply by the regulatory deadline, we are working towards complying with the principles of the Bank of England Supervisory Statement SS1/23 ‘Model risk management principles for banks’.

Non-financial risks
Continued

Strategic risk

Risk definition
The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders.

Risk appetite statement
We have not set a separate risk appetite for strategic risk and instead monitor it via the full range of reporting via our governance structure and direct risk input into the formulation of our strategy and Long Term Plan, including providing a risk review to support Board approval.

Assessment and exposure
During 2023, we remained focused on the execution of our strategy with the return to profitability in the first half of the year demonstrating the strengths of our community banking strategy. The second half of the year saw a combination of increased capital requirements together with a setback in our ambition to achieve AIRB accreditation for residential mortgages. These factors put pressure on our capital position and restrained the levels to which we were able to grow capital organically. Despite challenging market conditions, we were successful in delivering a £925 million capital package which included the raising of new capital as well as the refinancing of our existing regulatory debt. We now need to successfully execute on the opportunities the capital affords us and meet stakeholder expectations.

Response
Strategic risk is considered in everything we do, as having a clear and successful strategy is key to the Bank achieving its goals. This includes reporting our success in relation to our competitors, our monitoring and governance of ESG-related issues and requirements and an ongoing assessment of the geopolitical and macroeconomic landscape we operate within.

We continue to oversee the development and execution of our strategy on an ongoing basis through regular in-depth management reviews of business performance and change delivery, oversight of strategic risks through risk governance and regular updates presented to the Board. The Board undertakes an annual review of the Bank's strategy and Long Term Plan which is supported by risk assessment reviewed at the Risk Oversight Committee. During 2023, we have continued to strengthen our cost management discipline including prioritisation and delivery of technology change through further embedding and optimising Agile ways of working.

Monitoring/reporting
Strategic risk is addressed through the Board-approved strategy and long-term financial plan. We consider strategic risk as part of ongoing risk reporting and an annual review of our strategy and Long Term Plan, as well as ongoing monitoring and management via our risk governance structure and ExCo oversight of execution, including oversight and challenge by the second line of defence. In addition, the emerging risks the Bank faces are assessed on at least a six-monthly basis, including strategic risks.

Future focus
We continue to see a high level of volatility in the external environment, with political and economic turbulence in the UK and beyond. The likelihood of a general election, ongoing cost-of-living pressures and a subdued UK economy, as well as continuing conflicts in both Ukraine and the Middle East, provide a challenging backdrop for the execution of strategy.

Monitoring of performance will remain heightened with close Board oversight of the efficacy of the strategy and its implementation. This will be supported by ongoing risk assessment to support active management of the evolving risk profile, with oversight from the Risk Oversight Committee. The Bank continues to conduct horizon scanning against emerging risks which may have a severe impact and will adjust its approach accordingly.

Financial statements

In this section

Independent auditors' report to the members of Metro Bank Holdings PLC

Report on the audit of the financial statements

Opinion

In our opinion, Metro Bank Holdings PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Company balance sheets as at 31 December 2023; the Consolidated statement of comprehensive income; the Consolidated and Company statements of changes in equity; the Consolidated and Company cash flow statements for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Context

The company was incorporated on 29 September 2022. On 19 May 2023, the company listed on the London Stock Exchange and acquired 100% of the ordinary share capital of Metro Bank PLC. The acquisition has been accounted for using merger accounting and therefore this is our first audit of the new group. The comparative numbers in the financial statements were audited as part of our audit of Metro Bank PLC for the year ended 31 December 2022.

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group. For our group audit, we identified two financially significant components, which are Metro Bank Holdings PLC (the company) and Metro Bank PLC. We performed other procedures including testing information technology general controls, analytical procedures and tests of detail over loans and advances to mitigate the risk of material misstatement in the non-financially significant components.

Key audit matters

- Determination of allowance for expected credit losses on loans and advances to customers (group).
- Carrying values of non-financial assets (group).
- Carrying value of investment in subsidiary (parent).

Materiality

- Overall group materiality: £11.4m based on 1% of total equity.
- Overall company materiality: £10.0m based on 1% of total equity.
- Performance materiality: £8.5m (group) and £7.5m (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Independent auditors' report
Continued

Key audit matter	How our audit addressed the key audit matter
Determination of allowance for Expected Credit Losses on loans and advances to customers (group)	
Refer to page 70 (Audit Committee report), Note 12: Loans and advances to customers and Note 30: Expected credit losses. The calculation of the allowance for expected credit losses (ECL) requires management to make a number of significant judgements and estimates. In 2023, the level of estimation uncertainty and judgement remained high as the UK experienced continued high levels of inflation and increases in interest rates. The uncertainty driven by forecast weak economic growth in 2024 and 2025 has increased the amount of judgement required in determining ECL. Management determines the amount of ECL using a number of complex models. In addition, a number of post model overlays are required where the models do not capture all relevant risks. The overlays included adjustments in relation to the impact of inflation on customer affordability and commercial borrowers which was determined either not to be fully reflected in the economic forecasts or where the modelled output did not fully reflect the impact on credit risk. Across the in-scope portfolios, we identified heightened audit risk in determining the ECL for the following portfolios: Retail Mortgages, Consumer unsecured (specifically for RateSetter loans) and Commercial (excluding the small asset finance and invoice finance portfolios, and government backed loans). Our work focused on the following key assumptions and judgements: • Forward-looking economic assumptions used in the models, and the weighting selected by management. Management uses a third party expert to determine the economic assumptions; • Judgements involved in creating post model overlays to change modelled outputs and the application of those adjustments in response to heightened economic uncertainty and the impact of inflation and higher interest rates; • Judgements exercised in determining whether a significant increase in credit risk ('SICR') should be recognised for Commercial loans where staging is based on a qualitative assessment of credit risk; and • Judgements applied by management in estimating stage 3 individual impairment allowances, specifically in relation to the valuation of collateral.	We evaluated the design and implementation of key controls but did not test the operating effectiveness of controls as we did not plan to rely on them. We performed a fully substantive audit. We engaged the support of our credit modelling specialists and performed the following substantive audit procedures in order to assess the performance, methodology and accuracy of the ECL models. We also assessed the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience. **Forward looking information and multiple economic scenarios** We used our economic analysis tool developed by our economic and modelling experts utilising data from the Bank of England, HM Treasury and Consensus Economics. This tool assessed the reasonableness of management's economic scenarios and associated weightings, giving specific consideration to the current economic environment. Where economic inputs fell outside of a reasonable range, we ensured that a suitable post model overlay was recorded. Management kept their scenario weightings consistent with 2022 in response to the current economic risks and slow recovery of the UK economy. We evaluated whether the scenario weights appropriately captured the economic uncertainty created by the economic risks, high inflation and interest rates, and the weak growth of the UK economy. **Model methodology and post model overlays** We critically assessed the methodology used in the in- scope impairment models and evaluated compliance with IFRS 9 requirements. We also tested the key assumptions and judgements which comprise the PDs/LGDs/EADs used in the calculation of provisions. We tested the input of certain data elements into impairment models and management judgemental adjustments, including credit reviews that determine credit risk ratings for commercial customers. Our credit modelling specialists independently rebuilt the commercial loans, retail mortgages and the RateSetter ECL models. This was performed using management's methodology and we compared the output to management's modelled ECL output. For the other in-scope portfolios our modelling specialists performed an independent code review to validate that the models were implemented in line with the group's methodology. Our credit modelling specialists also assessed the results of model monitoring performed by management, and independently re-performed the key tests. We critically assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs. We evaluated and challenged the methodologies, the accuracy of application and the completeness of overlays. Where appropriate, we ran a series of independent scenarios based on alternative assumptions, and compared the results to the ECL results produced by management. **Significant increase in credit risk (SICR) – Commercial loans** To test the judgements in determining whether SICR events have occurred, we evaluated the appropriateness of the SICR criteria being used. For a sample of loans across the Commercial stage 1 and 2 populations and independently assessed the stage allocation against SICR criteria. **Individually assessed stage 3 loans** For a sample of stage 3 credit impaired loans, we critically evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management. We also independently challenged whether the key assumptions used, such as the recovery strategies and collateral valuations, and ranges of potential outcomes, were appropriate given the borrowers' circumstances.

Independent auditors' report
Continued

Key audit matter	How our audit addressed the key audit matter
Carrying values of non-financial assets (group)	
Refer to page 70 (Audit Committee report), Note 14: Property, Plant and Equipment and Note 15: Intangible assets. The group's tangible fixed assets mainly comprised leasehold improvements and Right of Use assets. The group also capitalised as intangible assets certain expenditure in the development of software to support its business strategy. The market value of the group and the 2023 operating performance of the Bank indicated that the investment might be impaired. Management evaluated the above non-financial assets for impairment, and estimated the recoverable amounts of those assets. As the assets do not generate largely independent cash inflows, they have been incorporated into a relevant cash generating unit (CGU) and the recoverable amount of that CGU has been determined. The CGU relevant to the vast majority of non-financial assets is the 'retail bank CGU' within Metro Bank PLC. The determination of the recoverable amount requires management to estimate the higher of value in use and fair value less costs to sell the retail bank CGU. This assessment is complex and involves subjective judgements. The recoverable amount is estimated using forecast cash flows included in management's 5 year Long Term Plan ('LTP), a decreasing growth rate from years 6 to 10, a terminal growth rate and a discount rate. There are methodology judgements required in determining a value in use in compliance with IAS 36 'Impairment of assets'. The LTP is also supported by various assumptions relating to compliance with regulatory capital requirements. Management concluded that no impairment existed as at 31 December 2023. The forecast cash flows in the LTP, in particular relating to net interest income, the determination of the discount rate and the assumptions relating to compliance with regulatory capital requirements are key judgements. Due to the magnitude of the balance and the judgements involved in respect of the retail bank CGU, the impairment assessment represents a key audit matter.	To address the risk of impairment of the non-financial assets, we performed a number of audit procedures over the assessment performed by management. Our work included the following substantive tests: • Tested the mathematical integrity of the impairment model and agreed the relevant inputs to the Board approved LTP; • Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements; • Reviewed the forecasts in the LTP and evaluated these for reasonableness. We made inquiries of management, inspected business plans and critically assessed management's growth assumptions, including those relating to net interest income, using third party evidence where relevant; • Evaluated compliance with regulatory capital requirements and the underlying assumptions during the period of the plan using our regulatory experts. We tested forecast capital ratios, reviewed regulatory correspondence and held discussions with the PRA; and • Engaged our valuation specialists in assessing the reasonableness of the discount rate and terminal growth rate.

Independent auditors' report
Continued

Key audit matter	How our audit addressed the key audit matter
Carrying value of investment in subsidiary (parent)	
Refer to page 70 (Audit Committee report) and Note 3. Management reviewed the equity investment in the subsidiary, Metro Bank PLC, for indicators of impairment in accordance with IAS 36 as at 31 December 2023. The market value of the group and the 2023 operating performance of the Bank indicated that the investment might be impaired. Management estimated the recoverable amount using the higher of value in use ('ViU') or fair value less cost to sell. The methodology used to estimate the recoverable amount is dependent on various assumptions, both short term and long term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management's judgement and third party data. The significant assumptions that we focused our audit on were those with greater levels of management judgement and for which variations had the most significant impact on the recoverable amount. These included the compliance of the chosen methodology with IAS 36, the bank's Long Term Plan ('LTP') for 2024 to 2028, in particular the net interest income forecasts, regulatory capital requirements and the discount rate. Management's assessment resulted in an impairment charge. Due to the magnitude of the investment and the impairment charge and the judgements involved, the impairment assessment represents a key audit matter.	We performed a number of audit procedures over the calculation of the impairment determined by management. We challenged and tested the reasonableness of management's methodology and key assumptions. Our work included the following substantive tests: • Tested the mathematical integrity of the impairment model and agreed the relevant inputs to the Board approved LTP relating to the subsidiary; • Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements, including adjustments made to the LTP to comply with IAS 36; • Reviewed the forecasts in the LTP and evaluated these for reasonableness. We made inquiries of management, inspected business plans and critically assessed management's growth assumptions, including those relating to net interest income, using third party evidence where relevant; • Engaged our regulatory experts in assessing the reasonableness of the risk weighted asset and capital requirements; and • Engaged our valuation specialists in assessing the reasonableness of the discount rate and terminal growth rate.

Independent auditors' report
Continued

How we tailored the audit scope
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We performed a risk assessment, giving consideration to relevant external and internal factors, including climate change, economic risks, relevant accounting and regulatory developments, as well as the group's strategy. We also considered our knowledge and experience obtained in prior year audits of Metro Bank PLC. We continually assessed the risks and changed the scope of our audit where necessary.

As part of considering the impact of climate change in our risk assessment, we evaluated management's assessment of the impact of climate risk, which is set out on page 42, including their conclusion that there is no material impact on the financial statements. In particular, we considered management's assessment of the impact on ECL on loans and advances to customers within Metro Bank PLC, which we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the Biennial Exploratory Scenario climate stress testing performed in 2021. As a result of their assessment, an immaterial model overlay was recognised in 2021, and continues to be held as at 31 December 2023.

The group comprises four components. Any components which were considered individually financially significant in the context of the group's consolidated financial statements were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances and the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our group audit, we identified two financially significant components, which are Metro Bank Holdings PLC (the company) and Metro Bank PLC.

We then considered the components in the group that had either financially significant or unusual account balances which were required to be brought into scope. In relation to SME Asset Finance Limited and SME Invoice Finance Limited, we performed audit procedures over loans and advances. The remaining balances and components, in our judgement, did not present a reasonable possibility of a risk of material misstatement either individually or in aggregate and were eliminated from further consideration for specific audit procedures. We performed other procedures such as tests of information technology controls and group level analytical review procedures.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£11.4m.	£10.0m.
How we determined it	1% of total equity	1% of total equity
Rationale for benchmark applied	The group's total equity is the most appropriate benchmark as it is correlated with the level of regulatory capital which is a key metric for management and users of the financial statements. It also provides a stable benchmark.	The company's total equity (before the one-off impairment of the subsidiary) has been used as the most appropriate benchmark given its primary purpose is to act as a holding company, not to generate operating profits and therefore a profit based measure is not relevant.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £8.5m for the group financial statements and £7.5m for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

Independent auditors' report
Continued

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.5m (group audit) and £0.5 (company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Directors' going concern assessment process, including the preparation and approval of the budget. We obtained management's Board approved forecast covering the period of the going concern assessment to 30 June 2025. We evaluated the forecasting method adopted by the Directors in assessing going concern;
- Evaluation of management's financial and regulatory capital forecasts. We checked the mathematical accuracy of the model and evaluated the key assumptions using our understanding of the Group and external evidence where appropriate. We used our Prudential Regulatory experts to review the Bank's risk weighted assets and forecast capital requirement assumptions. We also performed a comparison of the 2023 budget and the actual results to assess the accuracy of the budgeting process;
- Evaluation of the appropriateness of management's severe but plausible scenario using our firm's economics experts and our understanding of the bank and the external environment. We evaluated management's assumptions by performing an independent stress test to determine whether a reasonable alternative stressed scenario would result in a breach of minimum regulatory requirements;
- Considering the mitigating actions that management identified, including the reduction of costs and slowing down the origination of new loans and advances, and assessing whether these were in the control of management and possible in the going concern period of assessment;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England. We also reconciled Metro Bank Holdings PLC's liquidity position to its regulatory liquidity reporting returns;
- Reviewing correspondence between the Bank and its regulators and we met with the PRA during the audit and understood the PRA's perspectives on the Bank's risks and its capital and liquidity position; and
- Assessing the adequacy of disclosures in the Going Concern statement in note 1 of the Consolidated and Company Financial Statements and within the Assessment of going concern section of the Viability statement on page 50 and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration
In our opinion, the part of the Annual Report on remuneration to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of the Audit Committee, management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence and holding discussions with regulators, such as the FCA and the PRA, in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in respect of the determination of allowance for expected credit losses on loans and advances to customers, the carrying value of non-financial assets and the carrying value of the investment in subsidiary (see related key audit matters); and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, related to significant one off or unusual transactions, as well as year-end provisions or write downs and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Annual Report on remuneration to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the directors on 25 April 2023 to audit the financial statements for the year ended 31 December 2023 and subsequent financial periods. Metro Bank Holdings PLC is the parent of Metro Bank PLC which we have audited since the year ended 31 December 2010 with the period of total uninterrupted engagement being 14 years, covering the years ended 31 December 2010 to 31 December 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jonathan Holloway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2024

Consolidated statement of comprehensive income

For the year ended 31 December 2023

	Notes	2023 £'million	2022 £'million
		Years ended 31 December	
Interest income	2	855.7	563.7
Interest expense	2	(443.8)	(159.6)
Net interest income		411.9	404.1
Fee and commission income	3	95.0	84.4
Fee and commission expense	3	(4.6)	(2.6)
Net fee and commission income		90.4	81.8
Net gains on sale of assets	4	2.7	–
Other income[1]	5	143.9	37.6
Total income		648.9	523.5
General operating expenses	6	(502.9)	(467.6)
Depreciation and amortisation	14, 15	(77.7)	(77.0)
Impairment and write-offs of property, plant, equipment and intangible assets	14, 15	(4.6)	(9.7)
Total operating expenses		(585.2)	(554.3)
Expected credit loss expense	30	(33.2)	(39.9)
Profit/(loss) before tax		30.5	(70.7)
Taxation	9	(1.0)	(2.0)
Profit/(loss) for the year		29.5	(72.7)
Other comprehensive income/(expense) for the year			
Items which will be reclassified subsequently to profit or loss:			
Movement in respect of investment securities held at fair value through other comprehensive income (net of tax):			
• changes in fair value	28	2.4	(7.6)
Total other comprehensive income/(expense)		2.4	(7.6)
Total comprehensive profit/(loss) for the year		31.9	(80.3)
Profit/(loss) per share			
Basic (pence)	36	13.8	(42.2)
Diluted (pence)	36	13.4	(42.2)

1. Other income includes a £100m gain on debt extinguishment.

The accompanying notes form an integral part of these financial statements.

Consolidated balance sheet
As at 31 December 2023

	Notes	2023 £'million	2022 £'million
		Years ended 31 December	
Cash and balances with the Bank of England	11	3,891	1,956
Loans and advances to customers	12	12,297	13,102
Investment securities held at fair value through other comprehensive income	13	476	571
Investment securities held at amortised cost	13	4,403	5,343
Financial assets held at fair value through profit and loss		–	1
Derivative financial assets	21	36	23
Property, plant and equipment	14	723	748
Intangible assets	15	193	216
Prepayments and accrued income	16	118	85
Assets classified as held for sale	14	–	1
Other assets	17	108	73
Total assets		22,245	22,119
Deposits from customers	18	15,623	16,014
Deposits from central banks	19	3,050	3,800
Debt securities	20	694	571
Repurchase agreements	10	1,191	238
Derivative financial liabilities	21	–	26
Lease liabilities	22	234	248
Deferred grants	23	16	17
Provisions	24	23	7
Deferred tax liability	9	13	12
Other liabilities	25	267	230
Total liabilities		21,111	21,163
Called-up share capital	26	–	–
Share premium	26	144	1,964
Retained earnings	27	978	(1,015)
Other reserves	28	12	7
Total equity		1,134	956
Total equity and liabilities		22,245	22,119

The accompanying notes form an integral part of these financial statements. They were approved by the Board of Directors on 16 April 2024 and signed on its behalf by:

Robert Sharpe
Chair

Daniel Frumkin
Chief Executive Officer

Consolidated statement of changes in equity

For the year ended 31 December 2023

	Called-up share capital £'million	Share premium £'million	Retained earnings £'million	Merger reserve £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2023	–	1,964	(1,015)	–	(13)	20	956
Profit for the year	–	–	29	–	–	–	29
Other comprehensive income (net of tax) relating to investment securities designated at FVOCI	–	–	–	–	2	–	2
Total comprehensive income	–	–	29	–	2	–	31
Net share option movements	–	–	–	–	–	3	3
Cancellation of Metro Bank PLC share capital and share premium[1]	–	(1,964)	1,964	–	–	–	–
Issuance of Metro Bank Holdings PLC share capital[1]	–	–	(965)	965	–	–	–
Bonus issuance	965	–	–	(965)	–	–	–
Capital reduction of Metro Bank Holdings PLC share capital	(965)	–	965	–	–	–	–
Shares issued	–	150	–	–	–	–	150
Cost of shares issued	–	(6)	–	–	–	–	(6)
Balance as at 31 December 2023	–	144	978	–	(11)	23	1,134
Balance as at 1 January 2022	–	1,964	(942)	–	(5)	18	1,035
Loss for the year	–	–	(73)	–	–	–	(73)
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	–	–	–	–	(8)	–	(8)
Total comprehensive loss	–	–	(73)	–	(8)	–	(81)
Net share option movements	–	–	–	–	–	2	2
Balance as at 31 December 2022	–	1,964	(1,015)	–	(13)	20	956
Notes	26	26	27	28	28	28	

1. The cancelled called up share capital of Metro Bank PLC and new share capital of Metro Bank Holdings PLC amount to £172 and as such have been rounded to £nil.

The accompanying notes form an integral part of these financial statements.

Consolidated cash flow statement

For the year ended 31 December 2023

	Notes	Years ended 31 December 2023 £'million	2022 £'million
Reconciliation of profit/(loss) before tax to net cash flows from operating activities:			
Profit/(loss) before tax		31	(71)
Adjustments for non-cash items	37	(376)	(273)
Interest received		834	553
Interest paid		(370)	(124)
Changes in other operating assets		744	(852)
Changes in other operating liabilities		(235)	(418)
Net cash inflows/(outflows) from operating activities		628	(1,185)
Cash flows from investing activities			
Sales, redemptions and paydowns of investment securities		1,870	857
Purchase of investment securities		(816)	(1,206)
Purchase of property, plant and equipment	14	(12)	(29)
Purchase and development of intangible assets	15	(26)	(24)
Net cash inflows/(outflows) from investing activities		1,016	(402)
Cash flows from financing activities			
Repayment of capital element of leases	22	(23)	(25)
Issuance of new shares	26	150	–
Cost of share issuance	26	(6)	–
Issuance of debt securities	20	175	–
Cost of debt issuance	20	(5)	–
Net cash inflows/(outflows) from financing activities		291	(25)
Net increase/(decrease) in cash and cash equivalents		1,935	(1,612)
Cash and cash equivalents at start of year	11	1,956	3,568
Cash and cash equivalents at end of year	11	3,891	1,956

The accompanying notes form an integral part of these financial statements.

Notes to the consolidated financial statements

1. Basis of preparation and significant accounting policies

This section sets out the Group's ('our' or 'we') accounting policies which relate to the financial statements as a whole. Where an accounting policy relates specifically to a note then the related accounting policy is set out within that note. All policies have been consistently applied to all the years presented unless stated otherwise.

1.1 General information

Metro Bank Holdings PLC (the 'Company') is the holding company of Metro Bank PLC, which provides retail and commercial banking services in the UK. Metro Bank Holdings PLC is a public limited liability company incorporated and domiciled in England and Wales under the Companies Act 2006 (Company number 14387040) 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 consolidated financial statements of the Company together with its subsidiaries (the 'Group') have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the UK, interpretations issued by the IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRSs.

The consolidated financial statements of the Group and Company were authorised by the Board for issue on 16 April 2024.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value through profit or loss and other comprehensive income. Fair value is defined as the price that would be received or paid in an orderly transaction between market participants at the measurement date.

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the Risk report on pages 124 to 157. Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditor's report.

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position as well as other principal risks. As part of this process the Directors have considered and approved the Group's most recent Long Term Plan including severe but plausible downside scenarios. The Directors also considered the key assumptions and uncertainties that feed into these plans alongside management actions and mitigants that would be available if required. Under all scenarios considered, the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources (including liquidity and capital) to be able to continue to operate for the foreseeable future (considered to be at least 15 months from the date of these financial statements). The Directors do not consider there to be any material uncertainties with regards to the assessment on going concern. Further details on the assessment undertaken by the Directors is set out in the Viability statement on pages 49 to 50.

Basis of consolidation

Our consolidated financial statements include the results for all entities which we control (details of our subsidiaries can be found in note 3 to the Company financial statements on page 223). Controlled entities are all entities to which we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over it. An assessment of control is performed on an ongoing basis.

Our controlled entities are consolidated from the date on which we establish control until the date that control ceases. The acquisition method of accounting is used to account for business combinations other than those under common control.

Post-acquisition, income and expenses are included in the consolidated income statement on a line-by-line basis in accordance with the accounting policies set out herein, adjusting for any intra-group transactions which are eliminated in full upon consolidation.

In publishing the Company financial statements here together with the Group financial statements, we have adopted the exemption in section 408(3) of the Companies Act 2006. This means we have chosen not to present a Company statement of comprehensive income and related notes as part of these financial statements.

Insertion of Metro Bank Holdings PLC

To meet the Bank of England's resolution requirements, on 19 May 2023, Metro Bank Holdings PLC was inserted as the new ultimate holding company and listed entity of the Group. Prior to this date Metro Bank PLC was both a banking entity and the ultimate parent company of the Group, but has subsequently become a 100% subsidiary of Metro Bank Holdings PLC. In addition to the insertion of a new holding company the Group undertook a reduction in capital to provide the Group with distributable reserves.

The insertion of Metro Bank Holdings PLC has been treated as a business combination under common control, with the Group controlled by the same parties both before and after the insertion. Combinations under common control are outside the scope of IFRS 3 'Business Combinations' and accordingly, the insertion has not been recognised at fair value and no goodwill or fair value acquisition adjustments have been recognised. The Group has instead applied the predecessor accounting approach as this most faithfully represents the substance of the facts and circumstances of the series of transactions that comprise the insertion of Metro Bank Holdings PLC. This is on the basis that those transactions are not designed to deliver economic benefits, but represent a rearrangement of the organisation of business activities across legal entities in order to be compliant with the relevant regulations.

In applying this approach, the Group has used the carrying amounts in Metro Bank PLC's consolidated financial statements at the date of transfer to determine the value of the assets and liabilities transferred. These financial statements are therefore prepared as if Metro Bank Holdings PLC had been the parent company throughout the current and prior years, to treat the new structure as if it has always been in place. The comparative numbers in these financial statements were included in the financial statements of Metro Bank PLC for the year ended 31 December 2022. Hedge accounting continues to be applied to the transferred designated hedge relationships as if they had originally been designated by the Group.

Further details on the insertion of Metro Bank Holdings PLC can be found in note 26.

1.3 Functional and presentation currency
These financial statements are presented in pounds sterling (£), which is our functional currency. All amounts have been rounded to the nearest £1 million and £0.1 million for balance sheet and income statement line items respectively, except where otherwise indicated.

1.4 Cash flow statement
The cash flow statement shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Under that method, loss before tax is adjusted for non-cash items and changes in other assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

1.5 Changes in accounting policies and presentational amendments
During the period there have not been any changes in any accounting policies or disclosures that have had a material impact on our financial statements.

1.6 Future accounting developments
At the year end there are no standards that were in issue but not yet effective, that would have a material impact on the Group. We have not adopted any standards early within these financial statements.

1.7 Segmental reporting
IFRS 8 'Operating Segments' requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is our Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of the Group and allocating resources, owing to our simple structure. Accordingly, the Group has a single operating segment. We operate solely within the UK and, as such, no geographical analysis is required. We are not reliant on any single customer.

1.8 Foreign currency translation
Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

1.9 Critical accounting judgements and estimates
The preparation of financial statements in conformity with IFRS requires us to make material judgements as well as estimates which, although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2023 are appropriate and that these consolidated financial statements therefore present our financial position and results fairly. The areas involving a higher degree of complexity, judgement or where estimates have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year are:

Area	Estimates	Judgements	Further details
Measurement of ECL	Multiple forward-looking scenarios	Significant increase in credit risk Use of PMOs and PMAs	Note 30
Impairment of non-financial assets	n/a	Key assumptions used for VIU calculations	Note 15

2. Net interest income

Accounting policy

We recognise interest income and expense for all interest–bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for POCI assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For loans that are credit impaired, interest income is calculated on the carrying amount of the loan net of credit impairment.

Interest income

	2023 £'million	2022 £'million
Cash and balances held with the Bank of England	120.9	33.0
Loans and advances to customers	599.9	462.2
Investment securities held at amortised cost	118.6	62.9
Investment securities held at FVOCI	6.8	4.7
Interest income calculated using the effective interest rate method	846.2	562.8
Derivatives in hedge relationships	9.5	0.9
Total interest income	855.7	563.7

Interest expense

	2023 £'million	2022 £'million
Deposits from customers	147.8	32.9
Deposits from central banks	161.3	55.5
Debt securities	55.7	48.7
Lease liabilities	13.1	14.4
Repurchase agreements	50.1	3.4
Interest expense calculated using the effective interest rate method	428.0	154.9
Derivatives in hedge relationships	15.8	4.7
Total interest expense	443.8	159.6

3. Net fee and commission income

Accounting policy

Fee and commission income is earned from a wide range of services we provide to our customers. We account for fees and commissions as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Service charges and other fee income	We levy a range of standard charges and fees for account maintenance or specific account services. Where the fee is earned upon the execution of a significant act at a point in time, for example CHAPS payment charges, these are recognised as revenue when the act is completed for the customer. Where the income is earned from the provision of services, for example an account maintenance fee, this is recognised as revenue over time when the service is delivered.
Safe deposit box	Revenue is recognised over the period the customer has access to the box from the date possession is taken. Safe deposit box fees are billed on either a monthly or annual basis with a standard set price payable dependent on the size of the box.
ATM and interchange fees	Where we earn fees from our ATMs or from interchange this is recognised at the point the service is delivered.

Expenses that are directly related and incremental to the generation of fee and commission income are presented within fee and commission expense.

As disclosed in note 1, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount and timing of our revenue and cash flows are affected by economic factors.

	2023 £'million	2022 £'million
Service charges and other fee income	36.8	30.9
Safe deposit box income	18.2	16.5
ATM and interchange fees	40.0	37.0
Fee and commission income	95.0	84.4
Fee and commission expense	(4.6)	(2.6)
Total net fee and commission income	90.4	81.8

4. Net gains on sale of assets

	2023 £'million	2022 £'million
Investment securities held at amortised cost	2.9	–
Loan portfolios	(0.2)	–
Total net gains on sale of assets	2.7	–

Disposal of investment securities
During the year some of our investment securities held at amortised cost were called early by the issuers resulting in a gain being recognised on these assets.

Loan portfolio sales
During the year we sold a small portfolio of non-performing unsecured loans, which resulted in net losses of £0.2m being recognised.

5. Other income

Accounting policy
Other income is accounted for as follows:

Product or service	Nature, timing and satisfaction of performance obligations and payment terms
Foreign currency transactions	Gains on foreign currency transactions is the spread earned on foreign currency transactions performed for our customers along with any associated fees. It is recognised at the point in time that the exchange is executed.
Rental income	Rental income is primarily earned from the letting out of surplus space in some of our properties. The revenue is recognised on a straight-line basis over the life of the lease.
Deferred grant income	Deferred grant income relates to amounts recognised in relation to the amounts drawn down against the Capability and Innovation Fund (C&I) award (further details of which can be found in note 23). Income is recognised in line with the delivery of the commitments we agreed to as part of the bid.
Other income	Other income primarily consists of hedge ineffectiveness, foreign currency differences arising on translation and movements in financial assets and liabilities held at fair value through profit and loss.

	2023 £'million	2022 £'million
Foreign currency transactions	34.0	34.1
Rental income	1.1	0.7
Deferred grant income	2.4	1.5
Gain on debt extinguishment	100.0	–
Other	6.4	1.3
Total other income	143.9	37.6

Gain on debt extinguishment
As part of the capital package (see note 20), which completed in November 2023, a 40% haircut was agreed with bondholders on our Tier 2 debt securities, which saw their £250 million of existing notes replaced with £150 million of new notes. This resulted in a gain of £100 million.

The acceleration of unamortised issuance costs as well as the impacts from the breaking of the hedge relationships of the refinanced debt has been shown within costs associated with capital raise and refinancing in note 6, to better reflect the nature of the transaction.

6. General operating expenses

	2023 £'million	2022 £'million
People costs (note 7)	241.2	236.6
Information technology costs	59.7	62.2
Occupancy costs	31.7	30.8
Money transmission and other banking-related costs	49.2	48.7
Transformation costs	20.2	3.3
Remediation costs	–	5.3
Capability and Innovation Fund costs[1]	2.4	1.3
Legal and regulatory fees	7.0	7.0
Professional fees[2]	23.2	38.4
Printing, postage and stationery costs	7.2	6.2
Travel costs	1.5	1.6
Marketing costs	7.7	5.0
Costs associated with capital raise and refinancing	26.0	–
Holding company insertion costs	1.8	1.8
Other	24.1	19.4
Total general operating expenses	502.9	467.6

1. C&I costs represent the non-capitalisable costs of delivering the C&I digital commitments. It includes £1.9 million (2022: £0.9 million) of people costs. These are included within C&I costs rather than people costs to better reflect their nature. In addition to these costs the grant income recognised in note 5 is also used to offset property costs relating to the store commitments delivered.
2. Professional fees are shown net of both amounts capitalised and amounts included within the transformation costs, remediation costs and C&I costs lines.

Information technology costs

Information technology costs include costs expensed in relation to software licences, support from third-party providers, back up costs and cloud computing costs.

Occupancy costs

Occupancy costs consist of the non-IFRS 16 property costs of occupying our stores and offices, including rates, utilities and property maintenance costs as well as irrecoverable VAT on lease payments.

Money transmission and other banking-related costs

Money transmission and other banking-related costs are made up of the overheads relating to servicing our deposits and lending that do not constitute either part of the effective interest rate, or fee and commission expense.

Professional fees

Professional costs includes £7.3 million (2022: £15.0 million) of R&D costs not capitalised. This does not include any costs of colleagues working on these projects that are included in the people costs line. Including these costs we spent £25.1 million (2022: £47.5 million) on R&D costs not capitalised.

Included within legal and regulatory fees is £0.1 million (2022: £0.1 million) in respect of the Financial Services Compensation Scheme (FSCS) levy.

Transformation, remediation, Capability and Innovation Fund, costs associated with capital raise and holding company insertion costs

Further details on transformation, remediation, Capability and Innovation Fund, costs associated with capital raise and holding company insertion costs can be found on page 233.

7. People costs

	2023 £'million	2022 £'million
Wages and salaries[1]	201.7	196.8
Social security costs[1]	21.8	23.7
Pension costs[1]	14.5	13.7
Equity-settled share-based payments	3.2	2.4
Total people costs	241.2	236.6

1. Amounts are net of people costs which are capitalised as well as those relating to C&I (see note 6) as these costs will be offset against the deferred grant income in note 5.

During the year £10.0 million (2022: £5.3 million) of people costs were capitalised as part of our intangible assets (further details can be found in note 15).

The average monthly number of persons employed during the year was 4,286 (2022: 4,040).

	2023	2022
Customer-facing	1,985	1,886
Non-customer-facing	2,301	2,154
Total number of persons employed	4,286	4,040

Pension costs

We operate a defined contribution pension scheme for our colleagues. Contributions to colleagues' individual personal pension plans are made on a contractual basis, with no further payment obligations once the contributions have been paid. These contributions are recognised as an expense when they fall due.

Payments were made amounting to £15.4 million (2022: £14.0 million) to colleagues' individual personal pension plans during the year. This includes pension contributions that were capitalised as well as those relating to colleagues working on C&I which are not included in the figures above.

8. Fees payable to our auditors

During the year, the Group (including its subsidiaries) obtained the following services from our auditors, PricewaterhouseCoopers LLP:

	2023 £'000	2022 £'000
Audit of the Group and Company financial statements	54	2,553
Audit of the financial statements of the Company's subsidiaries	2,309	73
Audit-related assurance services	144	203
Other assurance services	555	115
Total fees payable to our auditors	3,062	2,944

Other

Other assurance services undertaken during the year includes work performed on the capital raise and restructure.

9. Taxation

Accounting policy

Current tax

Our current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where we have tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

Deferred tax

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

We recognise a deferred tax asset to the extent that it is probable that future taxable profits will be available against which they can be used and deferred tax liabilities are provided on taxable temporary differences. We consider the history of recent losses and the extent to which there is convincing other evidence that sufficient taxable profits will be available against which the unused tax losses or unused tax credits can be utilised.

Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised or the deferred tax liability settled.

We offset deferred tax assets and liabilities where we have a legally enforceable right to offset and where the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

Tax expense

The components of the tax expense for the year are:

	2023 £'million	2022 £'million
Current tax		
Current tax	(0.1)	–
Total current tax expense	(0.1)	–
Deferred tax		
Origination and reversal of temporary differences	(0.5)	(1.5)
Effect of changes in tax rates	(0.4)	(0.7)
Adjustment in respect of prior years	–	0.2
Total deferred tax expense	(0.9)	(2.0)
Total tax expense	(1.0)	(2.0)

9. Taxation Continued

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 losses had been taxed at the UK corporation tax rate. A reconciliation between the expense and the accounting profit/(loss) multiplied by the UK corporation tax rate is as follows:

	2023 £'million	Effective tax rate %	2022 £'million	Effective tax rate %
Accounting profit/(loss) before tax	30.5		(70.7)	
Tax expense at statutory tax rate of 23.5% (2022: 19%)	(7.2)	23.5%	13.4	19.0%
Tax effects of:				
Non-deductible expenses – depreciation on non-qualifying fixed assets	(2.5)	8.3%	(2.5)	(3.5%)
Non-deductible expenses – investment property impairment	–	–	(0.1)	(0.1%)
Non-deductible expenses – remediation	–	–	(0.6)	(0.8%)
Non-deductible expenses – other	(0.8)	2.6%	(0.4)	(0.6%)
Impact of intangible asset write-off on research and development deferred tax liability	0.1	(0.3%)	0.3	0.4%
Share-based payments	(1.2)	3.9%	0.1	0.1%
Adjustment in respect of prior years	–	–	0.2	0.2%
Current year losses for which no deferred tax asset has been recognised	(15.4)	50.5%	(11.7)	(16.5%)
Losses offset against current year profits	1.1	(3.6%)	–	–
Movement in recognised DTA for unused tax losses	1.8	(5.9%)	–	–
Effect of changes in tax rates	(0.4)	1.3%	(0.7)	(1.0%)
Income not taxable	23.5	(77.0%)	–	–
Tax expense reported in the consolidated income statement	(1.0)	3.3%	(2.0)	(2.8%)

The effective tax rate for the period is 3.3% (2022: -2.8%). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

Non-deductible expenses – other
This mainly relates to costs in setting up the Holding Company and the termination of onerous contracts following a discontinuation of trade.

Share-based payments
During the period the Metro Bank share price decreased from £1.21 to £0.37. This had the impact of decreasing the deferred tax asset held resulting in a deferred tax expense.

Adjustment in respect of prior years
Following the filing of our 2022 corporation tax return we reduced our R&D deferred tax liability following a decrease in qualifying capital R&D expenditure. This was partly offset by an increase in our PPE deferred tax liability resulting from an increase in qualifying additions.

Losses for which no deferred tax asset has been recognised
The tax effected value of current year losses for which no deferred tax asset has been recognised is £15.4 million (2022: £11.7 million).

Effect of changes in tax rates
This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate. An increase in the UK corporation tax rate from 19% to 25% for taxable profits over £250,000 (effective 1 April 2023) was substantively enacted on 24 May 2021.

Income not taxable
The credit arising from the haircut on the Tier 2 Instrument issued by Metro Bank PLC meets the conditions set out in section 323A of CTA 2009 exempting the transaction from taxation.

9. Taxation Continued

Deferred tax assets
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:

	31 December 2023						31 December 2022					
	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant and equipment £'million	Intangible assets £'million	Total £'million
Deferred tax assets	14	2	1	–	–	17	12	3	1	–	–	16
Deferred tax liabilities	–	4	–	(29)	(5)	(30)	–	4	–	(26)	(6)	(28)
Deferred tax liabilities (net)	14	6	1	(29)	(5)	(13)	12	7	1	(26)	(6)	(12)
1 January	12	7	1	(26)	(6)	(12)	13	5	–	(23)	(7)	(12)
Income statement	2	(1)	–	(3)	1	(1)	(1)	–	1	(3)	1	(2)
Other comprehensive income	–	–	–	–	–	–	–	2	–	–	–	2
31 December	14	6	1	(29)	(5)	(13)	12	7	1	(26)	(6)	(12)

Offsetting of deferred tax assets and liabilities
We have presented all the deferred tax assets and liabilities above on a net basis within the balance sheet on page 168. This is on the basis that all our deferred tax assets and liabilities relate to taxes levied by HMRC and we have a legally enforceable right to offset these. Further details on our offsetting of financial assets and liabilities can be found in note 33.

Unrecognised deferred tax assets
We have total unused tax losses of £912 million of which a deferred tax asset has not been recognised on £857 million. Accordingly, a deferred tax asset of £214 million has not been recognised on unused tax losses. The impact of recognising the deferred tax asset in the future would be material.

Although there is an expectation for future profits in the near future, as we have a recent history of operating losses for tax purposes, we have taken the decision not to recognise a deferred tax asset in respect of these losses at 31 December 2023. We will continue to reassess this decision as we move into 2024.

Due to unrealised investment property impairments of £11 million there is an unrecognised deferred tax asset of £2.7 million (2022: £2.6 million).

10. Financial instruments

Accounting policy

Repurchase agreements

Where we sell financial assets subject to sale and repurchase agreements, the financial assets are retained in their respective balance sheet categories, however they become encumbered and are not available for transfer or sale. The associated liabilities are included in the repurchase agreements line. The difference between the sale and repurchase price of repurchase agreements is treated as interest and accrued over the life of the agreements using the effective interest method as set out in note 2.

Other financial instruments

Our accounting policies in respect of our other financial instruments can be found in their respective notes, where applicable.

Our financial instruments primarily comprise customer deposits, loans and advances to customers and investment securities, all of which arise as a result of our normal operations.

The main financial risks arising from our financial instruments are credit risk, liquidity risk and market risks (price and interest rate risk). Further details on these risks can be found within the Risk report on pages 124 to 157.

The financial instruments we hold are simple in nature and we do not consider that we have made any significant or material judgements relating to the classification and measurement of financial instruments under IFRS 9.

Cash and balances with the Bank of England, trade and other receivables, trade and other payables and other assets and liabilities which meet the definition of financial instruments are not included in the following tables.

Classification of financial instruments

	31 December 2023			
	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	12,297	12,297
Investment securities	–	476	4,403	4,879
Derivative financial assets	36	–	–	36
Liabilities				
Deposits from customers	–	–	15,623	15,623
Deposits from central bank	–	–	3,050	3,050
Debt securities	–	–	694	694
Repurchase agreements	–	–	1,191	1,191

	31 December 2022			
	Fair value through profit and loss £'million	FVOCI £'million	Amortised cost £'million	Total £'million
Assets				
Loans and advances to customers	–	–	13,102	13,102
Investment securities	–	571	5,343	5,914
Financial assets held as fair value through profit and loss	1	–	–	1
Derivative financial assets	23	–	–	23
Liabilities				
Deposits from customers	–	–	16,014	16,014
Deposits from central bank	–	–	3,800	3,800
Debt securities	–	–	571	571
Derivative financial liabilities	26	–	–	26
Repurchase agreements	–	–	238	238

10. Financial instruments Continued

Financial assets pledged as collateral
We have pledged £6,110 million (2022: £5,286 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £1,311 million (2022: £2,131 million) is made up of high-quality securities and £4,799 million (2022: £3,141 million) is from our own loan portfolio.

This does not include cash balances pledged as collateral which are shown separately within note 17.

LIBOR replacement
On 1 January 2022, SONIA (Sterling Overnight Index Average) replaced LIBOR (London Inter-bank Offered Rate) as the industry standard sterling interest rate benchmark.

As at 31 December 2023 all of our market-facing derivative flows are executed against SONIA, however we continue to hold £47 million (31 December 2022: £64 million) of mortgages that are either exposed, or revert to synthetic LIBOR.

11. Cash and balances with the Bank of England

Accounting policy

Cash and balances with the Bank of England consists of both cash on hand and demand deposits, both at other banks as well as the Bank of England. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash equivalents if they have a short maturity of three months or less from the date of acquisition and are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within a short period of their maturity.

Where cash is pledged as collateral and as such is not available on demand this is included within other assets within note 17.

	31 December 2023 £'million	31 December 2022 £'million
Unrestricted balances with the Bank of England	3,642	1,761
Cash and unrestricted balances with other banks	191	136
Money market placements	58	59
Total cash and balances with the Bank of England	3,891	1,956

The expected credit loss held against cash and balances with the Bank of England is £0.1 million (31 December 2022: less than £0.1 million).

12. Loans and advances to customers

Accounting policy

Loans and advances to customers are classified as held at amortised cost. Our business model is that customer lending is held to collect cash flows, with no sales expected in the normal course of business. We aim to offer products with simple terms to customers, and as a result, all loans comprise solely payments of principal and interest. Loans are initially recognised when cash is advanced to the borrower at fair value – which is the cash consideration to originate the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method, which is detailed further in note 2. Interest on loans is included in the income statement and is reported as 'Interest income'. Expected credit losses (ECL) are reported as a deduction from the carrying value of the loan. Changes to the ECL during the year are recognised in the income statement as 'Expected credit loss expense'.

	31 December 2023			31 December 2022		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Consumer lending	1,297	(108)	1,189	1,480	(75)	1,405
Retail mortgages	7,817	(19)	7,798	7,649	(20)	7,629
Commercial lending	3,382	(72)	3,310	4,160	(92)	4,068
Total loans and advances to customers	12,496	(199)	12,297	13,289	(187)	13,102

Further information on the movements in gross carrying amounts and ECL can be found in note 30.

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

	31 December 2023 £'million	31 December 2022 £'million
Overdrafts	40	60
Credit cards	28	19
Term loans	1,219	1,401
Consumer auto-finance	10	–
Total consumer lending	1,297	1,480
Residential owner occupied	5,851	5,507
Retail buy-to-let	1,966	2,142
Total retail mortgages	7,817	7,649
Total retail lending	9,114	9,129
Professional buy-to-let	465	731
Bounce back loans	524	801
Coronavirus business interruption loans	86	127
Recovery loan scheme[1]	328	385
Other term loans	1,341	1,578
Commercial term loans	2,744	3,622
Overdrafts and revolving credit facilities	172	122
Credit cards	4	4
Asset and invoice finance	462	412
Total commercial lending	3,382	4,160
Gross loans and advances to customers	12,496	13,289
Amounts include:		
Repayable at short notice	244	156

1. Recovery loan scheme includes £70 million acquired from third parties under forward flow arrangements (31 December 2022: £97 million). The loans are held in a trust arrangement in which we hold 99% of the beneficial interest, with the issuer retaining the remaining 1% (the trust retains the legal title loans).

13. Investment securities

Accounting policy

Our investment securities may be categorised as amortised cost, FVOCI or fair value through profit and loss. Currently all investment securities are non-complex, with cash flows comprising solely payments of principal and interest. We hold some securities to collect cash flows; other securities are held to collect cash flows, and to sell if the need arises (e.g. to manage and meet day-to-day liquidity needs). Therefore, we have a mixed business model and securities are classified as either amortised cost or FVOCI as appropriate. We do not categorise any investment securities as fair value through profit and loss.

Settlement date accounting is used when recording financial asset transactions where a trade is settled through the regular settlement cycle for that particular investment.

Investment securities held at amortised cost
Investment securities held at amortised cost consist entirely of debt instruments. They are accounted for using the effective interest method, less any impairment losses.

Investment securities held at FVOCI
Investment securities held at FVOCI consist entirely of debt instruments. Investment securities held at FVOCI are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the investment security is derecognised. Interest is calculated using the effective interest method.

	31 December 2023 £'million	31 December 2022 £'million
Investment securities held at FVOCI	476	571
Investment securities held at amortised cost	4,403	5,343
Total investment securities	**4,879**	**5,914**

Investment securities held at FVOCI

	31 December 2023 £'million	31 December 2022 £'million
Sovereign bonds	220	215
Residential mortgage-backed securities	–	38
Covered bonds	112	152
Multi-lateral development bank bonds	144	166
Total investment securities held at FVOCI	**476**	**571**

Investment securities held at amortised cost

	31 December 2023 £'million	31 December 2022 £'million
Sovereign bonds	938	1,717
Residential mortgage-backed securities	954	1,095
Covered bonds	594	542
Multi-lateral development bank bonds	1,729	1,821
Asset backed securities	188	168
Total investment securities held at amortised cost	**4,403**	**5,343**

Further information on the ECL recognised on investment securities can be found in note 30.

14. Property, plant and equipment

Accounting policy

Property, plant and equipment

Our property, plant and equipment primarily consists of investments and improvements in our store network and is stated at cost less accumulated depreciation and any recognised impairment.

We depreciate property, plant and equipment on a straight-line basis to its residual value using the following useful economic lives:

Leasehold improvements	Lower of the remaining life of the lease or the useful life of the asset
Freehold land	Not depreciated
Buildings	Up to 50 years
Fixtures, fittings and equipment	5 years
IT hardware	3 to 5 years

We keep depreciation rates, methods and the residual values underlying the calculation of depreciation of items of property, plant and equipment under review to take account of any change in circumstances.

All items of property, plant and equipment are reviewed at the end of each reporting period for indicators of impairment.

Right-of-use assets

All of our leases within the scope of IFRS 16 'Leases' (other than those of low value) relate to our stores and head office properties.

Upon the recognition of a lease liability (see note 22 for further details) a corresponding right-of-use asset is recognised. This is adjusted for any initial direct costs incurred, lease incentives paid or received and any restoration costs at the end of the lease (where applicable).

The right-of-use asset is depreciated on a straight-line basis over the life of the lease.

All right-of-use assets are reviewed at the end of each reporting period for indicators of impairment.

Investment property

Investment property is also stated at cost less accumulated depreciation and any recognised impairment. Depreciation is calculated on a consistent basis with that applied to land and buildings as set out above.

	2023						
	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2023	12	261	372	22	8	283	958
Additions	–	–	9	1	2	–	12
Disposals	–	–	–	–	–	(4)	(4)
Transfers	–	(5)	5	–	–	–	–
31 December 2023	12	256	386	23	10	279	966
Accumulated depreciation							
1 January 2023	8	69	34	20	2	77	210
Depreciation charge	–	13	5	1	2	13	34
Disposals	–	–	–	–	–	(1)	(1)
Transfers	–	(3)	3	–	–	–	–
31 December 2023	8	79	42	21	4	89	243
Net book value	4	177	344	2	6	190	723

Notes to the consolidated financial statements
Continued

14. Property, plant and equipment Continued

	2022						
	Investment property £'million	Leasehold improvements £'million	Freehold land and buildings £'million	Fixtures, fittings and equipment £'million	IT hardware £'million	Right-of-use assets £'million	Total £'million
Cost							
1 January 2022	18	280	341	24	1	295	959
Additions	–	–	22	–	7	1	30
Disposals	–	–	–	–	–	(13)	(13)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(6)	–	–	–	–	–	(6)
Transfers	–	(9)	9	–	–	–	–
31 December 2022	12	261	372	22	8	283	958
Accumulated depreciation							
1 January 2022	12	68	28	19	–	67	194
Depreciation charge	–	12	5	3	2	13	35
Impairments	1	–	–	–	–	–	1
Disposals	–	–	–	–	–	(3)	(3)
Write-offs	–	(10)	–	(2)	–	–	(12)
Moved to held for sale	(5)	–	–	–	–	–	(5)
Transfers	–	(1)	1	–	–	–	–
31 December 2022	8	69	34	20	2	77	210
Net book value	4	192	338	2	6	206	748

Fair value of investment property
Our investment property typically consists of shops and offices which are located within the same buildings as some of our stores, where we have acquired the freehold interest. As at 31 December 2023 our investment property had a fair value of £4 million (31 December 2022: £4 million). The fair value has been provided by a qualified independent valuer.

Impairments
During the year impairment indicators were identified in respect of other items of our property, plant and equipment. The assets, which included our stores, were tested for impairment. We do not consider individual stores to be cash generating units (CGU), on the basis that they do not generate sufficiently independent cash flows. Instead all of our stores and associated assets are deemed to belong to our retail bank CGU. Further details on the impairment testing of our CGUs can be found in note 15.

The recoverable amount of the retail bank CGU was found to be in excess of its carrying amount and as such no impairment was recognised.

Transfers
Transfers represent costs associated with the improvements made to the one (2022: two) previously leased stores which have been purchased during the year.

Contractual commitment for the acquisition of property, plant and equipment
As at 31 December 2023 we had no contractual commitments relating to the acquisition of property, plant and equipment that are not reflected in the tables (31 December 2022: £nil).

15. Intangible assets

Accounting policy

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of our CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however, it is tested for impairment at the end of each reporting period.

The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows.

If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Other intangible assets

Software includes both purchased items and internally developed systems, which consist principally of identifiable and directly associated internal colleague, contractor and other costs.

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset which we control and which will generate future economic benefits in accordance with IAS 38 'Intangible Assets'.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis within the income statement using the following useful economic lives:

Core banking software[1]	up to 20 years
Other banking software	3 to 10 years
Software licences	licence period
Brands	5 years

All intangible assets are reviewed at the end of each reporting period for indicators of impairment.

1. Core banking software consists of our central banking transaction platform. The original platform was assessed as having a 20-year life due to it being the central component of our digital infrastructure. It was upgraded during 2019 with the upgrade assessed as having a 15-year life.

2023	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2023	10	2	338	350
Additions	–	–	26	26
Write-offs	–	–	(9)	(9)
31 December 2023	10	2	355	367
Accumulated amortisation				
1 January 2023	–	–	134	134
Amortisation charge	–	1	43	44
Write-offs	–	–	(4)	(4)
31 December 2023	–	1	173	174
Net book value	10	1	182	193

2022	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2022	10	2	336	348
Additions	–	–	24	24
Write-offs	–	–	(22)	(22)
31 December 2022	10	2	338	350
Accumulated amortisation				
1 January 2022	–	–	105	105
Amortisation charge	–	–	42	42
Write-offs	–	–	(13)	(13)
31 December 2022	–	–	134	134
Net book value	10	2	204	216

Software

Software consists of both internally generated and externally acquired assets. As at 31 December 2023 externally acquired licences had a net book value of £9 million (31 December 2022: £9 million). Out of our total intangible assets, £34 million of software assets were under the course of construction at 31 December 2023 (31 December 2022: £39 million).

15. Intangible assets Continued

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

Contractual commitment for the acquisition of intangible assets
As at 31 December 2023 we had no contractual commitments relating to the acquisition of intangible assets that are not reflected in the tables (31 December 2022: £nil).

Goodwill and impairment testing of cash generating units
An impairment test on the carrying value of the assets in our CGUs has been undertaken. As at 31 December 2023 we had two main CGUs being the retail bank and our asset and invoice finance business and no changes have been made to our CGUs during the year. Both of our CGUs contain goodwill and as such are tested annually for impairment. Additional impairment indicators were identified in relation to the retail bank CGU in relation to both its intangible assets as well as property, plant and equipment (see note 14).

	31 December 2023 £'million
Asset and invoice finance business	4
Retail bank	6
Total	10

The recoverable amount for both CGUs was determined by a value in use (VIU) calculation in accordance with IAS 36 impairment of assets. The application of the methodology, as described below, is a critical accounting judgement. The VIU was higher than their carrying value and therefore no impairment charge has been recognised for the current year (2022: £nil). The VIU calculation is based on our Board-approved Long Term Plan which covers the five-year period from 2024 to 2028 inclusive. Our Long-Term Plan is constructed using our best estimate of the future performance of the business, adjusted for execution risk and encompasses commercially sensitive estimates including lending and deposit yields and volumes, as well as costs forecasts over the period. The Long Term Plan is built on the assumption that we remain appropriately capitalised to fund our anticipated growth. We have determined that we will be able to meet the appropriate regulatory requirements, which has been based on an analysis of both our existing and planned capital structure. This is consistent with the assessment undertaken by the Directors in respect of assessing viability, which can be found on pages 49 to 50.

The profitability for each CGU per the Long Term Plan is adjusted for non-cash items (including depreciation and amortisation), capital expenditure and long-term funding costs (which are reflected in the discount rate) and certain cash flows which are not permitted to be included under IAS 36, to establish the cash flows for the VIU. Cash flows beyond the five years have been extrapolated using a decreasing growth rate for years six to ten at which point a terminal growth rate of 2% (31 December 2022: 2%) is applied. The period of projection and growth rates used reflects our anticipated growth profile after the five-year planning period, as well as the nature and life of the assets within the CGUs. The terminal growth rate of 2% represents the predicted long-term GDP growth rate of the UK economy (the only market both CGUs operate in). The VIU cash flows are compared to the carrying value of the CGUs, which exclude long term debt.

A pre-tax discount rate of 14.7% (31 December 2022: 15.3%) has been used for the VIU calculation. The discount rate is based on our post-tax weighted average cost of capital of 12.7% (which is grossed up to a pre-tax rate), based on the cost of equity and long term debt, weighted by the market value of the equity and debt.

The VIU is most sensitive to changes in the projected profitability per the Long-Term Plan and the discount rate applied (which are dependent on the assumptions regarding capital outlined above). If adjusted independently of all other variables, reasonable changes to the assumption in either of these factors over the next 12 months would not cause the recoverable amount of either CGU to fall below its carrying amount.

16. Prepayments and accrued income

	31 December 2023 £'million	31 December 2022 £'million
Prepayments	42	32
Accrued income[1]	75	52
VAT receivable	1	1
Total prepayments and accrued income	118	85
Current portion	118	85
Non-current portion	–	–

1. Includes accrued interest receivable.

17. Other assets

	31 December 2023 £'million	31 December 2022 £'million
Cash pledged as collateral	50	39
Other[1]	58	34
Total other assets	108	73
Current portion	55	45
Non-current portion	53	28

1. Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

18. Deposits from customers

	31 December 2023 £'million	31 December 2022 £'million
Deposits from retail customers	8,943	7,851
Deposits from commercial customers	6.680	8,163
Total deposits from customers	15,623	16,014

	31 December 2023 £'million	31 December 2022 £'million
Demand: current accounts	5,696	7,888
Demand: savings accounts	7,827	7,501
Fixed term: savings accounts	2,100	625
Total deposits from customers	15,623	16,014

19. Deposits from central banks

Deposits from central banks consist of amounts drawn down under the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME).

	31 December 2023 £'million	31 December 2022 £'million
Amounts drawn down under TFSME	3,050	3,800
Deposits from central banks	3,050	3,800

TFSME was closed to further drawdowns in October 2021 and our drawdowns will mature in 2025 and 2027 in the amounts of £1,860 million and £1,390 million respectively.

20. Debt securities

Accounting policy

Debt securities in issue are recognised initially at fair value, being proceeds less transaction costs. Subsequently, debt securities are measured at amortised cost using the effective interest method.

We assess the criteria for the modification and extinguishment of debt securities in accordance with IFRS 9. A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. We determine a substantial modification by performing a quantitative and qualitative prospective assessment.

Name	Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
Fixed rate reset callable (MREL) notes	30/11/2023	GBP	525	12.00%	30/04/28	30/04/29
Fixed rate reset callable subordinated (Tier 2) notes	30/11/2023	GBP	150	14.00%	30/04/29	30/04/34

	2023 £'million	2022 £'million
1 January	571	588
Issuances	675	–
Redemption	(500)	–
Haircut	(100)	–
Costs associated with issuance	(5)	–
Movements in micro hedging	50	(19)
Unwind of issuance costs	3	2
31 December	694	571

In November 2023, we completed the raising of £175 million of new MREL notes, in addition to the refinancing of our existing debt securities. The refinancing comprised:

- The exchange of our existing £350 million of bail-in MREL notes for £350 million of new bail-in MREL instruments.
- The exchange of our existing £250 million bail-in Tier 2 notes for £150 million of new bail-in Tier 2 instruments.

As part of the refinancing, we incurred fees that were recognised in general operating expenses (note 6) and a £100m gain on the Tier 2 haircut agreed with creditors (note 5).

The £500m redemption reflects the extinguishment of the old MREL and Tier 2 as the criteria for substantially modified terms were met.

In December 2022 the existing MREL and Tier 2 notes had a coupon rate of 9.50% and 5.50% respectively, with the latter repricing to 9.14% in June 2023.

Hedge accounting is applied to our debt securities to manage interest rate risk.

21. Derivatives

Accounting policy

In accordance with our risk management strategy, to the extent not naturally hedged, we use interest rate swaps to manage our exposure to interest rate risk. On adoption of IFRS 9 we chose to continue applying the hedge accounting rules set out in IAS 39 'Financial Instruments: Recognition and Measurement' as we often chose to employ dynamic portfolio hedge accounting of interest rate risk across fixed rate financial assets and fixed rate financial liabilities.

Where we are using interest rate swaps to hedge the changes in fair value attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply fair value hedge accounting. If there is an effective hedge relationship, the hedged item is adjusted for fair value changes in respect of the hedged risk. These fair value changes are recognised in the income statement together with the fair value movements on the hedging instrument (the interest rate swaps).

Hedge accounting is discontinued when a hedge ceases to be highly effective, a derivative expires or is sold, the underlying hedged item matures or is repaid, or periodically if a new underlying hedged item or hedging instrument is added to the hedge relationship. Where a fair value hedge is de-designated (either due to becoming ineffective or as part of our dynamic approach to hedge accounting) any hedge adjustments accrued to that point are amortised over the remaining life of the hedged item.

At the inception of every hedge, we produce hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

21. Derivatives Continued

We use derivatives as part of our approach to hedging interest rate and foreign exchange exposure. Our derivative financial instruments are analysed in the table below.

	31 December 2023			31 December 2022		
	Notional contract amount £'million	Carrying amount Asset £'million	Carrying amount Liability £'million	Notional contract amount £'million	Carrying amount Asset £'million	Carrying amount Liability £'million
Interest rate swaps – Designated as hedging instruments	1,205	36	–	902	21	(26)
Interest rate swaps – Designated as held at fair value through profit and loss	1,200	31	(31)	–	–	–
Foreign currency swaps – Designated as held at fair value through profit and loss	63	–	–	291	2	–
Total	2,468	67	(31)	1,193	23	(26)
Derivative netting	(1,200)	(31)	31	–	–	–
Grand total	1,268	36	–	1,193	23	(26)

Hedge accounting
Our hedging strategy is divided into micro hedges, where the hedged item is an identifiable asset or liability, and portfolio hedges, where the hedged item is a portfolio of mortgage assets.

The designated risk components of hedged items are benchmark interest rate risk. Other risks such as credit risk and liquidity risk are managed separately and are not included in the hedge accounting relationship.

The changes in the designated risk component usually account for the largest portion of the overall change in fair value of the hedged item.

Micro fair value hedges
We use this hedging strategy on fixed rate assets and liabilities held at fair value through other comprehensive income and amortised cost as well as on our fixed rate debt issuance.

Hedge ineffectiveness
Hedge ineffectiveness within fair value hedges can occur due to a number of potential sources, such as a non-zero derivative designated in a hedge relationship; mismatches between contractual terms such as basis, timing, principal and notionals; or change in credit risk of interest rate swaps.

For the purposes of calculating ineffectiveness recognised in the profit or loss, the total movement in fair value due to the hedged risk on the hedged item and hedging instrument since designation are considered. The total ineffectiveness on our fair value hedges is recognised in Other income within note 5.

Offsetting derivatives
The Tier 2 and MREL debt held until renegotiation in late 2023 were designated as hedged items in fair value hedge relationships to manage our exposure to interest rate risk. Following the renegotiation of our debt in November 2023, these hedge relationships were de-designated. We entered into equal and opposite interest rate swaps with a notional of £600 million to fully offset the interest rate swaps used to hedge the old MREL and Tier 2 debt securities. Cash flows are offset at a central clearing party and both sets of swaps will mature at the same time. Further details are included in note 33. Debt issued through the capital package in late 2023 was designated within fair value hedge relationships, with new interest rate swaps designated as the hedging instruments.

Master netting arrangement and collateral
We either receive or provide collateral related to our hedging arrangements. As at 31 December 2023 we received collateral of £11.4 million.

21. Derivatives Continued

Summary of hedging instruments in designated hedge relationships
The amounts relating to items designated as hedging instruments in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2023			31 December 2022		
	Notional contract amount £'million	Carrying amount Asset £'million	Carrying amount Liability £'million	Notional contract amount £'million	Carrying amount Asset £'million	Carrying amount Liability £'million
Interest rate swaps	1,205	36	–	902	21	(26)
Total derivatives designated as fair value hedges	1,205	36	–	902	21	(26)

Summary of hedged items in designated hedge relationships
The items designated as hedged items in fair value hedge relationships to manage our exposure to interest rates are:

	31 December 2023			31 December 2022		
	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item	Carrying amount		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item
	Assets £'million	Liabilities £'million	£'million	Assets £'million	Liabilities £'million	£'million
Fixed rate mortgages[1]	–	–	–	129	–	–
Fixed rate debt issuance[2]	–	(694)	(24)	–	(424)	26
Fixed rate investment securities at FVOCI[3]	238	–	(7)	236	–	(20)
Fixed rate investment securities at amortised cost[4]	271	–	1	59	–	(1)
Fixed rate loans[1]	3	–	–	5	–	–
Total derivatives designated as fair value hedges	512	(694)	(30)	429	(424)	5

1. Hedged item and the cumulative fair value changes are recorded in loans and advances to customers.
2. Hedged item and the cumulative fair value changes are recorded in debt securities in issue (see note 20).
3. Hedged item and the cumulative fair value changes are recorded in investment securities held at FVOCI.
4. Hedged item and the cumulative fair value changes are recorded in investment securities held at amortised cost.

Summary of ineffectiveness from designated hedge relationships
Total hedge ineffectiveness recognised in profit or loss for the designated fair value hedge relationships is a gain of £5.6 million (2022: £nil).

22. Leases

Accounting policy

At the inception of a contract we assess whether the contract contains a lease.

At the commencement of a lease we recognise a lease liability and right-of-use asset (see note 14 for further details). The lease liability is initially measured as the present value of the future lease payments discounted at the rate implicit in the lease (where available) or our incremental cost of borrowing. Generally we use our deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Where we are reasonably certain to exercise a break in the lease, only the lease payments up until the date of the break are included.

We subsequently remeasure the lease liability when there is a change to an index or rate used or when there is a change in expectation that we will exercise a purchase option or break clause or if we extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right-of-use asset.

Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which it is due. This is included within note 6, General operating expenses, under 'occupancy expense'.

We have elected not to recognise a lease liability and right-of-use assets for any leases that have a term of less than 12 months, or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

All of our leases within the scope of IFRS 16 (other than those of low value) relate to our stores and head office properties.

Lease liabilities

	2023 £'million	2022 £'million
1 January	248	269
Additions and modifications	–	1
Disposals	(4)	(11)
Lease payments made	(23)	(25)
Interest on lease liabilities	13	14
31 December	234	248
Current	22	23
Non-current	212	225

Right-of-use assets

All of our disclosures relating to right-of-use assets, including our accounting policy, can be found in note 14.

Disposals

The disposals during the year relate to one store (2022: two stores) where we purchased the freehold during the year. Following the purchase both the lease liabilities and right-of-use assets relating to the stores were derecognised.

Minimum lease payments

Future undiscounted minimum payments under lease liabilities, exclusive of VAT, as at 31 December are as follows:

	31 December 2023 £'million	31 December 2022 £'million
Within one year	22	24
Due in one to five years	83	88
Due in more than five years	145	172
Total	250	284

Low value and short leases

During the year ended 31 December 2023 £0.3 million (2022: £0.2 million) was recognised in the income statement with respect to assets of low value or a lease of less than 12 months.

22. Leases Continued

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

Receivable	31 December 2023 £'million	31 December 2022 £'million
Within one year	1	1
Due in one to five years	3	3
Due in more than five years	3	4
Total	7	8

Finance lease receivables
Through our asset finance business we lease a variety of assets to third parties, which typically consist of plant, machinery and vehicles. These rentals typically cover the assets' useful economic life and as such any residual value is minimal. Amounts receivable are classified as loans and advances to customers and are categorised within our asset and invoice finance lending per the breakdown provided in note 12.

	31 December 2023			31 December 2022		
	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million	Total future minimum payments £'million	Unearned finance income £'million	Present value £'million
Within one year	6	(1)	5	6	(1)	5
Due in one to five years	10	(1)	9	9	(1)	8
Due in more than five years	–	–	–	–	–	–
Total	16	(2)	14	15	(2)	13

23. Deferred grants

Accounting policy
Grants are recognised where there is reasonable assurance that we will both receive the grant and will be able to comply with all the attached conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to the purchase of an asset, it is recognised directly against the cost of the asset.

	2023 £'million	2022 £'million
1 January	17	19
Released to the income statement	(1)	(2)
31 December	16	17

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.

24. Provisions

Accounting policy

We recognise provisions when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made. The provision is measured at its current present value.

Provision	Description
Customer remediation	We are committed to doing the right thing but occasionally we identify issues that have caused detriment as a result of our actions. Where we have to refund costs to customers we provide for this at the point the obligation arises. The amounts recognised include any associated interest due.
Dilapidations	Dilapidations provisions are recognised in regard to certain properties we lease. The majority of our stores and offices have an automatic right to renewal at the end of the lease under the provisions of the Landlord and Tenant Act 1954. Where this is the case we do not provide for restorations on these sites since we have no intention of vacating at the end of the lease term. For sites that are outside the Landlord and Tenant Act 1954, or sites within the Landlord and Tenant Act 1954 where we think there is a chance we will vacate a site at the end of its lease, a provision is made for dilapidations. The provision is made in line with the underlying obligations contained within the lease.
Legal and regulatory	Provisions are made relating to the outcome of legal cases and regulatory investigations based on our best estimate of settlement following consultation with our lawyers and advisors. The inclusion of a provision does not constitute any admission of wrongdoing or legal liability. Details of individual cases are provided where these are material to our financial statements and disclosure would not be prejudicial to the outcome of the case.
Onerous contracts	Onerous contract provisions are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits we expect to be received under it. The provision is recognised as the net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
Restructuring	Restructuring provisions are recognised at the point we have developed a detailed formal paln and we have raised a valid expectation that it will be implemented. This is typcially at the point the plan is announced to affected colleagues.
Other provisions	Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business.

	2023						
	Customer remediation £'million	Dilapidations £'million	Legal and regulatory £'million	Onerous contracts £'million	Restructuring £'million	Other provisions £'million	Total £'million
1 January 2023	1	1	–	2	–	3	7
Additions	2	–	–	–	15	–	17
Released	–	–	–	–	–	(1)	(1)
Utilised	–	–	–	–	–	–	–
31 December 2023	3	1	–	2	15	2	23

	2022						
	Customer remediation £'million	Dilapidations £'million	Legal and regulatory £'million	Onerous contracts £'million	Restructuring £'million	Other provisions £'million	Total £'million
1 January 2022	1	3	5	5	–	1	15
Additions	–	–	5	–	–	2	7
Released	–	(2)	–	(1)	–	–	(3)
Utilised	–	–	(10)	(2)	–	–	(12)
31 December 2022	1	1	–	2	–	3	7

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 32.

All additions for both the current and prior year have been recognised in the income statement.

Restructing provision
The restructuring provision provided for during the year relates the decision taken during the year to reduce the number of colleagues across the business by 1,000. Affected colleagues left the business in early 2024, with the associated provision being utilised.

25. Other liabilities

	31 December 2023 £'million	31 December 2022 £'million
Trade creditors	1	1
Taxation and social security costs	8	9
Accruals[1]	146	99
Deferred income	37	57
Other liabilities	75	64
Total other liabilities	267	230
Current portion	253	205
Non-current portion	14	25

1. Includes accrued interest payable.

26. Called-up share capital

Accounting policy

On issue of new shares, incremental directly attributable costs are shown in equity as a deduction from the proceeds.

As at 31 December 2023, we had 672.7 million ordinary shares of 0.0001p (31 December 2022: 172.5 million) authorised and in issue.

Called-up ordinary share capital, issued and fully paid

The called-up share capital reserve is used to record our nominal share capital. At 31 December 2023 our called-up share capital was £672.68 (31 December 2022: £172.54).

	2023 £'million	2022 £'million
1 January	–	–
Cancellation of Metro Bank PLC share capital[1]	–	–
Issuance of Metro Bank Holdings PLC share capital[1]	–	–
Bonus issuance	965	–
Capital reduction	(965)	–
Share issuance[2]	–	–
31 December	–	–

1. The cancelled called-up share capital of Metro Bank PLC and new share capital of Metro Bank Holdings PLC amount to £172 and as such have been rounded to £nil in the table above.
2. The called-up share capital of the equity issued during the year totalled £500 and as such has been rounded to £nil in the table above.

Share premium

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

	2023 £'million	2022 £'million
1 January	1,964	1,964
Cancellation of Metro Bank PLC share premium	(1,964)	–
Share issuance	150	–
Cost of share issuance	(6)	–
31 December	144	1,964

Redeemable preference shares

In addition to the share capital set out above Metro Bank Holdings PLC has £50,000 of redeemable preference shares which were issued to Robert Sharpe (Chair) and Daniel Frumkin (Chief Executive Officer) upon the initial incorporation of the legal entity on 29 September 2022. These shares are in the process of being redeemed.

New holding company

As set out in note 1, on 19 May 2023, Metro Bank Holdings PLC became the listed entity and new holding company of Metro Bank PLC. As part of the insertion of Metro Bank Holdings PLC, the existing listed share capital and share premium of Metro Bank PLC was cancelled and the share capital and share premium amounts transferred to retained earnings. Metro Bank PLC subsequently issued the same number of new unlisted 0.0001p ordinary shares to Metro Bank Holdings PLC. Each existing holder of Metro Bank PLC shares was issued with an equivalent number of new shares in Metro Bank Holdings PLC, with the nominal value of 0.0001p, as part of a share for share exchange.

The difference between the new nominal share capital in Metro Bank Holdings PLC and the net assets of Metro Bank PLC was recognised in a merger reserve. This merger reserve was capitalised through the allotment of 964,505,616 million special shares of 0.0001p each, which were then subsequently reduced to provide the Metro Bank Holdings PLC with distributable reserves.

Equity raise

In November 2023, we issued 500 million ordinary shares for consideration of £150 million. Associated costs of £6 million have been offset against the amount raised.

27. Retained earnings

Retained earnings records our cumulative earnings since our formation, including the accumulated earnings of our subsidiaries since they were acquired.

	2023 £'million	2022 £'million
1 January	(1,015)	(942)
Profit/(loss) for the year	29	(73)
Cancellation of Metro Bank PLC share capital and share premium	1,964	–
Issuance of Metro Bank Holdings PLC share capital	965	–
Capital reduction of Metro Bank Holdings PLC share capital	(965)	–
31 December	978	(1,015)

No dividends were paid or declared during the year (2022: none).

As at 31 December 2023 all of our retained earnings are distributable.

28. Other reserves

Merger reserve

	2023 £'million	2022 £'million
1 January	–	–
Issuance of Metro Bank Holdings PLC share capital	965	–
Bonus issuance	(965)	–
31 December	–	–

Share option reserve

The share option reserve is used to record movements in relation to share options awarded under our Deferred Variable Reward and LTIP.

	2023 £'million	2022 £'million
1 January	20	18
Equity-settled share-based payment charges (note 7)	3	2
31 December	23	20

Fair value though other comprehensive income reserve

The FVOCI reserve is used to record changes in the fair value of investment securities designated at FVOCI. When investment securities held at FVOCI are sold, any accumulated gains or losses are transferred to the income statement.

	2023 £'million	2022 £'million
1 January	(13)	(5)
Changes in fair value	3	(10)
Deferred tax movements	(1)	2
31 December	(11)	(13)

Treasury shares

We have a small number of shares held in treasury relating to awards originally granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. The final tranche of these awards vested in April 2021 and the remaining balance represents awards that did not vest owing to the original conditions of the grant not being fulfilled. These are held by an employee benefit trust, which is consolidated within the Group accounts. The balance on the reserve is less than £1 million (31 December 2022: less than £1 million) and therefore has not been separately disclosed as a component of reserves due to its immaterial size.

29. Share-based payments

Accounting policy

The grant date fair value of options awarded to colleagues is recognised as an expense over the period in which colleagues become unconditionally entitled to the options. The expense (representing the value of the services received by us) is measured by reference to the fair value of the awards granted on the date of the grant. The cost of the colleague services received in respect of the awards granted is recognised in the consolidated income statement over the period that the services are received, which is the vesting period. Graded vesting is applied where relevant.

Vesting conditions are limited to service and performance conditions. For performance-based schemes, the relevant performance measures are projected to the end of the performance period in order to determine the number of options expected to vest. This estimate of the performance measures is used to determine the option fair value, discounted to present value. The Group revises the number of options that are expected to vest, including an estimate of lapses at each reporting date based on forecast performance measures. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

The fair value of colleague awards plans is calculated at the grant date using Black-Scholes and Monte Carlo models. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

We provide share award schemes to colleagues as part of their remuneration packages, and we operate a number of share-based compensation schemes, namely the DVRP and LTIP. The granting of awards is designed to provide incentives to colleagues to deliver long-term returns. No individual has a contractual right to participate in the plans or to receive any guaranteed benefits and the granting of awards remains at the discretion of the People and Remuneration Committee. Standard share options are granted for no consideration, are not pensionable and carry no voting rights.

Long Term Incentive Plan
The LTIP is the primary long-term incentive scheme for the members of our ExCo. It was approved by shareholders at the 2021 AGM. Under the plan, annual awards, based on a percentage of salary, may be offered. The extent to which an award vests is measured over a three-year period (four years for the initial awards granted in 2021) against financial targets, which consist of return on tangible equity and relative total shareholder return, as well as continued employment within the Group.

Deferred Variable Reward Plan
The DVRP was first introduced in 2010 and the latest plan was approved by shareholders at the 2021 AGM. Although originally designed for all colleagues, the plan is now operated for senior managers, primarily consisting of members of the our ExCo and other Material Risk Takers. Under the current rules participants are required to defer a proportion of any bonus paid into nominal price awards, a proportion of which vest immediately and the remainder of which vest over seven years. There are no further performance conditions on these shares, other than continued employment. All awards under the DVRP are subject to a one-year holding period; once exercised and all awards have a life of 10 years from the date of grant.

More information in relation to both the DVRP and LTIP is available within the Remuneration Report.

Awards outstanding
The table below summarises the movements in the number of options outstanding and their weighted average exercise price:

	2023		2022	
	Number of options '000	Weighted average exercise price £	Number of options '000	Weighted average exercise price £
Outstanding at 1 January	13,326	6.61	10,477	8.72
Granted	3,429	0.00[1]	4,787	0.00[1]
Exercised	(259)	0.03	(222)	0.00[1]
Lapsed	(261)	10.46	(1,716)	1.96
Outstanding at 31 December	16,235	5.24	13,326	6.61
Exercisable at 31 December	7,931	10.54	6,658	12.35

1. Nominal price awards with exercise price of 0.0001p.

The average share price during 2023 was 94p (2022: 88p). For share options exercised during the period, the weighted average share price at the date of exercise was 118p (2022: 93p).

All our options are equity settled and we have no legal or constructive obligation to repurchase the shares or settle the options in cash. Exercises of awards granted are satisfied via the issuance of new shares.

Total share-based compensation charges totalled £3.2 million in the year ended 2023 (2022: £2.4 million).

29. Share-based payments Continued

Fair value of options granted

The number of options outstanding at year end was as follows:

Exercise price	2023 Number of options '000	2023 Weighted average remaining contractual life years	2022 Number of options '000	2022 Weighted average remaining contractual life years
£0.00[1]	10,255	8.7	6,997	9.0
£0.93	2,011	6.3	2,116	7.3
£7.94	654	5.2	660	6.2
£12.00	–	0.0	235	0.8
£13.00	60	0.2	60	1.2
£13.50	616	0.8	616	1.8
£14.00	194	n/a	194	n/a
£16.00	611	n/a	611	n/a
£20.00	444	2.2	444	3.2
£32.73	633	3.2	633	4.2
£35.36	757	4.2	760	5.2
Total	16,235	7.3	13,326	7.3

1. Nominal price awards with exercise price of 0.0001p.

The total fair value of options granted in 2023 was £3.4 million (2022: £4.3 million), based on the following assumptions:

	2023 awards
Risk-free interest rate	3.44% to 4.03%
Expected life	1 to 7 years
Volatility	166%
Expected dividend yield	nil
Share price at grant date	£1.06
Exercise price	0.0001p

Volatility has been estimated by taking our share price volatility since we listed in 2016.

An assumption is also made in respect of how many shares will lapse due to the vesting criteria not being met. For the awards granted post 2022, as these were only made to members of the ExCo and other Material Risk Takers, the lapse assumption has been set at 0%. The fair value charges recognised in the income statement for these scheme are adjusted annually to reflect actual lapses. For all other schemes the lapse assumption is updated annually.

30. Expected credit losses

Accounting policy

We assess on a forward-looking basis the ECL associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in the credit risk of loans and securities, with a provision for lifetime ECL recognised where the risk of default of an instrument has increased significantly. Risk of default and ECL must incorporate forward-looking and macroeconomic information.

Loans and advances
Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. ECL are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original effective interest rate.

Key model inputs, judgements and estimates include:

- Consideration of when a SICR occurs.
- PD, LGD and EAD as well as their modelled impact.
- Macroeconomic scenarios and weightings applied.

Significant increase in credit risk
IFRS 9 requires a higher level of ECL 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 ECL** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment.	**Lifetime ECL** 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 or where the borrower is considered unlikely to pay.	**Lifetime ECL** 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.
POCI	Financial assets that have been purchased and had objective evidence of being non-performing or credit impaired at the point of purchase.	**Lifetime ECL** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime ECL are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime ECL are recognised as a loss allowance.

30. Expected credit losses Continued

Accounting policy Continued

A SICR may be identified in a number of ways:

- Quantitative criteria — where the numerically calculated PD on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The threshold is set at three times the median PD of the portfolio at origination.
- Qualitative criteria — instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative analysis. In addition, instruments classified on the Early Warning List as higher risk are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default — that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to either:

- A modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with.
- A total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (i.e. from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

Probability of default

PD represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A PD is calculated for all loans based on historical data and incorporates:

- Credit quality scores.
- Life cycle trends depending on a loan's vintage.
- Factors indicating the quality of the vintage.
- Characteristics of the current and future economic environment.

30. Expected credit losses Continued

Accounting policy Continued

Loss given default

LGD represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates — one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios — a key driver of the expected recovery in the event of default.
- Expected haircut applied to the collateral value to reflect a forced sale discount.
- Price index forecasts applied to project collateral values into the future.
- Stress factors based on macroeconomic scenarios.

Exposure at default

This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued.
- Repayments may be received.
- For a revolving product, further drawings may be taken between the current point in time and the point of default.
- Estimations of these factors will be incorporated into our estimate of EAD.

PD, LGD and EAD are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and EAD are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

Macroeconomic scenarios

The ECL recognised in the financial statements reflects the effect on ECL of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use four scenarios. These represent a 'most likely outcome', (the 'Baseline' scenario) and three, less likely, 'Outer' scenarios, referred to as an 'Upside', a 'Downside' and a severe downside scenario respectively. The Baseline scenario captures the most likely economic future; the Downside and severe downside scenarios reflect adverse economic conditions; and the Upside scenario presents more favourable economic conditions.

30. Expected credit losses Continued

Accounting policy Continued

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

The following assumptions, considered to be the key drivers of ECL, have been used for the scenarios applied as at 31 December 2023 and 31 December 2022:

- UK interest rates (five-year mortgage rate).
- UK unemployment rates.
- UK HPI changes, year on year.
- UK GDP changes, year on year.
- UK commercial real estate index, year on year.

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index mortgage collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, share prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to our data.

Each scenario was determined by flexing the Baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A simulation process was designed to determine the weighting to apply to each scenario based on its severity and the range of possible scenarios for which that scenario was representative. A summary of each scenario and weighting used at 31 December 2023 is as follows:

- Baseline scenario: 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: 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: 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: 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.

These assumptions are considered sufficient to capture any material non-linearities.

The weightings applied to each scenario at 31 December 2023 were Baseline – 50%, Upside – 20%, Downside – 25% and Severe downside scenario – 5% (31 December 2022: Baseline – 50%, Upside – 20%, Downside – 25% and Severe downside scenario – 5%).

30. Expected credit losses Continued

Accounting policy Continued

Economic variable assumptions

The period-end assumptions used for the ECL estimate as at 31 December 2023 and 31 December 2022 are as follows:

		31 December 2023				31 December 2022			
		2024	2025	2026	2027	2023	2024	2025	2026
Interest rates (%) – five-year mortgage rate	Baseline	5.1%	4.7%	4.3%	4.2%	5.5%	4.4%	4.0%	4.0%
	Upside	5.3%	4.7%	4.3%	4.2%	5.3%	4.3%	4.0%	4.0%
	Downside	3.7%	2.7%	2.6%	2.6%	5.5%	4.4%	3.6%	3.1%
	Severe downside	3.3%	2.2%	2.2%	2.2%	5.8%	4.0%	3.4%	3.0%
UK unemployment (%)	Baseline	4.6%	4.7%	4.7%	4.8%	4.3%	4.5%	4.5%	4.6%
	Upside	4.1%	3.8%	3.9%	4.2%	3.9%	3.6%	3.7%	4.0%
	Downside	6.5%	7.4%	7.4%	7.0%	6.2%	7.2%	7.2%	6.8%
	Severe downside	7.7%	8.5%	8.4%	8.1%	7.4%	8.3%	8.2%	7.9%
UK HPI – % change year-on-year	Baseline	(6.2%)	3.1%	4.7%	2.6%	(4.4%)	2.3%	4.8%	2.9%
	Upside	7.0%	6.3%	2.1%	(1.5%)	9.0%	5.4%	2.1%	(1.2%)
	Downside	(16.5%)	(6.3%)	4.0%	5.4%	(14.9%)	(7.0%)	4.0%	5.7%
	Severe downside	(22.2%)	(10.3%)	4.4%	4.1%	(20.7%)	(10.9%)	4.4%	4.3%
UK GDP – % change year-on-year	Baseline	0.4%	1.0%	1.3%	1.4%	(0.8%)	1.2%	1.4%	1.2%
	Upside	3.9%	1.2%	1.3%	1.4%	1.9%	1.2%	1.1%	1.2%
	Downside	(5.6%)	1.3%	2.6%	1.4%	(6.9%)	1.3%	2.5%	1.2%
	Severe downside	(7.1%)	(0.2%)	4.2%	2.4%	(8.3%)	(0.3%)	3.5%	2.1%
UK commercial real estate index, year-on-year – % change	Baseline	(4.2%)	0.8%	1.7%	(0.4%)	(8.2%)	(6.0%)	2.0%	1.4%
	Upside	10.1%	3.3%	(1.3%)	(4.3%)	3.2%	(3.6%)	(0.3%)	(2.2%)
	Downside	(18.7%)	(5.3%)	3.0%	3.4%	(23.2%)	(11.9%)	5.1%	4.2%
	Severe downside	(26.9%)	(7.4%)	4.9%	2.6%	(30.5%)	(14.8%)	6.9%	3.5%

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 recognise that applying the above scenarios will not always be sufficient to determine an appropriate ECL in all economic environments. The scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

Investment securities and other financial assets

Impairment provisions have been calculated based on our best estimate of ECL on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. These impairment provisions are not material.

30. Expected credit losses Continued

Critical accounting judgement

Measurement of the expected credit loss allowance

The measurement of ECL is complex and involves the use of significant judgements. We consider that the following represent key judgements in respect of the measurement of the ECL.

Significant increase in credit risk

IFRS 9 requires a higher level of ECL to be recognised for under-performing loans as a lifetime ECL is recognised compared to a 12-month ECL for performing loans. This is considered based on a staging approach. Financial assets that have had no SICR since initial recognition, or that have low credit risk at the reporting date, are considered to be performing loans and are classified as 'Stage 1'. Losses are calculated based on our expectation of defaults which may occur within the next 12 months. Assets which are considered to have experienced a SICR since initial recognition, but that do not have objective evidence of impairment, are classified as 'Stage 2'. Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a SICR has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to Stage 2, is performed at each reporting period by considering the change in the PD expected over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

Use of post model adjustments and overlays

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

The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by the Audit Committee (see page 70).

ECL assessment

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.

The level of PMAs and PMOs has reduced in 2023 with the total percentage of ECL stock standing at 12% as at 31 December 2023 (31 December 2022: 16%).

No PMAs have been held as at 31 December 2023 as outstanding IFRS9 models have been implemented in production in 2023 resulting in previously held PMAs being removed:

- IFRS 9 retail mortgage secured LGD model (31 December 2023: £nil ; 31 December 2022: £0.1 million).
- IFRS 9 commercial business loans lifetime PD model scope extended to commercial Revolving facilities (31 December 2023: £nil ; 31 December 2022: £0.3 million).

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 cost of living pressures and stable yet high interest rates, and anticipated property price falls.

30. Expected credit losses Continued

Critical accounting judgement Continued

PMOs make up £23.4 million of the ECL stock as at 31 December 2023 (31 December 2022: £30.5 million) and comprise:

- High inflation environment and cost-of-living risks – Management overlays were introduced in 2022 to reflect high inflation and cost of living pressures, which are not fully captured through the economic scenarios and IFRS9 models (31 December 2023: £16.0 million; 31 December 2022: £22.5 million). The reduction in 2023 is driven by underlying credit risk profile movements on some individual cases resulting in previously held overlays now being released. This reflects the associated risks across the consumer and commercial portfolios. For commercial, the inflation PMO has been assessed based on potential future individual customer migration of current Stage 1 lending migrating into Stage 2 and 3, based on an inflationary stress scenario. The overlay assigned for the mortgage portfolio has been removed as it is now reflected in the new IFRS9 model as part of the model enhancement overlay mentioned below.
- Significant increase in credit risk (SICR) adjustment overlay – A negative overlay introduced in 2022 is still being held at December 2023. The SICR model for these portfolios is resulting in a significant overstatement of stage 2 assets and the negative PMO is in place to account for this. These overlays will be removed once the IFRS9 PD Annual Model Reviews for both portfolios are validated and implemented into production (scheduled in H1 2024) (31 December 2023: £7.4 million; 31 December 2022: £3.4 million).
- HPI and CRE adjustment – An overlay raised in 2022 is still being held at 31 December 2023 to reflect further downside risk in property price indices beyond the latest scenarios for the retail mortgage and commercial property portfolios (31 December 2023: £3.4 million; 31 December 2022: £6.1 million). This overlay has been reduced in 2023 to offset the observed reduction in HPI. However, management has continued to maintain an overlay to reflect the risk of further deterioration in property price falls (across HPI and CRE) as high base rates continue to be held flat by the Bank of England.
- Climate change impact – An expert judgement overlay originally raised in 2021 has been revised for FY 2023 and reflects the impact of climate change on property values for the mortgage and commercial portfolios (31 December 2023: £3.2 million; 31 December 2022: £3.5 million). The slight reduction in the overlay since December 2022 is due to the updated balance movements for all portfolios across the period.
- Mortgage model enhancements – A PMO has been introduced in FY 2023 to reflect the new IFRS9 Mortgage PD and Staging models. This overlay will be removed once the IFRS9 PD and Staging Annual Model Reviews are validated and implemented into production (scheduled in Q1 2024) (31 December 2023: £4.7 million; 31 December 2022: £nil).
- Commercial model enhancements – An overlay is held in anticipation of remaining model adjustments for the commercial portfolio (31 December 2023: £3.5 million; 31 December 2022: £1.2 million). The increase in the overlay over the period is to reflect the impact from the anticipated new IFRS9 Commercial PD model and the Enhanced Business Overdrafts portfolio which utilises the IFRS9 Commercial models as a proxy for ECL assessment.

We review our PMOs on an ongoing basis and reassess these based on the evolving economic outlook and observation of performance data.

All PMOs impact the ECL measurement, however not all adjust the staging.

30. Expected credit losses Continued

Critical accounting estimate

Measurement of the expected credit loss allowance

We consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

Multiple forward-looking economic scenarios

The ECL recognised in the financial statements reflects the effect on ECL of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios, including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL.

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

- UK interest rates.
- UK unemployment rates.
- UK HPI changes, year on year.
- UK GDP changes, year on year.
- UK commercial real estate index, year on year.

The weightings applied to each scenario at 31 December 2023 and 31 December 2022 are:

	31 December 2023	31 December 2022
Baseline	50%	50%
Upside	20%	20%
Downside	25%	25%
Severe downside	5%	5%

The weightings used are reviewed each reporting period to ensure these remain appropriate and as such are considered to represent significant accounting estimates. We have performed an assessment of the impact on the ECL if each of the Baseline, Upside, Downside and Severe downside scenarios were applied to the ECL calculation using a 100% weighting (that is, ignoring all other scenarios in each case):

	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	Total £'million
Baseline	57	37	93	187
Upside	49	31	92	172
Downside	79	57	98	234
Severe downside	90	72	100	262
Weighted	63	43	93	199

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.

PMOs and individually assessed provisions are reflected in the above sensitivities as are any resulting movements in staging allocation.

30. Expected credit losses Continued

Expected credit loss expense

	2023 £'million	2022 £'million
Retail mortgages[1]	(1)	1
Consumer lending[1]	33	33
Commercial lending[1]	(20)	(16)
Investment securities	1	1
Write-offs and other movements	20	21
Total expected credit loss expense	33	40

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

Investment securities

All investment securities held at FVOCI are deemed to be in Stage 1. Any credit loss allowance is, however, included as part of the revaluation amount in the FVOCI reserve. At 31 December 2023, the loss allowance included within the FVOCI reserve is £0.1 million (31 December 2022: £0.1 million).

All investment securities held at amortised cost are deemed to be in Stage 1. The total ECL expense recognised for these assets at 31 December 2023 is £0.9 million (31 December 2022: £0.7 million).

Collateral

Collateral is usually held in the form of real estate, guarantees, debentures and other liens that we can call upon in the event of the borrower defaulting. At 31 December 2023, 80% (31 December 2022: 79%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average DTV of 58% (31 December 2022: 56%) and 55% (31 December 2022: 55%) respectively. A further 4% (31 December 2022: 6%) of our lending portfolio consists of BBLS, which although they do not have any collateral are 100% guaranteed by the Government. Further details on the collateral of our loans can be found in the Risk report.

Write-off policy

We write off financial assets (either partially or fully) when there is no realistic expectation of receiving further payment from the customer. Indicators that there is no reasonable expectation of recovery include debt sale to a third party and ceasing enforcement activity. We may write off financial assets that are still subject to enforcement activity.

Modification of financial assets

We sometimes renegotiate the terms of loans provided to customers with a view to maximising recovery. The modifications have not led to any material modification gains or losses being recognised.

30. Expected credit losses Continued

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

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2023	10,849	2,088	352	–	13,289	(66)	(51)	(70)	–	(187)	10,783	2,037	282	–	13,102
Transfers to/(from) Stage 1[1]	872	(857)	(15)	–	–	(15)	15	–	–	–	857	(842)	(15)	–	–
Transfers to/(from) Stage 2	(581)	589	(8)	–	–	4	(6)	2	–	–	(577)	583	(6)	–	–
Transfers to/(from) Stage 3	(170)	(71)	241	–	–	3	4	(7)	–	–	(167)	(67)	234	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	12	(13)	(38)	–	(39)	12	(13)	(38)	–	(39)
New lending[3]	2,060	239	16	–	2,315	(18)	(6)	(6)	–	(30)	2,042	233	10	–	2,285
Repayments, additional drawdowns and interest accrued	(685)	(172)	(40)	–	(897)	–	–	–	–	–	(685)	(172)	(40)	–	(897)
Derecognitions[4]	(1,749)	(305)	(157)	–	(2,211)	13	10	26	–	49	(1,736)	(295)	(131)	–	(2,162)
Changes to model assumptions[5]	–	–	–	–	–	4	4	–	–	8	4	4	–	–	8
31 December 2023	10,596	1,511	389	–	12,496	(63)	(43)	(93)	–	(199)	10,533	1,468	296	–	12,297
Off-balance sheet items															
Commitments and guarantees[6]					718					–					718

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	10,071	1,925	462	1	12,459	(47)	(49)	(73)	–	(169)	10,024	1,876	389	1	12,290
Transfers to/(from) Stage 1[1]	517	(504)	(13)	–	–	(13)	13	–	–	–	504	(491)	(13)	–	–
Transfers to/(from) Stage 2	(451)	458	(7)	–	–	2	(2)	–	–	–	(449)	456	(7)	–	–
Transfers to/(from) Stage 3	(124)	(73)	197	–	–	1	7	(8)	–	–	(123)	(66)	189	–	–
Net remeasurement due to transfers[2]	–	–	–	–	–	10	(10)	(15)	–	(15)	10	(10)	(15)	–	(15)
New lending[3]	3,157	742	31	–	3,930	(30)	(15)	(11)	–	(56)	3,127	727	20	–	3,874
Repayments, additional drawdowns and interest accrued	(604)	(107)	(26)	(1)	(738)	–	–	–	–	–	(604)	(107)	(26)	(1)	(738)
Derecognitions[4]	(1,717)	(353)	(292)	–	(2,362)	7	10	34	–	51	(1,710)	(343)	(258)	–	(2,311)
Changes to model assumptions[5]	–	–	–	–	–	4	(5)	3	–	2	4	(5)	3	–	2
31 December 2022	10,849	2,088	352	–	13,289	(66)	(51)	(70)	–	(187)	10,783	2,037	282	–	13,102
Off-balance sheet items															
Commitments and guarantees[6]					1,120					–					1,120

1. Represents stage transfers prior to any ECL remeasurements.
2. Represents the remeasurement between the 12-month and lifetime ECL due to stage transfer. In addition it includes any ECL change resulting from model assumptions and forward-looking information on these loans.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed as well as any ECL that has been recognised in relation to these loans during the year.
4. Represents the decrease in balances resulting from loans and advances that have been fully repaid, sold or written off.
5. Represents the change in ECL to those loans that remain within the same stage through the year.
6. Represents undrawn lending facilities. Further details can be found in note 31.

30. Expected credit losses Continued

Retail mortgages

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2023	6,195	1,343	111	–	7,649	(6)	(11)	(3)	–	(20)	6,189	1,332	108	–	7,629
Transfers to/(from) Stage 1	745	(737)	(8)	–	–	(6)	6	–	–	–	739	(731)	(8)	–	–
Transfers to/(from) Stage 2	(193)	199	(6)	–	–	–	–	–	–	–	(193)	199	(6)	–	–
Transfers to/(from) Stage 3	(38)	(29)	67	–	–	–	–	–	–	–	(38)	(29)	67	–	–
Net remeasurement due to transfers	–	–	–	–	–	5	(2)	(2)	–	1	5	(2)	(2)	–	1
New lending	1,195	147	1	–	1,343	(1)	(1)	–	–	(2)	1,194	146	1	–	1,341
Repayments, additional drawdowns and interest accrued	(177)	(18)	–	–	(195)	–	–	–	–	–	(177)	(18)	–	–	(195)
Derecognitions	(840)	(121)	(19)	–	(980)	1	1	–	–	2	(839)	(120)	(19)	–	(978)
Changes to model assumptions	–	–	–	–	–	–	1	(1)	–	–	–	1	(1)	–	–
31 December 2023	6,887	784	146	–	7,817	(7)	(6)	(6)	–	(19)	6,880	778	140	–	7,798

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	5,546	1,063	114	–	6,723	(2)	(12)	(5)	–	(19)	5,544	1,051	109	–	6,704
Transfers to/(from) Stage 1	293	(281)	(12)	–	–	(4)	4	–	–	–	289	(277)	(12)	–	–
Transfers to/(from) Stage 2	(199)	205	(6)	–	–	–	–	–	–	–	(199)	205	(6)	–	–
Transfers to/(from) Stage 3	(16)	(22)	38	–	–	–	1	(1)	–	–	(16)	(21)	37	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(1)	–	–	3	4	(1)	–	–	3
New lending	1,666	549	1	–	2,216	(3)	(7)	–	–	(10)	1,663	542	1	–	2,206
Repayments, additional drawdowns and interest accrued	(130)	(22)	(5)	–	(157)	–	–	–	–	–	(130)	(22)	(5)	–	(157)
Derecognitions	(965)	(149)	(19)	–	(1,133)	(1)	2	3	–	4	(966)	(147)	(16)	–	(1,129)
Changes to model assumptions	–	–	–	–	–	–	2	–	–	2	–	2	–	–	2
31 December 2022	6,195	1,343	111	–	7,649	(6)	(11)	(3)	–	(20)	6,189	1,332	108	–	7,629

30. Expected credit losses Continued

Consumer lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2023	1,180	250	50	–	1,480	(21)	(12)	(42)	–	(75)	1,159	238	8	–	1,405
Transfers to/(from) Stage 1	34	(34)	–	–	–	(2)	2	–	–	–	32	(32)	–	–	–
Transfers to/(from) Stage 2	(182)	182	–	–	–	2	(2)	–	–	–	(180)	180	–	–	–
Transfers to/(from) Stage 3	(35)	(9)	44	–	–	1	2	(3)	–	–	(34)	(7)	41	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(6)	(28)	–	(32)	2	(6)	(28)	–	(32)
New lending	311	78	7	–	396	(9)	(4)	(6)	–	(19)	302	74	1	–	377
Repayments, additional drawdowns and interest accrued	(217)	(111)	(10)	–	(338)	–	–	–	–	–	(217)	(111)	(10)	–	(338)
Derecognitions	(185)	(42)	(14)	–	(241)	3	2	12	–	17	(182)	(40)	(2)	–	(224)
Changes to model assumptions	–	–	–	–	–	(2)	2	1	–	1	(2)	2	1	–	1
31 December 2023	906	314	77	–	1,297	(26)	(16)	(66)	–	(108)	880	298	11	–	1,189

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	786	82	21	1	890	(18)	(8)	(16)	–	(42)	768	74	5	1	848
Transfers to/(from) Stage 1	19	(19)	–	–	–	(2)	2	–	–	–	17	(17)	–	–	–
Transfers to/(from) Stage 2	(96)	96	–	–	–	1	(1)	–	–	–	(95)	95	–	–	–
Transfers to/(from) Stage 3	(21)	(6)	27	–	–	1	2	(3)	–	–	(20)	(4)	24	–	–
Net remeasurement due to transfers	–	–	–	–	–	2	(3)	(15)	–	(16)	2	(3)	(15)	–	(16)
New lending	806	156	12	–	974	(15)	(7)	(9)	–	(31)	791	149	3	–	943
Repayments, additional drawdowns and interest accrued	(144)	(41)	(6)	(1)	(192)	–	–	–	–	–	(144)	(41)	(6)	(1)	(192)
Derecognitions	(170)	(18)	(4)	–	(192)	5	1	1	–	7	(165)	(17)	(3)	–	(185)
Changes to model assumptions	–	–	–	–	–	5	2	–	–	7	5	2	–	–	7
31 December 2022	1,180	250	50	–	1,480	(21)	(12)	(42)	–	(75)	1,159	238	8	–	1,405

30. Expected credit losses Continued

Commercial lending

£'million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Loss allowance Stage 1	Stage 2	Stage 3	POCI	Total	Net carrying amount Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2023	3,474	495	191	–	4,160	(39)	(28)	(25)	–	(92)	3,435	467	166	–	4,068
Transfers to/(from) Stage 1	93	(86)	(7)	–	–	(7)	7	–	–	–	86	(79)	(7)	–	–
Transfers to/(from) Stage 2	(206)	208	(2)	–	–	2	(4)	2	–	–	(204)	204	–	–	–
Transfers to/(from) Stage 3	(97)	(33)	130	–	–	2	2	(4)	–	–	(95)	(31)	126	–	–
Net remeasurement due to transfers	–	–	–	–	–	5	(5)	(8)	–	(8)	5	(5)	(8)	–	(8)
New lending	554	14	8	–	576	(8)	(1)	–	–	(9)	546	13	8	–	567
Repayments, additional drawdowns and interest accrued	(291)	(43)	(30)	–	(364)	–	–	–	–	–	(291)	(43)	(30)	–	(364)
Derecognitions	(724)	(142)	(124)	–	(990)	9	7	14	–	30	(715)	(135)	(110)	–	(960)
Changes to model assumptions	–	–	–	–	–	6	1	–	–	7	6	1	–	–	7
31 December 2023	2,803	413	166	–	3,382	(30)	(21)	(21)	–	(72)	2,773	392	145	–	3,310

£'million	Gross carrying amount Stage 1	Stage 2	Stage 3	POCI	Total	Loss allowance Stage 1	Stage 2	Stage 3	POCI	Total	Net carrying amount Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2022	3,739	780	327	–	4,846	(27)	(29)	(52)	–	(108)	3,712	751	275	–	4,738
Transfers to/(from) Stage 1	205	(204)	(1)	–	–	(7)	7	–	–	–	198	(197)	(1)	–	–
Transfers to/(from) Stage 2	(156)	157	(1)	–	–	1	(1)	–	–	–	(155)	156	(1)	–	–
Transfers to/(from) Stage 3	(87)	(45)	132	–	–	–	4	(4)	–	–	(87)	(41)	128	–	–
Net remeasurement due to transfers	–	–	–	–	–	4	(6)	–	–	(2)	4	(6)	–	–	(2)
New lending	685	37	18	–	740	(12)	(1)	(2)	–	(15)	673	36	16	–	725
Repayments, additional drawdowns and interest accrued	(330)	(44)	(15)	–	(389)	–	–	–	–	–	(330)	(44)	(15)	–	(389)
Derecognitions	(582)	(186)	(269)	–	(1,037)	3	7	30	–	40	(579)	(179)	(239)	–	(997)
Changes to model assumptions	–	–	–	–	–	(1)	(9)	3	–	(7)	(1)	(9)	3	–	(7)
31 December 2022	3,474	495	191	–	4,160	(39)	(28)	(25)	–	(92)	3,435	467	166	–	4,068

30. Expected credit losses Continued

Credit risk exposures

Total lending

£'million	31 December 2023 Stage 1	Stage 2	Stage 3	Total	31 December 2022 Stage 1	Stage 2	Stage 3	Total
Up to date	10,553	1,342	123	12,018	10,819	1,943	103	12,865
1 to 29 days past due	43	54	15	112	30	59	12	101
30 to 89 days past due	–	115	43	158	–	86	40	126
90+ days past due	–	–	208	208	–	–	197	197
Gross carrying amount	10,596	1,511	389	12,496	10,849	2,088	352	13,289

Retail mortgages

£'million	31 December 2023 Stage 1	Stage 2	Stage 3	Total	31 December 2022 Stage 1	Stage 2	Stage 3	Total
Up to date	6,885	695	37	7,617	6,194	1,289	33	7,516
1 to 29 days past due	2	28	10	40	1	21	7	29
30 to 89 days past due	–	61	16	77	–	33	15	48
90+ days past due	–	–	83	83	–	–	56	56
Gross carrying amount	6,887	784	146	7,817	6,195	1,343	111	7,649

Consumer lending

£'million	31 December 2023 Stage 1	Stage 2	Stage 3	Total	31 December 2022 Stage 1	Stage 2	Stage 3	Total
Up to date	900	297	3	1,200	1,172	235	3	1,410
1 to 29 days past due	6	2	–	8	8	2	–	10
30 to 89 days past due	–	15	7	22	–	13	5	18
90+ days past due	–	–	67	67	–	–	42	42
Gross carrying amount	906	314	77	1,297	1,180	250	50	1,480

Commercial lending

£'million	31 December 2023 Stage 1	Stage 2	Stage 3	Total	31 December 2022 Stage 1	Stage 2	Stage 3	Total
Up to date	2,768	350	83	3,201	3,453	419	67	3,939
1 to 29 days past due	35	24	5	64	21	36	5	62
30 to 89 days past due	–	39	20	59	–	40	20	60
90+ days past due	–	–	58	58	–	–	99	99
Gross carrying amount	2,803	413	166	3,382	3,474	495	191	4,160

31. Financial commitments

Accounting policy

To meet the financial needs of our customers, we enter into various irrevocable commitments. These generally consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations are not recognised on the balance sheet, they do contain credit risk and an ECL is calculated and recognised for them (see note 30).

When these commitments are drawn down or called upon, and meet the recognition criteria as detailed in note 12, these are recognised within our loans and advances to customers.

At 31 December 2023, we had undrawn facilities granted to retail and commercial customers of £718 million (31 December 2022: £1,120 million).

As part of our retail and commercial operations, this includes commitments of £327 million (31 December 2022: £250 million) for credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

32. Legal and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters. The matters outlined below represent contingent liabilities and as such at the reporting date no provision has been made for any of these cases within the financial statements. This is because, based on the facts currently known, it is not practicable to predict the outcome, if any, of these matters or reliably estimate any financial impact. Their inclusion does not constitute any admission of wrongdoing or legal liability.

Financial crime

The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters, and the FCA's enquiries remain ongoing.

Magic Money Machine litigation

In 2022 Arkeyo LLC, a software company based in the United States, filed a civil suit with a stated value of over £24 million against us in the English High Court alleging, among other matters, that we infringed their copyright and misappropriated their trade secrets relating to money counting machines (i.e. our Magic Money Machines).

We believe Arkeyo LLC's claims are without merit and are vigorously defending the claim.

33. Offsetting of financial assets and liabilities

Accounting policy
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

	31 December 2023			31 December 2022		
		Effects of offsetting on the balance sheet			Effects of offsetting on the balance sheet	
Assets	Gross amount £'million	Gross amounts offset in the balance sheet £'million	Net amounts presented in the balance sheet £'million	Gross amount £'million	Gross amounts offset in the balance sheet £'million	Net amounts presented in the balance sheet £'million
Loans and advances to customers[1]	12,297	–	12,297	13,102	–	13,102
Investment securities[1]	4,879	–	4,879	5,914	–	5,914
Derivative financial assets	67	(31)	36	–	–	–
Deferred tax assets	17	(17)	–	16	(16)	–
Other assets[2]	108	–	108	73	–	73
Liabilities						
Derivative financial liabilities	31	(31)	–	26	–	26
Repurchase agreements[1]	1,191	–	1,191	238	–	238
Deposits from central banks[1]	3,050	–	3,050	3,800	–	3,800
Deferred tax liabilities	30	(17)	13	28	(16)	12

1. We have pledged £6,110 million (2022: £5,286 million) against repos, deposits from central banks and other assets as encumbered collateral which can be called upon in the event of default.
2. Includes £50 million (2022: £39 million) pledged as cash collateral. None of the cash collateral has been offset in the Balance Sheet.

34. Fair value of financial instruments

Accounting policy

Determination of fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which we have access at that date. The fair value of a liability reflects its non-performance risk.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that we have access to at the measurement date. We consider markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- **Level 2 financial instruments** – Those where the inputs that are used for valuation are significant, and are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices, such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, we will classify the instruments as Level 3.
- **Level 3 financial instruments** – Those that include one or more unobservable inputs that are significant to the measurement as whole.

	31 December 2023					31 December 2022				
	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
Assets										
Loans and advances to customers	12,297	–	–	12,156	12,156	13,102	–	–	12,321	12,321
Investment securities held at fair value through other comprehensive income	476	476	–	–	476	571	533	38	–	571
Investment securities held at amortised cost	4,403	3,143	1,072	–	4,215	5,343	3,834	1,135	40	5,009
Financial assets held at fair value through profit and loss	–	–	–	–	–	1	–	–	1	1
Derivative financial assets	36	–	36	–	36	23	–	23	–	23
Liabilities										
Deposits from customers	15,623	–	–	15,622	15,622	16,014	–	–	16,004	16,004
Deposits from central bank	3,050	–	–	3,050	3,050	3,800	–	–	3,800	3,800
Debt securities	694	–	585	–	585	571	423	–	–	423
Derivative financial liabilities	–	–	–	–	–	26	–	26	–	26
Repurchase agreements	1,191	–	–	1,191	1,191	238	–	–	238	238

34. Fair value of financial instruments Continued

Cash and balances with the Bank of England, trade and other receivables, trade and other payables and other assets and liabilities which meet the definition of financial instruments are not included in the 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 held at fair value through profit and loss
The financial assets at fair value through profit and loss relate to the loans and advances previously assumed by the RateSetter provision fund. They are measured at the fair value of the amounts that we expect to recover on these loans.

Deposits from customers
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are either short-dated or are on a variable rate which aligns to the current market rate.

Derivative financial assets and liabilities
The fair values of derivatives are obtained from discounted cash flow models as appropriate.

35. Related parties

Related persons

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

Controlling shareholder
Following the completion of our capital raise in November 2023, Jaime Gilinski Bacal, via Spaldy Investments Limited, a company of which he is the sole director and shareholder, became the controlling shareholder of Metro Bank Holdings PLC (see note 7 to the Company financial statements for further details). Given his control over the Group, Jaime Gilinski Bacal, Spaldy Investments Limited and persons connected to them are also considered to be related parties as at 31 December 2023.We have a relationship agreeement with our controlling shareholder which be viewed on our website. More information on the independence of our controlling shareholder can be found on page 122.

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

	2023 £'million	2022 £'million
Short-term benefits	5.4	6.2
Post-employment benefits	0.1	0.1
Share-based payment costs	0.9	1.8
Termination benefits	0.9	0.3
Total compensation for key management personnel	7.3	8.4

Short-term employee benefits include salary, medical insurance, bonuses and cash allowances paid to key management personnel.

The share-based payment cost represents the IFRS 2 'Share-based Payment' charge for the year which includes awards granted in prior years that have not yet vested.

Termination benefits includes the costs assocaited with the exit of key management personnel agreed and fully provided for as at the year-end, even where this was paid after the balance sheet date.

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

35. Related parties Continued

Deposit transactions during the year and the balances outstanding as at 31 December 2023 and 31 December 2022 were as follows:

	2023 £'million	2022 £'million
Deposits held at 1 January	1.5	1.5
Deposits relating to persons and companies newly considered related parties	–	0.2
Deposits relating to persons and companies no longer considered related parties	(0.5)	(0.3)
Net amounts deposited/(withdrawn)	–	0.1
Deposits held as at 31 December	1.0	1.5

Loan transactions during the year and the balances outstanding as at 31 December 2023 and 31 December 2022 were as follows:

	2023 £'million	2022 £'million
Loans outstanding at 1 January	2.1	3.2
Loans issued during the year	–	0.2
Net repayments during the year	–	(1.3)
Loans outstanding as at 31 December	2.1	2.1
Interest received on loans (£'000)	35	60

There were two (31 December 2022: two) loans outstanding at 31 December 2023 totalling £2.1 million (31 December 2022: £2.1 million). Both are residential mortgages secured on property; all loans were provided on our standard commercial terms.

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

Credit card balances outstanding as at 31 December 2023 and 31 December 2022 were as follows:

	2023 £'000	2022 £'000
Credit cards outstanding as at 31 December	3	7

As with all of our lending we recognise an ECL on loans and credit card balances outstanding with key management personnel. As at 31 December 2023 the only ECL recognised on the balances above was our standard modelled ECL with no individual impairments recognised (31 December 2022: £nil). We have not written off any balances to key management personnel in either 2022 or 2023.

36. Earnings per share

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

Diluted earnings per share has been calculated by dividing the profit/(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 year ended 31 December 2022 the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive earnings per share for 2022.

In the year ended 31 December 2023, 6.5 million share options were excluded from the weighted average number of shares due to these being antidilutative.

	2023	2022
Profit/(loss) attributable to ordinary equity holders (£'million)	29.5	(72.7)
Weighted average number of ordinary shares in issue (thousands)	–	
Basic	214,297	172,464
Adjustment for share awards	6,459	–
Diluted	220,756	172,464
Earnings per share (pence)		
Basic	13.8	(42.2)
Diluted	13.4	(42.2)

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

37. Non-cash items

The table below sets out the non-cash items included in profit/(loss) before tax. These have been adjusted for in the cash flow statements on page 170.

	2023 £'million	2022 £'million
Interest receivable	(856)	(564)
Interest paid	444	160
Depreciation and amortisation	78	77
Impairment and write-offs of property, plant, equipment and intangible assets	5	10
Expected credit loss expense	33	40
Share option charge	3	2
Grant income recognised in the income statement	(2)	(2)
Amounts provided for (net of amounts released)	16	4
Haircut on Tier 2 debt	(100)	–
Gain on sale of assets	3	–
Total adjustments for non-cash items	(376)	(273)

38. Post balance sheet events

There have been no material post balance sheet events.

Company balance sheet
As at 31 December 2023

	Notes	Years ended 31 December 2023 £'million	2022 £'million
Cash and balances with the Bank of England		2	–
Financial assets held at fair value through profit and loss	2	585	–
Investment in subsidiaries	3	682	–
Prepayments and accrued income		7	–
Total assets		1,276	–
Debt securities	4	670	–
Other liabilities		33	–
Total liabilities		703	–
Called-up share capital	5	–	–
Share premium	5	144	–
Retained earnings		406	–
Share option reserve		23	–
Total equity		573	–
Total equity and liabilities		1,276	–

1. The Company loss for the year was £536.5 million (2022: £nil).

The accompanying notes form an integral part of these financial statements. They were approved by the Board of Directors on 16 April 2024 and signed on its behalf by:

Robert Sharpe
Chair

Daniel Frumkin
Chief Executive Officer

Company statement of changes in equity

For the year ended 31 December 2023

	Called-up share capital £'million	Share premium £'million	Merger Reserve £'million	Retained earnings £'million	Share option reserve £'million	Total equity £'million
Balance as at 1 January 2023	–	–	–	–	–	–
Loss and total comprehensive loss for the year	–	–	–	(537)	–	(537)
Net share option movements	–	–	–	–	1	1
Cancellation of Metro Bank PLC share capital and share premium	–	–	–	–	–	–
Issuance of Metro Bank Holdings PLC share capital	–	–	965	–	–	965
Bonus issuance	965	–	(965)	–	–	–
Capital reduction of Metro Bank Holdings PLC share capital	(965)	–	–	965	–	–
Transfer of share option reserve	–	–	–	(22)	22	–
Shares issued	–	150	–	–	–	150
Cost of shares issued	–	(6)	–	–	–	(6)
Balance as at 31 December 2023	–	144	–	406	23	573
Company incorporated on 29 September 2022	–	–		–	–	–
Issuance of shares	–	–		–	–	–
Balance as at 31 December 2022	–	–		–	–	–
Notes	5	5				

The accompanying notes form an integral part of these financial statements.

Company cash flow statement
For the year ended 31 December 2023

	Years ended 31 December 2023 £'million	2022 £'million
Reconciliation of loss before tax to net cash flows from operating activities:		
Loss before tax	(537)	–
Adjustments for non-cash items		
Interest receivable	(24)	–
Interest paid	25	–
Fair value movements	88	–
Impairment loss on investment in subsidiary	428	–
Interest received	17	–
Interest paid	(16)	–
Changes in other operating assets	(7)	–
Changes in other operating liabilities	33	–
Net cash inflows from operating activities	7	–
Cash flows from investing activities		
Issuance of equity to subsidiary	(144)	–
Issuance of debt to subsidiaries	(175)	–
Net cash outflows from investing activities	(319)	–
Cash flows from financing activities		
Share issuance	150	–
Cost of share issuance	(6)	–
Debt issuance	175	–
Cost of debt issuance	(5)	–
Net cash inflows from financing activities	314	–
Net increase in cash and cash equivalents	2	–
Cash and cash equivalents at start of year	–	–
Cash and cash equivalents at end of year	2	–

The accompanying notes form an integral part of these financial statements.

Notes to the company financial statements

1. Basis of preparation and significant accounting policies

1.1 General information

The separate financial statements of the Company are presented as required by the Companies Act 2006. The basis of preparation and principal accounting policies adopted are the same as those set out in within the Group's consolidated financial statements, aside from the accounting policy in relation to share-based payments. For the Company, the cost of the awards are recognised on a straight-line basis to investment in subsidiaries (with a corresponding increase in the share-based payment reserve within equity) over the vesting period in which the employees become unconditionally entitled to the awards.

Incorporation of Metro Bank Holdings PLC

The Company was incorporated on 29 September 2022 as MB Group TopCo PLC with £50,000 of redeemable preference shares and £2 of ordinary shares, which were issued to Robert Sharpe (Chair) and Daniel Frumkin (Chief Executive Officer). On 12 December 2022, the Company changed its name to Metro Bank Holdings PLC. The Company remained a dormant company with no trading activities until the 19 May 2023, when it was inserted as the new ultimate holding company and listed entity of the Group.

The Company's main activity consists of holding the Group's external regulatory debt and share capital which is then downstreamed to Metro Bank PLC to meet the Bank of England's resolution requirements.

The Company adopted the predecessor value method with an investment in subsidiary of Metro Bank PLC being the book value of the balance sheet in Metro Bank PLC at the date of insertion. As part of this the share option reserve was transferred from Metro Bank PLC to the Company at its carrying amount on the same day.

1.2 Critical accounting estimates

The preparation of financial statements in conformity with IFRS requires us to make both material judgements as well as estimates which, although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2023 are appropriate and that these financial statements therefore present our financial position and results fairly. The areas involving a higher degree of complexity, judgement or where estimates have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year are:

Area	Estimates	Judgements	Further details
Impairment of investments in subsidiaries	Key assumptions used for VIU calculations	n/a	Note 3

2. Financial assets held at fair value through profit and loss

The financial assets held at fair value through profit and loss consist solely of intercompany loans used for downstreaming regulatory debt issued by the Company to Metro Bank PLC.

In line with resolution requirements these internal agreements incorporate the Bank of England's Statement of Policy giving the Bank of England power to write down the par value of the loans or convert the loans into equity. As such the intercompany loans fail the 'solely payments of principal and interest' test under IFRS 9 and have a mandatory classification of fair value through profit and loss.

The measurement of these assets is consistent with the measurement approach used to determine the fair value of the debt securities as set out in note 34 to the Group's consolidated financial statements.

3. Investment in subsidiaries

Accounting policy

The Company's only directly held subsidiary is that of Metro Bank PLC, which was recognised on 19 May 2023. The value of the subsidiary was recognised using the predecessor value method as set out in note 1.

At the end of each reporting period, the investment in the subsidiary is tested for impairment when there is an indication that the investment may be impaired. An impairment is recognised when the carrying amount exceeds the recoverable amount for that investment. The recoverable amount is the higher of the investment's fair value less costs of disposal and its VIU, in accordance with the requirements of IAS 36. The VIU is calculated by discounting management's cash flow projections for the investment. The cash flows represent the free cash flows based on the subsidiary's binding capital requirements.

Critical accounting estimate

Impairment of investment in subsidiary

The review identified that the carrying amount exceeded the VIU and that an impairment in the investment in Metro Bank PLC, the Company's only directly held subsidiary, of £428 million was required, which reduced the carrying amount to £682 million.

Key assumptions used for VIU calculations

The rate used to discount the cash flows is based on the cost of capital related to the investment, which is derived using a capital asset pricing model and market implied cost of equity. A discount rate of 17.50% (31 December 2022: n/a) has been used in the VIU. In determining the discount rate, management has used judgement and applied the Group's cost of equity, as this represents a proxy for the subsidiary's cost of equity given it represents substantially all of the Group.

The impairment assessment is most sensitive to the discount rate. A 2% increase or decrease in the discount rate would increase and decrease the impairment amount by £119 million and £160 million respectively. Reducing the discount rate to 13.2% eliminates the impairment entirely.

The profitability and growth rates applied are consistent with those used in the Group's impairment assessment as set out in note 15 to the Group's consolidated financial statements.

Increasing the free cash flows used in the VIU calculation by 10% would reduce the impairment by £68 million and decreasing the free cash flows used in the VIU calculation by 10% would increase the impairment by £68 million.

As the investment is eliminated upon consolidation within the Group's financial statements, it has no impact on the Group's capital position or regulatory ratios.

The Company had the following subsidiaries at 31 December 2023:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares directly held by the Parent (%)	Proportion of ordinary shares directly held by the Group (%)
Metro Bank PLC	UK	Retail banking	100%	–
SME Invoice Finance Limited	UK	Invoice financing	–	100%
SME Asset Finance Limited	UK	Asset financing	–	100%
RDM Factors Limited	UK	Dormant	–	100%

All of the Company's subsidiaries have their registered address at One Southampton Row, London, WC1B 5HA.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company do not differ from the proportion of ordinary shares held.

On implementation of the Holding company, the group adopted predecessor accounting as explained on page 222. The investment in Metro Bank PLC was recorded at the carrying value of the net assets of the bank on acquisition which was £965 million. In November 2023, the Company issued 500.0 million ordinary shares for consideration of £150 million, with associated costs of £6 million having been offset against the amount raised (see note 26 to the Group's financial statements for further details). In line with the resolution requirements, Metro Bank PLC issued 500.0 million new shares for consideration of £144 million to the Company to allow the proceeds of the capital raised to be downstreamed. An impairment of £428 million was recognised at year end.

3. Investment in subsidiaries Continued

Transactions between the Company and Group subsidiaries
In addition to the intercompany loans used for downstreaming regulatory debt set out in note 2, Metro Bank PLC provides the Company with a small amount of operational funding. The amounts outstanding as at 31 December 2023, primarily relate to the costs of the capital raise in November 2023 which were paid by Metro Bank PLC on the Company's behalf.

As at 31 December 2023 Metro Bank PLC had £7 million of accrued interest payable to the Company on the internal debt instruments used for downstreaming the regulatory debt. The timing of interest payments on these internal instruments is aligned to the interest payment dates on the external debt securities (see note 4).

	2023 £'million	2022 £'million
Amounts owed by Metro Bank PLC	7	–
Amounts owed to Metro Bank PLC	24	–

The transactions above are eliminated upon consolidation within the Group's financial statements.

4. Debt securities

Details of the Company's debt securities in issue can be found in note 20 to the Group's consolidated financial statements.

Hedge accounting is not applicable to the debt securities in issue at the Company level.

5. Called-up share capital

As set out in note 1 the Company was incorporated on 29 September 2022 with £50,000 of redeemable preference shares and £2 of ordinary shares. The £2 of ordinary shares have since been redeemed with the £50,000 of preference shares in the process of being redeemed.

As at 31 December 2023 the Company had 672.7 million ordinary shares of 0.0001p authorised and in issue. Further details on the Company's called-up share capital can be found in note 26 to the Group's consolidated financial statements.

6. Directors and employees

The Company has no employees. Metro Bank PLC provides the Company with employee services and bears the costs, associated with the Directors of the Company. These costs are not recharged to the Company.

7. Controlling party

As at 31 December 2023 the controlling party of Metro Bank Holdings PLC was Jaime Gilinski Bacal, through Spaldy Investments Limited a company registered in the British Virgin Islands and of which he is the sole director and shareholder.

The registered office of Spaldy Investments Limited is at the offices of Aleman, Cordero, Galindo & Lee Trust (BVI) Limited, 3rd Floor, Yamraj Building, Market Square, P.O. Box 3175, Road Town, Tortola, British Virgin Islands.

Additional information

In this section

Country-by-country report

The reporting obligations set out in the Capital Requirements Directive IV (CRD IV) have been implemented in the UK by the Capital Requirements (Country-by-Country Reporting) Regulations. The purpose of the regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The Group is a credit institution for the purposes of CRD IV and is therefore within the scope of Country-by-Country Reporting. Our activities are disclosed within note 1 to the financial statements.

For the purposes of Country-by-Country Reporting, the appropriate disclosures required are summarised below:

	UK
Number of employees (average full-time equivalent)	4,286
Turnover (£'million)	648.9
Profit before tax (£'million)	30.5
Tax expense (£'million)	(1.0)
Corporation tax paid (£'million)	0.8

No public subsidies were received during the year.

Basis of preparation

Country

Metro Bank Holdings PLC and its subsidiaries only operate within the UK and are all UK registered entities.

Full-time equivalent employees

FTE employees are allocated to the country in which they are primarily based for the performance of their employment duties. The figures disclosed represent the average number of FTE employee, all of which were employed in the UK.

Turnover and profit before tax

Turnover and loss before tax are compiled from the Metro Bank Holdings PLC consolidated financial statements for the year ended 31 December 2023, which are prepared in accordance with IFRS. Turnover represents the sum of the Group's net interest income, net fee and commission income, net gains on sale of assets and other income.

Tax credit and corporation tax paid

Corporation tax paid represents the net cash taxes paid to the tax authority, HMRC, during 2023. Corporation tax paid is reported on a cash basis and will normally differ from the tax expense recorded for accounting purposes due to:

- Timing differences in the accrual of the tax charge.
- Brought forward losses from previous years that were used to extinguish a portion of its taxable profits.
- Other differences between when income and expenses are accounted for under IFRS and when they become taxable.

Independent auditors' report to the directors of Metro Bank Holdings PLC

Report on the audit of the country-by-country information

Opinion

In our opinion, Metro Bank Holdings plc's (the "Group") country-by-country information for the year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

We have audited the country-by-country information for the year ended 31 December 2023 in the Country-by-Country Report.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the country-by-country information section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the country-by-country information in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the country-by-country information, which is not modified, we draw attention to note 1 of the country-by-country information which describes the basis of preparation. The country-by-country information is prepared for the directors for the purpose of complying with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013. The country-by-country information has therefore been prepared in accordance with a special purpose framework and, as a result, the country-by-country information may not be suitable for another purpose.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Understanding the Directors' going concern assessment process, including the preparation and approval of the budget. We obtained management's Board approved forecast covering the period of the going concern assessment to 30 June 2025. We evaluated the forecasting method adopted by the Directors in assessing going concern;
- Evaluation of management's financial and regulatory capital forecasts. We checked the mathematical accuracy of the model and evaluated the key assumptions using our understanding of the Group and external evidence where appropriate. We used our Prudential Regulatory experts to review the Bank's risk weighted assets and forecast capital requirement assumptions. We also performed a comparison of the 2023 budget and the actual results to assess the accuracy of the budgeting process;
- Evaluation of the appropriateness of management's severe but plausible scenario using our firm's economics experts and our understanding of the Bank and the external environment. We evaluated management's assumptions by performing an independent stress test to determine whether a reasonable alternative stressed scenario would result in a breach of minimum regulatory requirements;
- Considering the mitigating actions that management identified, including the reduction of costs and slowing down the origination of new loans and advances, and assessing whether these were in the control of management and possible in the going concern period of assessment;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England. We also reconciled Metro Bank Holdings PLC's liquidity position to its regulatory liquidity reporting returns;
- Reviewing correspondence between the Bank and its regulators and we met with the PRA during the audit and understood the PRA's perspectives on the Bank's risks and its capital and liquidity position; and
- Assessing the adequacy of disclosures in the Going Concern statement in note 1 of the Consolidated and Company Financial Statements and within the Assessment of going concern section of the Viability statement on page 50 and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from the date on which the country-by-country information is authorised for issue.

In auditing the country-by-country information, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the country-by-country information is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the directors of Metro Bank Holdings PLC
Continued

Responsibilities for the country-by-country information and the audit

Responsibilities of the directors for the country-by-country information

The directors are responsible for the preparation of the country-by-country information in accordance with the requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013 as explained in the basis of preparation in note 1 of the Country-by-Country Report and the accounting policies in the Consolidated and Company financial statements, and for determining that the basis of preparation and accounting policies are acceptable in the circumstances. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of country-by-country information that is free from material misstatement, whether due to fraud or error.

In preparing the country-by-country information, the directors are responsible for assessing the 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.

Auditors' responsibilities for the audit of the country-by-country information

It is our responsibility to report on whether the country-by-country information has been properly prepared in accordance with the relevant requirements of the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Our objectives are to obtain reasonable assurance about whether the country-by-country information as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this country-by-country information.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as UK tax legislation and the Capital Requirements (Country-by-Country Reporting) Regulations 2013. We evaluated management's incentives and opportunities for fraudulent manipulation of the country-by-country information (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed included:

- Enquiries of the Audit Committee, management, internal audit and the group's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the design and implementation of controls designed to prevent and detect irregularities relevant to financial reporting;
- Reviewing key correspondence and holding discussions with regulators, such as the FCA and the PRA, in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in respect of the determination of allowance for expected credit losses on loans and advances to customers, the carrying value of non-financial assets and the carrying value of the investment in subsidiary; and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, related to significant one off or unusual transactions, as well as year-end provisions or write downs and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the country-by-country information. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the country-by-country information is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Group's directors in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

The engagement partner responsible for this audit is Jonathan Holloway.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 April 2024

Other disclosures (unaudited)

Reconciliation of statutory balance sheet to risk-weighted asset

	31 December 2023			31 December 2022		
	Financial statements £'million	Average risk density %	Risk-weighted assets £'million	Financial statements £'million	Average risk density %	Risk-weighted assets £'million
Cash and balances with the Bank of England	3,891	1%	44	1,956	2%	30
Loans and advances to customers	12,297	46%	5,597	13,102	45%	5,949
Investment securities held at FVOCI	476	2%	11	571	4%	20
Investment securities held at amortised cost	4,403	4%	187	5,343	4%	215
Financial assets held at fair value through profit and loss	–	–	–	1	–	–
Derivative financial assets	36	–	–	23	–	–
Property, plant and equipment	723	100%	723	748	100%	748
Intangible assets	193	–	–	216	–	–
Prepayments and accrued income	118	43%	51	85	47%	40
Deferred tax assets[1]	3	267%	8	1	100%	1
Other assets	108	96%	104	73	89%	65
Total assets	22,248	30%	6,725	22,119	32%	7,073
Off-balance sheet assets			79			169
Credit risk (excluding counterparty credit risk)			6,804			7,242
Counterparty credit risk			26			9
Market risk			–			–
Operational risk			703			739
Total risk-weighted assets			7,533			7,990

1. In the consolidated balance sheet per the financial statements, deferred tax is shown as a net figure with the deferred tax liability, however, from a regulatory perspective the deferred tax asset and liability are treated separately.

Alternative performance measures (unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles under which we report. These measures are consistent with those used by management to assess underlying performance.

These alternative performance measures have been defined below:

Metric	KPI	Scorecard measure	LTIP	Definition
Cost of deposits	Yes	No	No	Interest expense on customer deposits divided by the average deposits from customers for the year.

	2023 £'million	2022 £'million
Interest on customer deposits (note 2)	147.8	32.9
Average deposits from customer	15,237	16,351
Cost of deposits	0.97%	0.20%

Metric	KPI	Scorecard measure	LTIP	Definition
Cost of risk	Yes	Yes	No	Expected credit loss expense divided by average gross loans.

	2023 £'million	2022 £'million
Expected credit loss expense (note 30)	33.2	39.9
Average gross lending	12,778	12,611
Cost of risk	0.26%	0.32%

Metric	KPI	Scorecard measure	LTIP	Definition
Coverage ratio	No	No	No	Expected credit losses as a percentage of gross loans.

	2023 £'million	2022 £'million
Expected credit losses (note 12)	199	187
Gross loans and advances to customers (note 12)	12,496	13,289
Coverage ratio	1.59%	1.41%

Retail mortgages	2023 £'million	2022 £'million
Expected credit losses – retail mortgages (note 12)	19	20
Gross retail mortgage lending (note 12)	7,817	7,649
Coverage ratio	0.24%	0.26%

Consumer	2023 £'million	2022 £'million
Expected credit losses – consumer (note 12)	108	75
Gross consumer lending (note 12)	1,297	1,480
Coverage ratio	8.33%	5.07%

Commercial	2023 £'million	2022 £'million
Expected credit losses – commercial (note 12)	72	92
Gross commercial lending (note 12)	3,382	4,160
Coverage ratio	2.13%	2.21%

Alternative performance measures (unaudited)
Continued

Metric	KPI	Scorecard measure	LTIP	Definition
Loan-to-deposit ratio	Yes	No	No	Net loans and advances to customers expressed as a percentage of total deposits as at the year end. It is a commonly used ratio within the banking industry to assess liquidity.
Net interest margin	No	No	No	Net interest income as a percentage of average interest-earning assets.
Non-performing loan ratio	No	No	No	Gross balance of loans in stage 3 (non-performing loans) as a percentage of gross loans as at year end.

Loan-to-deposit ratio

	2023 £'million	2022 £'million
Net loans and advances to customers (note 12)	12,297	13,102
Deposits from customer (note 18)	15,623	16,014
Loan-to-deposit ratio	79%	82%

Net interest margin

	2023 £'million	2022 £'million
Net interest income (note 2)	411.9	404.1
Average interest-earning assets	20,786	21,029
Net interest margin	1.98%	1.92%

Non-performing loan ratio

Total book	2023 £'million	2022 £'million
Stage 3 loans (note 30)	389	352
Loans and advances to customers (note 12)	12,496	13,289
Non-performing loan ratio	3.11%	2.65%

Retail mortgages	2023 £'million	2022 £'million
Stage 3 loans – retail mortgages (note 30)	146	111
Gross retail mortgage lending (note 12)	7,817	7,649
Non-performing loan ratio – retail mortgages	1.87%	1.45%

Consumer	2023 £'million	2022 £'million
Stage 3 loans – consumer (note 30)	77	50
Gross consumer lending (note 12)	1,297	1,480
Non-performing loan ratio – consumer	5.94%	3.38%

Commercial	2023 £'million	2022 £'million
Stage 3 loans – commercial (note 30)	166	191
Gross commercial lending (note 12)	3,382	4,160
Non-performing loan ratio - commercial	4.91%	4.59%

Alternative performance measures (unaudited)
Continued

Metric	KPI	Scorecard measure	LTIP	Definition
Return on tangible equity	Yes	No	Yes	Statutory profit after tax as a percentage of average tangible equity (average total equity less intangible assets).

	2023 £'million	2022 £'million
Statutory profit after tax (Consolidated statement of comprehensive income)	29.5	(72.7)
Average tangible equity	795	749
Return on tangible equity	4%	(10%)

Metric	KPI	Scorecard measure	LTIP	Definition
Statutory cost:income ratio	Yes	Yes	No	Statutory total operating expenses as a percentage of statutory total income.

	2023 £'million	2022 £'million
Total operating expenses (Consolidated statement of comprehensive income)	585.2	554.3
Total income (Consolidated statement of comprehensive income)	648.9	523.5
Statutory cost:income ratio	90%	106%

Metric	KPI	Scorecard measure	LTIP	Definition
Total shareholder return	Yes	No	Yes	Total capital gains and dividends returned to investors over a three-year rolling period.

	2023	2022
Share price at the start of the three-year period	126p	205p
Share price at the end of the three-year period	37p	121p
Total shareholder return[1]	(71%)	(41%)

1. No dividends were paid in either period

Metric	KPI	Scorecard measure	LTIP	Definition
Underlying cost:income ratio	No	No	No	Underlying total operating expenses as a percentage of underlying total income.

	2023 £'million	2022 £'million
Total underlying operating expenses (page 234)	530.2	532.8
Total underlying income (page 234)	546.5	522.1
Underlying cost:income ratio	97%	102%

Metric	KPI	Scorecard measure	LTIP	Definition
Underlying loss	Yes	Yes	No	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 calculation of underlying loss can be found on pages 233 to 234.

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

Alternative performance measures (unaudited)
Continued

Non-underlying item	Description	Reason for exclusion
Impairment and write-offs of property, plant, equipment and intangible assets	The costs associated with non-current assets that are either no longer being used by or are no longer generating future economic benefit for the business.	The impairments and write-offs relating to property, plant, equipment and intangible assets are removed as they distort comparison between years. This is on the basis that the write-offs and impairments relate to specific events and triggers which are not consistent between years.
Net C&I costs	These costs and income relate to the delivering the commitments associated with the Capability and Innovation Fund (awarded by BCR). Further details on this grant can be found in note 23.	The commitments under the Capability and Innovation Fund continue through to 2025. The costs associated with fulfilling the commitments and associated income are felt to distort year-on-year comparison. Given the offsetting nature of the income and expenditure, there is no net impact on our profitability from this adjustment.
Remediation costs	Remediation costs consists of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA (2022 only) as well as work undertaken in relation to financial crime.	The remediation costs are felt to be time limited and will disappear once the investigations have concluded, as such these are removed to allow greater comparability between periods.
Transformation costs	Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme.	The transformation costs are seen as a nonrecurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent year-on-year distortion.
Holding company insertion costs	Costs associated with the establishment and insertion of a holding company (Metro Bank Holdings PLC) above the operating company (Metro Bank PLC) to meet regulatory requirements.	During 2022 we started work on implementing our new holding company, which we sucessfully completed in May 2023. As such no further associated costs will be recognised in 2024.
Capital raise and refinancing (2023 only)	In November 2023 shareholders approved a £925 million capital package which consisted of £150 million of new equity, £175 million of new MREL-eligible debt and £600 million of debt refinancing. Costs associated with the refinancing were expensed to the income statement, including the impact of discontinuing the previous hedge relationships. Alongside this a £100 million gain was recognised on the haircut agreed by Tier 2 bondholders.	The nature of the capital package meant it was both significant and one-off and as such will not see any additional costs recur in relation to this.

Alternative performance measures (unaudited)

Continued

A reconciliation from statutory profit/(loss) before tax to underlying loss before tax is set out below.

Year ended 31 December 2023	**Statutory basis £'million**	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Capital raise and refinancing £'million	**Underlying basis £'million**
Net interest income	411.9	–	–	–	–	–	–	411.9
Net fee and commission income	90.4	–	–	–	–	–	–	90.4
Net gains on sale of assets	2.7	–	–	–	–	–	–	2.7
Other income	143.9	–	(2.4)	–	–	–	(100.0)	41.5
Total income	648.9	–	(2.4)	–	–	–	(100.0)	546.5
General operating expenses	(502.9)	–	2.4	20.2	–	1.8	26.0	(452.5)
Depreciation and amortisation	(77.7)	–	–		–	–	–	(77.7)
Impairment and write-offs of property, plant, equipment and intangible assets	(4.6)	4.6	–	–	–	–	–	–
Total operating expenses	(585.2)	4.6	2.4	20.2	–	1.8	26.0	(530.2)
Expected credit loss expense	(33.2)	–	–	–	–	–	–	(33.2)
Profit/(loss) before tax	30.5	4.6	–	20.2	–	1.8	(74.0)	(16.9)

Year ended 31 December 2022	**Statutory basis £'million**	Impairment and write-off of property, plant, equipment and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Capital raise and refinancing £'million	**Underlying basis £'million**
Net interest income	404.1	–	0.1	–	–	–	–	404.2
Net fee and commission income	81.8	–	–	–	–	–	–	81.8
Net gains on sale of assets	–	–	–	–	–	–	–	–
Other income	37.6	–	(1.5)	–	–	–	–	36.1
Total income	523.5	–	(1.4)	–	–	–	–	522.1
General operating expenses	(467.6)	–	1.4	3.3	5.3	1.8	–	(455.8)
Depreciation and amortisation	(77.0)	–	–		–	–	–	(77.0)
Impairment and write-offs of property, plant, equipment and intangible assets	(9.7)	9.7	–	–	–	–	–	–
Total operating expenses	(554.3)	9.7	1.4	3.3	5.3	1.8	–	(532.8)
Expected credit loss expense	(39.9)	–	–	–	–	–	–	(39.9)
Loss before tax	(70.7)	9.7	–	3.3	5.3	1.8	–	(50.6)

Abbreviations

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
ATM	Automated teller machine
BAME	Black, Asian and Minority Ethnic
BBLS	Bounce Back Loan Scheme
BCR	Banking Competition Remedies
BEIS	Department of Business, Energy and Industrial Strategy
bps	Basis points
C&I	Capability and Innovation Fund
CEO	Chief Executive Officer
CET1	Common Equity Tier 1 Capital
CFO	Chief Financial Officer
CMA	Competition and Markets Authority
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
D&I	Diversity and inclusion
DNED	Designated Non-Executive Director for Colleague Engagement
DTR	Disclosure Guidance and Transparency Rules
DTV	Debt-to-value
DVRP	Deferred Variable Reward Plan
EAD	Exposure at default
ECL	Expected credit losses
EPC	Energy Performance Certificate
ERC	Executive Risk Committee
ESG	Environmental, social, and governance
ExCo	Executive Committee
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSQS	Financial Services Qualification System
FTE	Full time equivalent
FVOCI	Fair value through other comprehensive income
GDP	Gross domestic product
GHG	Greenhouse gases
HMRC	His Majesty's Revenue and Customs
HPI	House price index
IAS	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based
KPI	Key performance indicator
LGBTQ+	Lesbian, gay, bisexual, transgender, queer plus
LGD	Loss given default
LIBOR	London Inter-Bank Offered Rate
LTI	Loan-to-income
LTIP	Long Term Incentive Plan
LTV	Loan-to-value
MPs	Members of Parliament
MREL	Minimum requirement for own funds and eligible liabilities
MSc	Master of Science
NED	Non-Executive Director
NICs	National insurance contributions
NPL	Non-performing loan
OFAC	Office of Foreign Assets Control
PAYE	Pay as you earn
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of default
PMA	Post model adjustments
PMO	Post model overlays
POCI	Purchased or originated credit impaired
PRA	Prudential Regulation Authority
PwC	PricewaterhouseCoopers LLP
REGO	Renewable Energy Guarantee of Origin
RLS	Recovery Loan Scheme
ROC	Risk Oversight Committee
RWAs	Risk-weighted assets
SBTi	Science-Based Targets Initiative
SICR	Significant increase in credit risk
SME	Small or medium-sized enterprise
SONIA	Sterling Overnight Index Average
TCFD	Task Force on Climate-related Financial Disclosures
TFSME	Term Funding Scheme with additional incentives for SMEs
UK	United Kingdom
VAT	Value added tax
VIU	Value in use

Shareholder information

Registrars

We have appointed Equiniti Limited to maintain our register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited[1,2]
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2311
International callers: +44 121 415 7095

1. Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.
2. Lines are open from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

Registered and other offices

Our registered office and head office is:

One Southampton Row
London
WC1B 5HA

Telephone: 0345 08 08 500/0345 08 08 508
Website: metrobankonline.co.uk

Unsolicited mail

We are required by law to make our share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:
Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT

Website: mpsonline.org.uk

Annual General Meeting

Our 2024 AGM will be held on 21 May 2024. Full details for the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on our website.

Shareholder profile

Shareholder profile by size of holding as at 31 December 2023

Range	Total number of holdings	Percentage of holders	Total number of shares held at 31 December 2023	Percentage of total
0-100	203	25.73%	8,067	0.00%
101-500	122	15.46%	32,525	0.01%
501-5,000	196	24.84%	344,346	0.05%
5,001-100,000	153	19.39%	4,331,319	0.64%
100,001-500,000	56	7.10%	12,820,897	1.91%
500,000+	59	7.48%	655,139,393	97.39%
Total	789	100.00%	672,676,547	100.00%

Shareholder profile by category as at 31 December 2023

Category	Number of holders	Percentage of holders within type	Shares held at 31 December 2023	Percentage of issued share capital
Private shareholders	501	63.50%	1,083,970.00	0.16%
Banks	2	0.25%	66,183	0.01%
Nominees and other institutional investors	286	36.25%	671,526,394	99.83%
Total	789	100%	672,676,547	100%

Forward-looking statements

This Annual Report and Accounts contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this Annual Report and Accounts are based on our current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance. No assurances can be given that the forward-looking statements in this Annual Report and Accounts will be realised. We undertake no obligation to release the results of any revisions to any forward-looking statements in this Annual Report and Accounts that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and we disclaim any such obligation.

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