# Annual Report & Accounts 2021

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

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

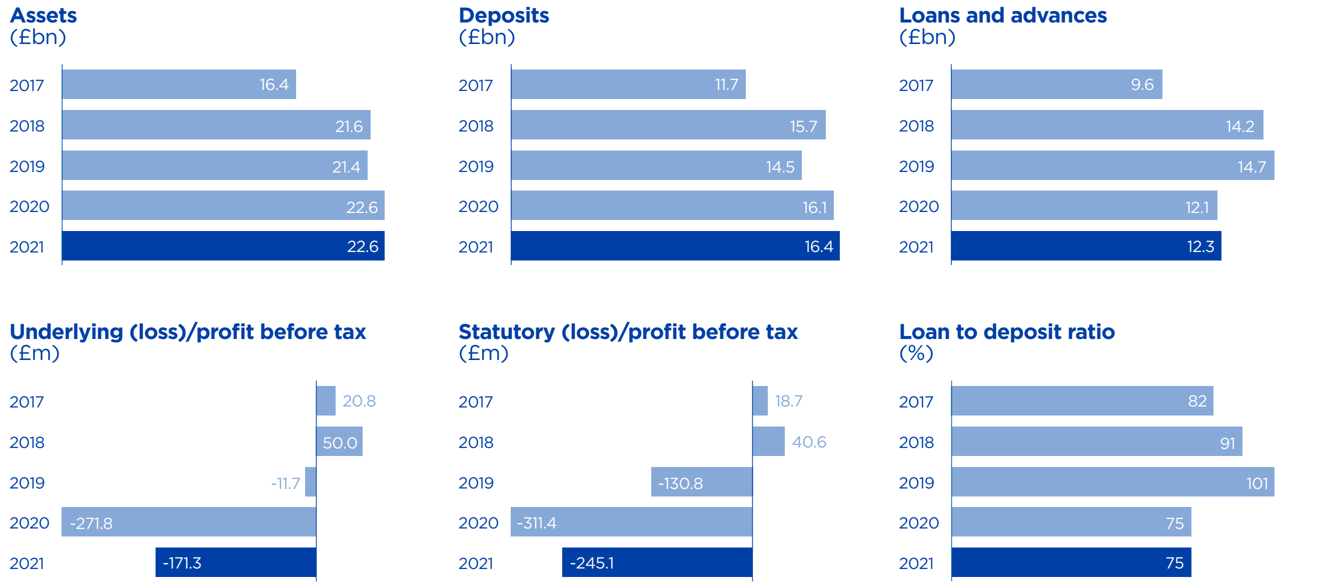
## WHAT'S INSIDE

# Summary of the year

Our results for the second year of our turnaround journey continue to reflect the challenging environment for UK retail banks of low interest rates, high regulatory capital requirements and an economy that continues to recover from the pandemic.

Despite these challenges our results show demonstrable progress against all elements of our strategy, with the business gathering the momentum that will allow it to return to sustainable profitability.

## FINANCIAL SUMMARY




## STRATEGIC SUMMARY

- Continued focus on balance sheet optimisation, including progress in movement towards becoming a specialist mortgage lender.
- Disciplined approach to store estate which included move to close three stores in 2022.
- Delivered over £750 million of unsecured personal loans (including purchase of RateSetter back book), more than 70x any other year in our history, as we build RateSetter's reputation as a leading provider of consumer credit.
- Opening of Bradford store and completion of Leicester store which opened in February 2022.
- Rated top for store service for 8th time running in Competition and Markets Authority (CMA) survey.
- Progression with Advanced Internal Rating-Based application (AIRB).
- Progress in regulatory investigations, including settlement with Prudential Regulation Authority (PRA).

# Metro Bank at a glance

Our service is what makes us special. Putting FANS first is, and always will be, the key to our success. Through our energised and dedicated colleagues, we build long-lasting and personal relationships with our customers and our communities, giving them the responsive banking they need.

**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 customers across retail, private, small business and commercial banking.

**Our approach**
Our approach is centred on our colleagues, customers and communities. This is allowing us to deliver our ambition to become the UK's best community bank and our purpose of creating FANS. Embracing our community-centric model and focusing on our localness informs everything we do and the decisions we make.

See pages 4 to 5 for more information

**Key statistics**
As at 31 December 2021

**£16.4bn**
Customer deposits

**78**
Stores

**£12.3bn**
Loans and advances

**24/7**
Customer service centre

**2.5m**
Customer accounts

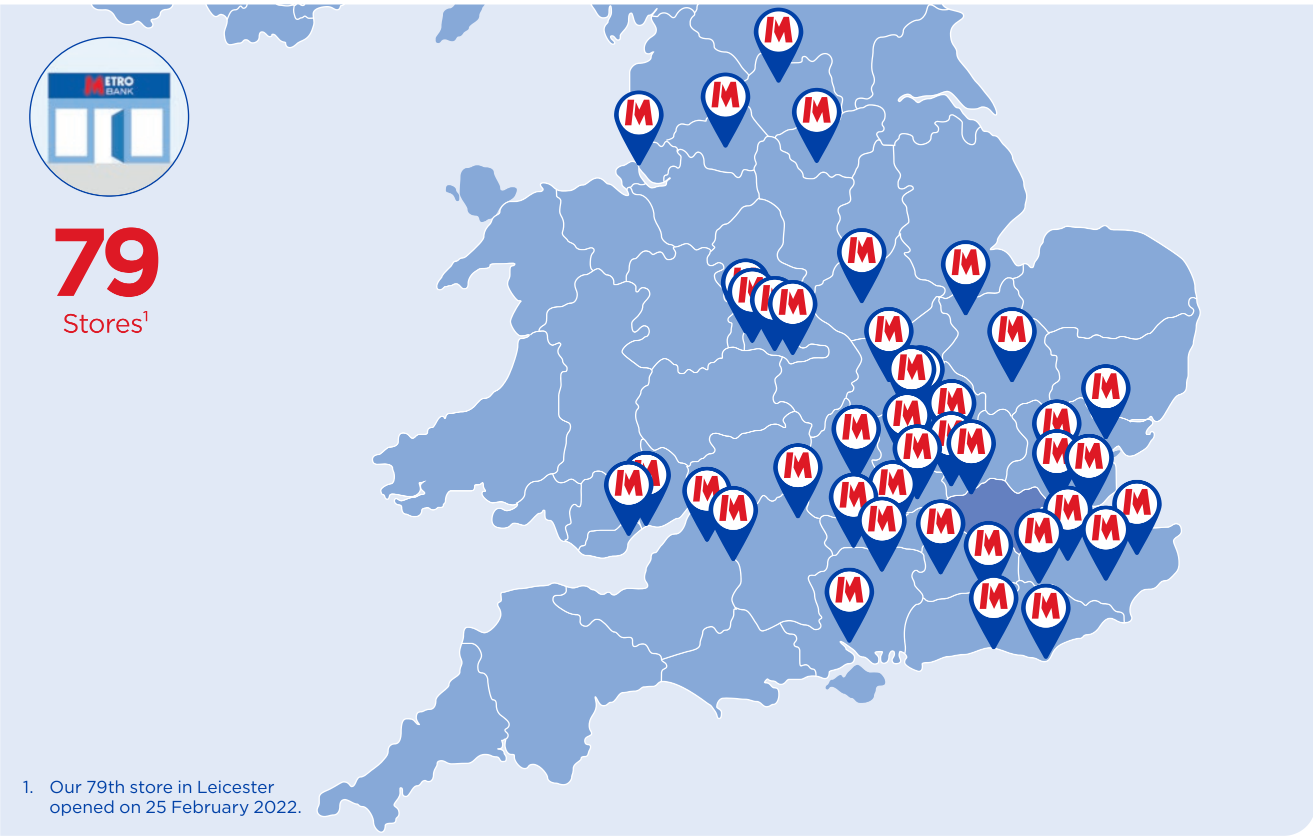
**No. 1**
Rated for store service[1]

1. Independent CMA survey carried out in Great Britain by Ipsos MORI between January 2021 and December 2021 – Services in branches. Results at www.ipsos-mori.com.

## Where we operate

Our network of 79[1] stores places us at the heart of the communities we serve, giving customers a face-to-face connection with our colleagues, while our telephone, mobile and online capabilities offer the convenience of banking when and where our customers choose.

Our stores are open early 'til late, seven days a week and as well as serving customers, host networking and community events.


1. Our 79th store in Leicester opened on 25 February 2022.

# Our purpose and strategy framework

OUR AMBITION

## To become the UK's best community bank.

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

## ...achieved through...

OUR PURPOSE

### To create FANS

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

## ...strengthened by...

OUR VALUES

Our values underpin 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**

# ...delivered via...

## OUR BUSINESS MODEL

We attract customers and create FANS by focusing on our business model. Our business model involves combining stores, telephony and digital with exceptional customer service to generate sustainable long term value and tangible book growth.

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

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

### Low-cost deposits
We attract low-cost deposits through our service-led community banking model with specific emphasis on our core retail and SME franchise.

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

See pages 10 to 13 for more information

# ...supported by...

## OUR STRATEGIC PRIORITIES

Delivering on these strategic priorities will ensure the sustainability of our business model and move us closer to achieving our ambition.

### Costs
Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint.

### Revenue
Meeting more customer needs through development of new capabilities.

### Infrastructure
Investment in integrated channels and core infrastructure.

### Balance sheet optimisation
Enhanced focus on risk-adjusted returns and growing tangible book value.

### Internal and external communications
Improve our approach to engagement.

See pages 20 to 21 for more information

# ...measured through...

## OUR KEY PERFORMANCE INDICATORS

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

See pages 14 to 15 for more information

# ...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.

See pages 126 to 147 for more information

# Chair's statement

I am pleased to introduce Metro Bank's 2021 Annual Report, as I complete the end of my first full year in role. The Bank's performance, the commitment of our colleagues, and the role we play in the communities we serve have exceeded my expectations.


Throughout the year, when COVID-restrictions allowed, it was great to visit more than 20 Metro Bank locations and it was impressive to see how our colleagues live the Bank's values every day – with a relentless focus on customer service. I also enjoyed spending quality time during the year with our Executive Committee. The ability of our people and their dedication to deliver in difficult circumstances is inspiring. It is clear that everyone I have met is focused on protecting the Bank's special culture while delivering on the turnaround plan.

This year has shown the resilience of the Bank's turnaround plan and the strength of the management team. This combination has ensured continuing momentum in returning the Bank towards sustainable profitability, while holding the ethos of superior service at its core.

### Results

Our results for the year are in line with expectations and show solid progress in reducing the loss year-on-year. Despite it being a difficult 12 months for the economy, businesses, and consumers, we have significantly reduced our expected credit loss expense to £22.4 million (2020: £126.7 million). The statutory loss before tax for the year was £245.1 million (2020: £311.4 million).

I am particularly pleased to see the Bank's strong performance in unsecured lending. Consumer lending increased to 7% of the total loan book from 2% a year earlier, resulting from the RateSetter back book acquisition and a strong increase in organic lending. Also in the lending space, we supported small businesses by offering the UK government-backed Bounce Back Loan Scheme (BBLS) top-ups and later in the year the Recovery Loan Scheme.

Capital continues to be the largest constraint on our ability to increase lending. We ended the year with a Total Capital plus MREL ratio of 20.5% (31 December 2020: 22.4%) compared to a regulatory minimum of 18%, or 20.5% including buffers (excluding any confidential buffer, if applicable). We continue to focus on generating higher risk-adjusted returns on regulatory capital, including progressing our AIRB application. This is in addition to my main priority, which is shared by the Metro Bank Board, of ensuring that the Bank builds on its progress towards sustainable profitability.

### Changes to Board Composition

In October 2021, we bade farewell to Sir Michael Snyder who was a Non-Executive Director at Metro Bank since 2015 and served as interim Chairman between October 2019 and November 2020. The Board thanks Sir Michael for his commitment and significant contribution during his tenure. As a result of his departure, Monique Melis became the Bank's Senior Independent Director (subject to regulatory approval) and I have replaced her as Chair of the Nomination Committee.

In February 2022, we announced that David Arden, Chief Financial Officer, had agreed with the Board that he would step down from the Board and leave the business on 1 April 2022. The Board would like to thank David for the important work that he has done to strengthen Metro Bank's financial controls. He has played an instrumental role in helping to deliver the Bank's strategic priorities and turnaround plan.

### Remuneration

One of the most important parts of my role is listening to the feedback from shareholders and stakeholders, and in 2020 we understood that there was more we could do to strengthen our approach to executive remuneration. As such we announced a new approach, more closely linked to shareholder outcomes. I'm pleased to say the new approach to Directors Remuneration was overwhelmingly voted for by shareholders at our Annual General Meeting (AGM).

### ESG

Metro Bank's approach to business and environmental, social, and governance (ESG) is to simply do the right thing for our colleagues, customers, shareholders and other stakeholders. The Bank already has a focus on supporting its local communities, has made great progress in ensuring there is diversity at all levels of the Bank and is working hard to close the gender pay gap. During a year which has seen such a significant international focus on climate change through COP 26, I am pleased to say that the Board and I also agreed to set a Net Zero target for the Bank's operations carbon emissions by 2030 and Net Zero in our supply chain by 2050. We are working through our plans to achieve these targets and will be updating stakeholders with our progress in next year's Annual Report.

### Legacy issues

At the end of the year the PRA investigation concluded and imposed a financial penalty. The Bank co-operated fully with the PRA and I am pleased that the investigation has been finalised and we can draw a line under this legacy issue. In the time since the errors were identified, Metro Bank has made significant improvements to, and substantial investment in, its regulatory reporting processes and controls. It has also strengthened its broader risk management and governance, demonstrating its commitment to accurate regulatory reporting and compliant growth. At the time of writing, we are in the process of making representations to the Financial Conduct Authority (FCA) on the Warning Notice and in particular on the appropriate level of penalty. As the process is confidential and ongoing, we are unable to comment further at this stage. The investigation is sufficiently advanced that the Bank thought it appropriate to provide £5.3 million for a potential penalty.

### The future

I said last year that Metro Bank had turned a corner. This year we have made considerable progress along the path of returning to being a profitable, challenger bank. Although we have taken the difficult decision to close three stores during 2022, we remain committed to our store network and this year we opened our new store in Bradford as well as a further store in Leicester in February 2022. Alongside our stores we will build on the digital advances we have made for customers during the year and invest in our digital products and services over future years.

We are continuing to monitor the effects of conflict in Ukraine and its impacts on the Bank. Given the rapidly evolving nature of events it is difficult to either predict or quantify with any certainty the impact at this stage.

I continue to be immensely grateful for the hard work and dedication of colleagues across the Bank. My Board colleagues and I would also like to acknowledge and thank shareholders for their ongoing support.

**Robert Sharpe**
23 March 2022

## Empowering small businesses

In June 2021 we launched a new brand and marketing campaign, demonstrating our commitment to empowering the UK's small businesses and demonstrating our business banking offering.

It featured three of our business customers, giving them an opportunity to showcase their businesses and delve into the close, mutually beneficial relationships they've built with us.

The three businesses featured were:

**Lexi's Treats,** which makes low calorie snack bars and has grown quickly with the support of Metro Bank. Lexi is a former banker turned businessman, who saw a gap in the market for low calorie snacks that genuinely taste great too.

**Daisy's Dog Empawrium**, a business making dog accessories and homemade dog treats, with a shop in Bluewater Shopping Centre in Kent. Daisy's secured a government-backed Bounce Back Loan with Metro Bank, enabling the business to develop e-commerce capabilities during lockdown.

**Koalaa Ltd,** which designs and produces bespoke prosthetic limbs for children and adults. Its core mission is to ensure that prostheses are comfortable and much more affordable.

As well as featuring the businesses the campaign also included each customer's business manager, which is a key component of our business proposition, with business customers getting their own dedicated business manager.

The campaign was our first ever to focus on our business offering and centred on radio advertising with support from an array of digital channels across social media, YouTube, display and paid search. The campaign was built upon our updated brand strategy focusing on "people-people banking" – the philosophy that whatever happens in the future of banking, people need people and value human relationships.

# Chief Executive Officer's statement

## 2021 saw the Bank complete the second year of its turnaround plan and I'm pleased to report it ends the year in a stronger position than when I took over the reins as CEO in 2020.


Our commitment to being the UK's best community bank continues to set us apart from our banking peers and our model continues to resonate with our FANS. Our personal and business customers have depended on Metro Bank to help them navigate what for many has been another difficult 12 months. They have also relied on the Bank to be their partner in the local communities where they live. Whether that is through supporting local community activities, donating colleagues' time and expertise, fundraising for good causes, providing space in our stores, or helping young people learn about money, Metro Bank has been there every step of the way, hand in hand.

We are proud to remain the UK's highest rated high street bank for customer service for the eighth time running. When you combine this relentless focus on exceptional customer service with our desire to continually surprise and delight and to create FANS, it's easy to see why we are the bank of choice for 2.5 million customer accounts.

### Our strategy

In early 2020, we identified the five strategic pillars that formed our turnaround strategy, designed to deliver improved shareholder returns and sustainable profitable growth. These comprise:

- Revenue
- Cost
- Infrastructure
- Balance sheet optimisation
- Communication

Our strategy is driven by an unwavering focus on customer service which we believe enables us to build deeper, more meaningful relationships with our customers. We achieve this with well-informed colleagues in our stores, our market-leading digital services, an easily accessible store footprint in the major cities and towns of England and Wales and a wide range of products to meet customers' banking needs.

### Progress

**Revenue**

We've made great progress in filling our shelves by adding new products that meet more of our customers' needs. Most notably, we strengthened our consumer lending operation with customers now able to take a loan through the RateSetter platform in-store, online and via our mobile app, as well as under the RateSetter brand on the main aggregator sites and its own website. We have also reinvigorated our credit card offer in our stores.

Also, in the lending space, we supported small businesses by offering the UK government-backed BBLS top-ups and later in the year the Recovery Loan Scheme. In Specialist Mortgages we have introduced new products. We also entered the insurance market, providing SME business insurance and pet insurance.

**Cost initiatives**

While the Bank continues to operate with a high fixed cost base in the form of its store footprint, we have worked hard to contain business as usual ('Run the Bank') costs which grew 3% on a like for like basis in the year. Costs to transform the Bank ('Change the Bank') have fallen by 15% in the second half of the year as this transformation programme has now passed its peak. The Bank continues to optimise its property footprint and has adopted a hybrid way of working for office-based colleagues, utilising space above and alongside our existing store network. We have purchased the freehold of seven stores since 2020, lowering our occupancy costs and consolidated our call centre operations into three main sites in Bristol, Slough and Ilford.

We have also made the difficult decision to close three of our stores – Earl's Court, Milton Keynes Midsummer and Windsor. Our stores are fundamental to our customer and community proposition, culture and brand, but like any good retailer we regularly review how our stores are doing. While we are happy with our store estate overall, these three stores have certain unique challenges: Earl's Court was a fantastic billboard when

Metro Bank first opened, but it's in a low footfall area; Windsor has high footfall, but much of this is driven by tourists rather than residents; and we have two stores in Milton Keynes – one with a lease break coming up, and we're confident we can meet our customers' needs with one store. While our colleagues have done a great job of trying to make these three stores successful, this is the right decision for the Bank and we're pleased to be able to make these closures without any colleague redundancies.

Furthermore, we have worked hard to simplify complex processes and systems and to work more efficiently. We have also transformed the way we deliver our change agenda by introducing Agile methodology, which centres around value streams, to help IT, Change, and Product teams design and deliver new products and solutions more quickly.

**Infrastructure**
Throughout the year we invested in the Bank's IT resilience and delivered upgrades and improvements that have reduced vulnerability. The Bank has focused on its regulatory requirements and introduced Strong Customer Authentication and card migration to meet PSD2 requirements. There has also been progress on our financial crime improvement, GDPR and cyber programmes, which have all delivered a range of improvements further protecting the Bank.

During the year we recruited colleagues to ensure that customers in financial difficulties received the support they needed; we launched a service to support the new Debt Respite Scheme (Breathing Space) guidance to alleviate pressure from customers with financial or mental health difficulties; and we delivered Pay-As-You-Grow functionality in line with BBLS requirements to support businesses beyond the pandemic.

All of these initiatives have helped make the Bank safer, more resilient and fit for the future.

**Balance Sheet Optimisation**
During the year we have made meaningful strides in reshaping the Bank's balance sheet. We acquired the RateSetter back book, significantly increased the volume of consumer lending and ramped up specialist mortgages. In tandem we actively managed down high-cost fixed term deposits and increased the proportion of current accounts and low-cost instant access savings accounts. These activities have resulted in increased yield and a lower cost of deposits. At the end of the period, RateSetter has established itself as a leading provider of consumer credit in the open market.

**Culture and Communication**
We've done lots of work to showcase what makes Metro Bank stand out from the crowd, from our small business banking campaign to our refreshed RateSetter website. Our colleagues in-store have embraced being Champions of our Community through educating children with our Money Zone Programme, our in-store events, and the work we have done with local charities. This year saw us increase our spend on digital and performance marketing. We have also invested in hyper-local marketing to drive footfall into stores across England and Wales and highlight our community credentials.

## Results
The Bank has shown year on year, half on half and quarter on quarter improvements in its financial results. The financial performance is in line with our expectations and demonstrates promising momentum in the business.

The bank reported a loss before tax of £245.1 million, an improvement on last year's loss (2020: loss of £311.4 million). Underlying loss before tax reduced by 37% to £171.3 million, and second half underlying loss of £61.3 million is down 44% on the first half, highlighting the momentum towards profitability. While good progress is being made to return to sustainable profitability, I fully understand that these losses need to be minimised swiftly and I am confident our strategy will achieve that.

## The future
The Bank's strategic pillars, transformation plan and relentless focus on the provision of superior customer service will continue into 2022. We were once again rated the top high street bank for overall service for personal and business customers in the latest Competition and Markets Authority Service Quality rankings and number one for store service for the eighth time running. This is welcome external validation of the continued efforts of our colleagues across the business.

2021 saw the Bank complete much of the heavy lifting required to transform from being loss-making towards sustainable profitability. Metro Bank is a business to be proud of, with colleagues who are dedicated to meeting the needs of their customers and communities.

As I come to the end of my second year in role, after another challenging year, I am proud of the achievements of 2021, the progress we have made in the Bank's turnaround and most of all the support we have provided to our local communities. There is still much to do in the coming months, but we start 2022 with real momentum.

## Finally
Metro Bank's success is directly attributable to my fantastic colleagues who I am blessed to lead. Their brilliance, dedication, customer focus, caring natures and focus on others inspires me every day. While it doesn't seem like enough, all I can do is say a huge thank you.

**Daniel Frumkin**
23 March 2022

# Business model

Our business model involves combining an integrated model of stores, telephony and digital with exceptional customer service to generate sustainable long term value for all our stakeholders.

## We take inputs in the form of...

**AWARD WINNING CUSTOMER SERVICE**

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

**INTEGRATED DELIVERY**

We focus on combining the best of physical and digital. Through a network of 79 stores, digitally and on the phone we serve our 2.5 million customer accounts.

**OUR VALUES**

Our AMAZEING values are at the heart of everything we do. By having our values embedded within the organisation it makes sure that our customers and communities inform the decisions we make.

**OUR STRATEGIC PRIORITIES**

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

Details on pages 20 to 21

## ...underpinned by a framework of...

**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 whilst at the same time ensuring this is done in a managed and appropriate manner.

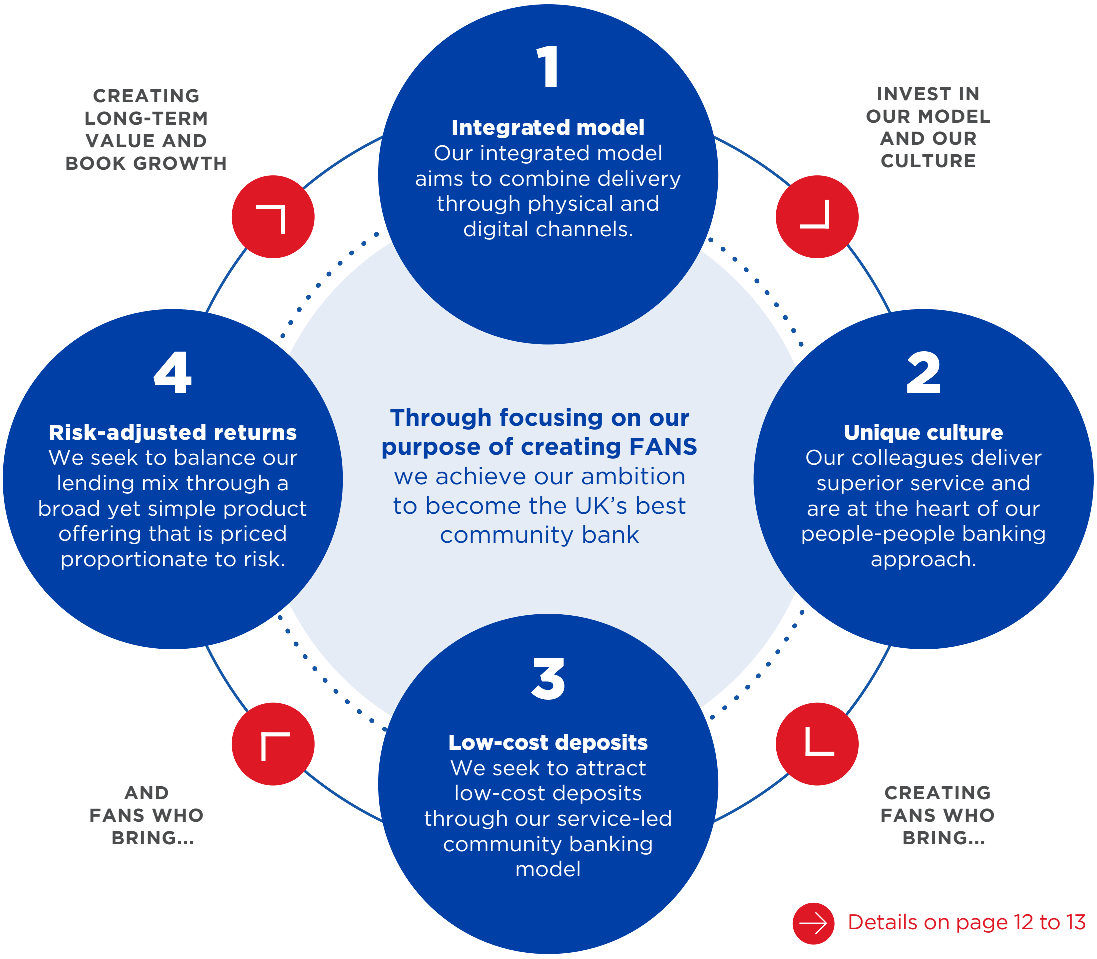
Details on page 52 to 91

**GOVERNANCE**

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

Details on page 92 to 151

# ...and apply our business model...




Details on page 12 to 13

# ...to deliver outcomes in the form of...

## STAKEHOLDER OUTCOMES

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

**2.5 million**
Customer accounts

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

**over 230k**
Children put through Money Zone

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

**£5.4 million**
Settlement with PRA in relation to regulatory investigation

### COLLEAGUES
We create fulfilling careers where colleagues can progress and excel.

**73%**
Positive colleague sentiment for culture in latest colleague survey

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

**over 100**
Investor meetings in 2021

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

**560**
Active suppliers (excluding brokers)

# Business model continued

| | PROGRESS IN 2021 | PRIORITIES |
|---|---|---|
| **Integrated model**<br><br>**Our integrated model aims to combine delivery through physical and digital channels.** | – Optimisation of store estate resulting in announcement of three store closures, opening of Bradford store and near completion of Leicester store.<br>– Purchase of four freeholds taking the proportion of our estate that is owned outright to over a third.<br>– Integrated unsecured lending offering into all our stores. | – Plan for new store openings.<br>– Build out new digital offerings. |
| **Unique culture**<br><br>**Our colleagues deliver superior service and are at the heart of our people-people banking approach.** | – Gave over 30,000 volunteer hours of time to support local causes.<br>– Created 100 new roles at our new AMAZE Direct contact centre in Bristol.<br>– Awarded a Gold Employer Recognition Scheme award in recognition of our work supporting the Armed Forces.<br>– Promoted 565 colleagues. | – Invest in our colleagues and continue to develop talent from within.<br>– Continue to champion and increase diversity across all levels to ensure we represent the communities we serve. |
| **Low-cost deposits**<br><br>**We seek to attract low-cost deposits through our service-led community banking model with specific emphasis on our core retail and SME franchise.** | – Reduction in cost of deposits from 0.65% to 0.24% reflecting continued discipline on pricing.<br>– Increase in net fee and commission income 16% to £69.6 million as the economy continued to rebound from the COVID-19 pandemic.<br>– Continued shift in the deposit mix away from fixed-term deposits. | – Retain low cost of deposits in the face of increasing base rate.<br>– Build out fee earning potential on our services. |
| **Risk-adjusted returns**<br><br>**We seek to balance our lending mix through a broad yet simple product offering that is priced proportionate to risk.** | – Delivered over £750 million of unsecured personal loans (including the purchase of RateSetter back book), more than 70x any other year in our history.<br>– Launch of capital-efficient Recovery Loans Scheme (RLS) lending and delivery of £157 million of lending, with a strong pipeline as at 31 December 2021.<br>– Increased range of specialist mortgages including enhancements of buy-to-let products.<br>– Launch of new insurance products, including pet insurance. | – Fulfil strong pipeline of RLS lending.<br>– Continue to increase front book lending yields as base rates rise.<br>– Improve returns and risk density of treasury portfolio.<br>– Continued focus on unsecured lending with the development of new products including motor finance. |

| MARKET RISKS & OPPORTUNITIES | REMUNERATION & RISK | KPIs |
|---|---|---|
| **Risks**<br>– Continued strong competition, both from digital-only banks and incumbents.<br>**Opportunities**<br>– Return of high street activity allows us to increase our presence and also grow fee income.<br>– Opening of new stores allows us to penetrate new markets. | **Remuneration**<br>Customers<br>**Risk**<br>Operational risk<br>Strategic risk | **Number of accounts**<br>2021: 2.5 million<br>2020: 2.2 million<br>**Customer satisfaction**<br>2021: 90 (new to bank) 42 (existing)<br>2020: 86 (new to bank) 45 (existing) |
| **Risks**<br>– Competitive market for talent remains at all levels.<br>– High wage inflation, especially in specialist roles.<br>**Opportunities**<br>– Better use of our property footprint allows us to expand our talent pool outside of London. | **Remuneration**<br>People<br>**Risk**<br>Operational risk<br>Conduct risk<br>Legal risk<br>Strategic risk | **Colleague engagement**<br>2021: 69%<br>2020: 73%<br>**Senior leadership diversity**<br>2021: 20% (BAME) 43% (female)<br>2020: 11% (BAME) 38% (female) |
| **Risks**<br>– Continued competition for current accounts.<br>– As Term Funding Schemes wind down competition for wider deposits likely to increase.<br>– Increased legal and regulatory requirements relating to financial crime, requiring further investment, over that anticipated.<br>**Opportunities**<br>– Forecast base rate rises allow net interest margin to widen as we retain low cost deposit base.<br>– New product launches allow us to penetrate new markets. | **Remuneration**<br>Financial<br>**Risk**<br>Liquidity and funding risk<br>Market risk<br>Financial crime<br>Regulatory risk<br>Legal risk | **Cost of deposits**<br>2021: 0.24%<br>2020: 0.65% |
| **Risks**<br>– Slowdown in housing market as interest rates increase.<br>– Global uncertainty and high inflationary environment increasing pressure on expected credit losses.<br>**Opportunities**<br>– Rising base rate environment provides opportunities to increase lending yields.<br>– Greater ability to grow unsecured lending as consumer confidence returns post-pandemic.<br>– Progression of AIRB application gives the potential to gain greater capital efficiencies. | **Remuneration**<br>Financial<br>Risk<br>**Risk**<br>Credit risk<br>Market risk<br>Financial crime<br>Regulatory risk<br>Model risk<br>Capital risk | **Cost of risk**<br>2021: 0.18%<br>2020: 0.86%<br>**Loan to deposit ratio**<br>2021: 75%<br>2020: 75%<br>**CET1 ratio**<br>2021: 12.6%<br>2020: 15.0% |

Market risks & opportunities: pages 16 to 19
Risks: pages 52 to 91
KPIs: pages 14 to 15
Remuneration: pages 126 to 147

# Key performance indicators

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

### Link to business model

**Components of our business model**
Our business model consists of:

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

Our business model is set out on pages 10 to 13. This includes showing how our KPIs link to the above components.

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

- Total shareholder return
- Return on tangible equity

### Link to remuneration approach

Our approach to remuneration for management is based on a simple and clear scorecard in addition to an 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.

Further details on our remuneration approach can be found on page 130

### Alternative performance measures

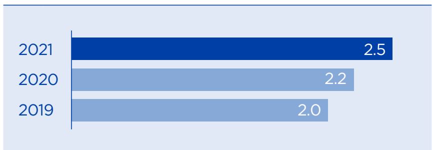
Where a financial KPI is an alternative performance measure a reconciliation to the nearest statutory measure can be found on pages 224 to 226.

Link to remuneration

- S Scorecard Measure
- L LTIP Measure
- A Alternative performance measures

## NON-FINANCIAL

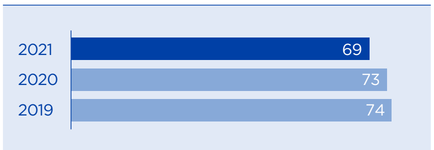
### Customer accounts (m)




**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.

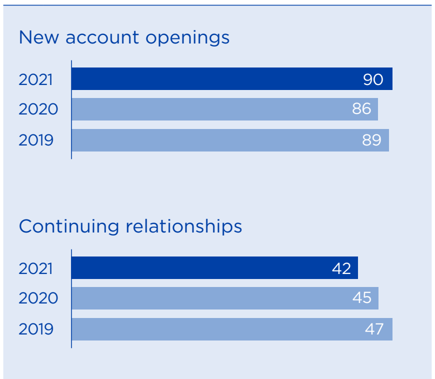
### Colleague engagement (%) S




**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 Metro Bank.

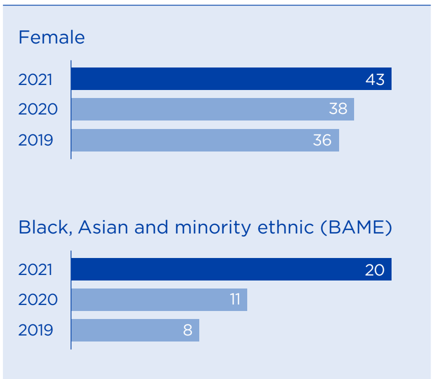
### Customer satisfaction (%) S




**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.

### Diversity (%) S

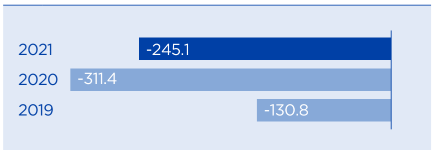



**How we define it**
Proportion of female/BAME colleagues amongst our senior leadership (the ExCo and their direct reports).

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

## FINANCIAL

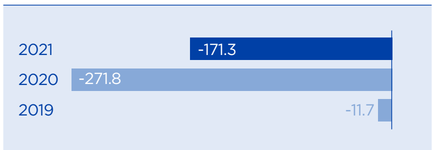
### **Statutory loss before tax** (£m)




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

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

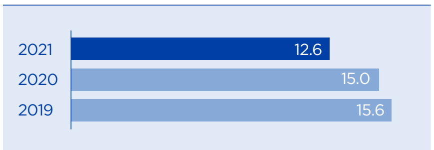
### **Underlying loss before tax** (£m) S A




**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.

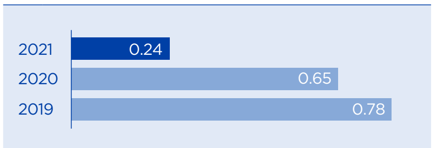
### **CET1 ratio** (%)




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

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

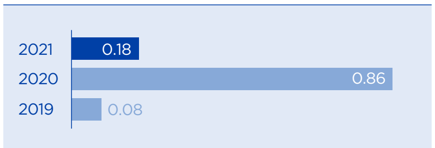
### **Cost of deposits** (%) A




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

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

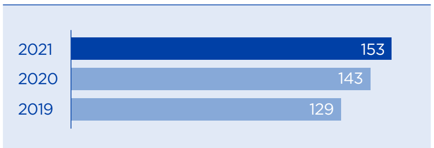
### **Cost of risk** (%) S A




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

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

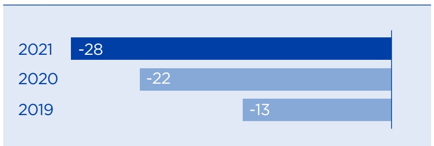
### **Statutory cost: income ratio** (%) S A




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

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

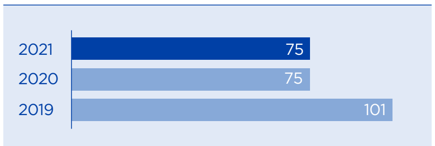
### **Return on tangible equity** (%) L A




**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.

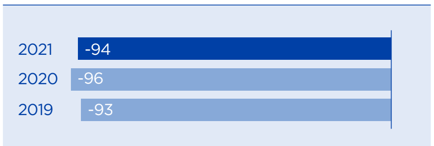
### **Loan to deposit ratio** (%) S A




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

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

### **Total shareholder return** (%) L A




**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.

# External market review

## We monitor the external market in order to effectively anticipate and respond to the challenges and opportunities we face now and in the future.

### Economic outlook

The UK economy has seen a strong recovery in 2021. The easing of the COVID-19 pandemic restrictions as well as increased vaccination rates across 2021 resulted in improved consumer confidence and spending, stimulating GDP growth of 7.5% in the year. The UK economy is expected to continue to recover over the course of 2022 as the impact of the COVID-19 pandemic begins to subside, subject to the impact of new COVID-19 variants and the continuation of government support initiatives.

However, economic conditions are expected to continue to be uncertain as the longer-term impacts of the pandemic, as well as the emerging impacts resulting from the Russian invasion of Ukraine, remain to be fully understood. CPI inflation rose to 5.4% in 2021 and is expected to continue to rise in 2022 driven largely by energy and goods prices. Further to this, whilst the unemployment rate in the UK fell to 4.1% in Q4 2021, exceeding initial expectations and notably above pre-pandemic levels, the full impacts of the withdrawal of the Government's Furlough Scheme in September 2021 are yet to fully materialise.

Given the pace of the UK economic recovery and increased inflationary pressures, the Bank of England has started to increase the base rate.

The government replaced the Business Bounce Back Loans Scheme (BBLS) with the Recovery Loans Scheme (RLS) in April 2021 to ensure extended support to UK businesses that continue to recover from the impacts of the pandemic. Banks, including ourselves, played an important role in ensuring the RLS scheme was set up promptly to support our customers.

Competition in the housing market remains strong and house prices have continued to rise, with the Housing Price Index increasing to 10.8% in 2021.

**Our response**

Throughout the pandemic Metro Bank stores remained open to ensure we were there to support customers when and where they need us. Investment has also continued in our customer support function to ensure we can provide help to personal and business customers through the economic recovery.

The improved economic conditions have driven additional personal lending growth and a rise in fee income, a trend that is expected to continue as the economy recovers.

We delivered all government-backed loan initiatives at pace when they were launched in 2020 and continued to update these through 2021 to ensure they were available to customers. So far, we have lent over £1.6 billion of government-backed loans to

customers, making sure we have been there to support our customers as they begin to recover from the impacts of the pandemic.

To recognise the importance of consumer finance, a new dedicated consumer finance division was created in June 2021, focusing on expanding our personal and business lending capabilities.

Returning to sustainable profitability remains a key focus for management and the Board.

## Competition

The large banks continue to dominate the current account market (the largest four banks hold around 64% of personal current accounts and around 67% of micro-business current accounts[1]) which as a result remains highly concentrated. Those banks use their scale and capital advantages to offer large switching incentives to attract customers whilst challenger banks are largely focused on targeting specific customer segments with an increasingly sophisticated digital offering.

Healthy competition is also being seen in the consumer finance market, especially in the case of new and emerging propositions such as "Buy Now, Pay Later". Further to this, the rising popularity of aggregators and price comparison sites amongst customers has increased price competition as well.

The stamp duty holiday ending in September 2021 has resulted in a reduction in property transactions, and an increase in excess liquidity in the market. This has led to elevated price competition that we expect to continue in the medium term, even in the face of base rate increases.

Savings and deposit balances have remained higher than pre-pandemic levels but have been reducing as consumer confidence returns, and competition in the deposits market has been relatively low with limited new entrants.

1. Source: FCA Strategic Review of Retail Banking Business Models, January 2022.

**Our response**

In response to the competitive pressures in the prime mortgage market, we have maintained our strategy of pulling back from mainstream mortgage lending and instead focusing on higher-yielding segments through a range of specialist mortgage products. Further investment into this strategy is expected in 2022, including the launch of a new limited company buy-to-let product and high net worth proposition.

Building off the successful RateSetter acquisition in 2020, we launched a personal loans proposition across all our stores and digital channels, whilst continuing to offer personal loans through aggregator channels.

In April 2021 we purchased the RateSetter back book and have successfully completed the integration of the RateSetter business acquired the year before. We are continuing to invest in our consumer finance division with the expected launch of new products including automotive finance and digital lending products for SMEs.

We continue to invest in our digital channels to attract new customers and support existing customers to give them choice in the way they bank with us; further investment is expected during 2022 as we build more servicing and sales capability. We believe in a multi-channel approach and our #1 service ranking for branch banking supports growth in accounts across personal and business banking sectors across all channels.

# External market review continued

## Capital regime and funding

At the start of the pandemic regulators moved quickly to ensure that the banking system could support the economy during a period of stress. Several measures were employed to enhance banks' capital positions such as the Capital Requirements Regulation (CRR) 'Quick Fix' package that included an additional IFRS 9 transitional agreement and changes to the SME supporting factor. The IFRS 9 transitional relief was initially applied at 100%, falling to 75% on 1 January 2022 and subsequently 50% and 25% in the two years following. The measures also included a reduction in the countercyclical buffer to 0% from 1%, although the Bank of England has since announced that this will return to 1% from 13 December 2022, rising to 2% in Q2 2023 if the economic recovery proceeds in line with its expectations.

In 2021 the European Banking Authority (EBA) also provided relief through a change to the capital treatment of software assets, however as expected in July 2021 the PRA announced that software assets would revert to being deducted for UK entities from 1 January 2022.

UK financial institutions, including ourselves, with total assets greater than £15-25 billion are subject to the most stringent MREL requirements defined under the 'bail-in' stabilisation power within the European Union's Banking Recovery and Resolution Directive. The Bank of England adopted a transitional period, with an interim requirement from 1 January 2020 equal to 18% of risk-weighted assets (RWAs) plus regulatory buffers. End-state requirements for 'bail-in' banks are equal to twice its Pillar 1 and Pillar 2A requirement, plus regulatory buffers. Furthermore, UK resolution entities subject to a bail-in strategy are required to have MREL resources subordinated to operating liabilities using structural subordination, requiring the formation of a holding company.

In December 2021 the Bank of England issued a policy statement following a review of its approach to setting MREL requirements.

**Our response**

We continue to deliver on our strategic priorities to ensure we return to sustainable profitability. A core component of this is our focus on risk-adjusted return on regulatory capital to drive transformation in our lending mix, with significant growth in unsecured personal lending, government-backed loans and specialist mortgages.

In February we completed the remaining 10% of the £3.1 billion residential mortgage portfolio sale. The disposal increased our capital headroom and removed the need to issue additional MREL qualifying debt in 2021.

The portfolio sale also increased our liquidity significantly and we optimised our treasury asset mix to enable us to benefit as the yield curve began to steepen in the latter half of the year.

Our loan to deposit ratio is below historic levels, constrained by our capital position, presenting an opportunity to accelerate growth as we begin to free up capital.

We continue to progress our AIRB application to reduce risk density and increase our competitiveness.

### Pillar 3

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

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

## Regulatory environment

The regulatory environment continues to evolve and banks and other financial services firms continue to be subject to monitoring and oversight from the regulators from both a Prudential and Conduct perspective.

The fair treatment of customers continues to remain a key focus area for the FCA, borrowers in financial difficulty are of particular interest due to the COVID-19 pandemic. More broadly the FCA is consulting on the introduction of the consumer duty, a new consumer principle which would mandate firms to deliver good outcomes for retail clients. The FCA published their second consultation on this matter in December 2021, with a Policy expected in July 2022.

The UK government has committed to achieve a net zero economy by 2050, whilst the financial services industry has commenced work to assess the financial impact of climate change, further policy change can be expected throughout the coming years to ensure the industry assists in meeting the government's ambition.

Emerging events in relation to the Russian invasion of Ukraine are increasing regulatory requirements and focus on financial crime, noticeably in respect of sanctions.

Other key areas of focus include Operational Resilience, where the regulators are expecting firms to be operationally resilient against disruption, and diversity and inclusion, where the regulators are developing their approach on how to measure a firm's progress against diversity outcomes. Their aim is to ensure a consistent approach across the financial services industry.

**Our response**
We continue to monitor closely and prepare for further regulatory initiatives including the proposed consumer duty and the impacts of climate change, to

ensure that we remain well placed to identify impacts to our business model and our ability to continue to support our customers effectively. Alongside this, we continue to invest in and evolve our financial processes and systems including those related to regulatory compliance and financial crime.

## Consumer behaviour

The COVID-19 pandemic has led to significant shifts in consumer behaviour, some of which appear permanent, whilst others may begin to revert as the UK economy recovers. As the lockdown restrictions eased and vaccination rates grew, consumer confidence began to increase over the first half of 2021. However, uncertainty over new emerging COVID-19 variants negatively impacted consumer confidence in the fourth quarter. This suppressed transaction activity across all banking channels, especially in stores, but also increased demand for both consumer and business lending.

Since the easing of the government restrictions, consumer confidence and expenditure on non-essential items has increased, albeit at a slower rate than expected.

Increased demand for business lending was evident from the take up of the government-backed lending schemes launched in 2020 and is expected to continue through the RLS scheme that launched in April 2021.

The trend towards personal and business customers preferring digital to physical channels has been accelerated by the COVID-19 pandemic. Whilst this is not a new trend, the COVID-19 pandemic increased customer preference for digital channels and required banking providers to enhance their digital capabilities to service customers' needs throughout the national lockdowns.

**Our response**
We have continued to support our communities throughout the pandemic and economic recovery by ensuring they have continued access to our banking services either in-store, via telephone or online.

Transactional activity in our stores has increased as expected. We remain committed to serving our personal and business customers across our store network.

Investment in our digital capabilities has continued and we have delivered several updates to both our business and personal online banking platforms, and we are also piloting the use of web chat technology to improve the way we communicate with our customers.

Our 'Magic Makers' start-up accelerator programme launched in September 2021, and we have partnered with three innovative software start-ups. This demonstrates our commitment to supporting UK start-ups and small businesses and allows us to leverage their technology to enhance and improve processes across our stores, telephone banking sites and digital channels.

# Strategic priorities

| | DETAILS |
|---|---|
| **Costs**<br>**Tight cost control through back-office efficiencies, organisational simplification and disciplined property footprint.** | Fixed costs are a significant portion of our cost base, notably our store estate. We are therefore focused on achieving greater operational leverage.<br>We continue to focus on initiatives to contain cost growth and have undertaken a transformation programme to ensure these are both contained and proportionate in allowing us to drive revenue growth. |
| **Revenue**<br>**Meeting more customer needs and development of new capabilities.** | There is significant opportunity for us to grow our revenue by increasing net interest income and fee and commission income by building stronger relationships with our existing customers, continuing to attract more people to our stores and embedding ourselves in more communities in the UK.<br>We are also focused on improving our range of products, as well as their availability through new and existing channels. This will allow us to deepen our customer relationships through meeting more of their needs, allowing us to maximise our revenue opportunities. |
| **Infrastructure**<br>**Investment in integrated channels and core infrastructure.** | We are continuing to build our #1 service proposition in-store and digitally to ensure we continue to offer the best channel experience in an efficient way. We therefore continue to invest in our digital and physical infrastructure to deliver process improvements and enhance our core capabilities as well as ensuring that we keep pace with the ever-changing regulatory agenda.<br>We continue to be committed to stores, but will ensure that new openings are done in a more cost-efficient way. We'll also grow our digital service offering and provide customers with more self-service opportunities. By pivoting towards greater automation we will improve our speed to market and streamline back-office functions. |
| **Balance sheet optimisation**<br>**Enhanced focus on risk-adjusted returns and growing tangible book value.** | Capital continues to be the greatest constraint on our ability to grow. We are therefore focused on optimising our balance sheet to maximise returns on risk-adjusted regulatory capital. We are achieving this through rebalancing our lending mix towards higher-yielding areas such as specialist mortgages, SMEs and retail unsecured loans.<br>We continue to explore corporate transactions, such as the mortgage portfolio sale which completed in 2021, where these are attractive, although our predominant focus remains on growing organically and managing our lending mix through natural attrition. |
| **Internal and external communications**<br>**Improve our approach to engagement.** | We are focused on improving our engagement with customers and colleagues ensuring we are both clear and transparent in our communications. This will allow us to showcase our proposition and help stakeholders understand what Metro Bank stands for and what differentiates us from our competitors. |

| PROGRESS IN 2021 | PRIORITIES IN 2022 |
|---|---|
| – Agreed the purchase of a further four store freeholds.<br>– Prepared for the closure of three stores in 2022.<br>– Reduced head count from start to end of year.<br>– Rationalised call centre sites from seven to three. | – Adoption of robotics, automation and digitalisation.<br>– Finalise integration of RateSetter into the business.<br>– Reduce overall costs despite high inflationary environment, with a focus on reducing non-underlying expenditure. |
| – Extended product offering through launch of pet and SME insurance offering.<br>– Enhanced existing products though use of government Recovery Loan Scheme, new specialist mortgage propositions and enhanced SME lending. | – Launch of new motor finance products to expand our consumer lending propositions and build upon the RateSetter brand.<br>– Continue to launch further specialist mortgage products<br>– Digital lending to SMEs.<br>– Enhance fee earning potential.<br>– Focus on reaching profitability in the near-term. |
| – Opened store in Bradford and progressed build of store in Leicester, which opened early 2022.<br>– New regulatory reporting system initiated.<br>– AML infrastructure improved. | – Continue investment in infrastructure albeit at a reduced pace as we finalise our transformation. |
| – Progressed AIRB application.<br>– Purchase of the RateSetter back book and delivery of unsecured originations leading to over £750 million of new lending. | – Continue to progress with AIRB application with ambition of achieving accreditation in 2022.<br>– Continue to shift the balance sheet composition as older commercial loans attrite and redeploy the capital to more capital-efficient lending.<br>– Drive greater returns from excess liquidity as yields steepen. |
| – Launched first brand and marketing campaign for small and medium-sized businesses.<br>– Hyper-local brand campaigns.<br>– Restarted Money Zones (after COVID-19). More than 230,000 children have now been through the programme.<br>– Launched our KPIs and obtained shareholder approval for our revised approach to executive remuneration. | – Transform our customer insight capabilities through enhanced tracking and reporting.<br>– Continue to bolster our community presence as COVID-19 restrictions are lifted.<br>– Execute national and localised campaigns that exemplify our community focus. |

# Financial review

## Our financial performance in 2021 reflects where we are in our strategic turnaround, it shows strong momentum within the business and positive signs that our approach is working.

| | 2021 £m | 2020 £m | Change % |
|---|---|---|---|
| Underlying net interest income | 295.7 | 250.3 | 18% |
| Underlying fee and other income | 101.5 | 86.3 | 18% |
| Underlying net gains on sale of assets | 0.7 | 4.3 | (84%) |
| **Total underlying revenue** | 397.9 | 340.9 | 17% |
| Underlying operating costs | (546.8) | (486.0) | 13% |
| Expected credit loss expense | (22.4) | (126.7) | (82%) |
| **Underlying loss before tax** | (171.3) | (271.8) | (37%) |
| Non-underlying items | (73.8) | (39.6) | 86% |
| **Statutory loss before tax** | (245.1) | (311.4) | (21%) |

We recognised a statutory loss before tax for the period of £245.1 million, down from the £311.4 million loss recognised in 2020, with the decrease primarily due to the £104.3 million lower charge for expected credit losses.

We entered 2021 well positioned for the prevailing economic climate, with the recently signed £3.1 billion mortgage portfolio divestment providing both regulatory capital headroom and liquidity at a time of uncertainty with the country in lockdown. The disposal supported our strategic goal of maximising risk-adjusted returns on capital, as we reinvested £337 million of the proceeds to acquire the RateSetter back book of consumer loans with an average total gross yield of c.8%; that compared to the divested mortgage portfolio which had a weighted average rate of 2.1%.

The Bank has continued to make strong progress against the turnaround plan, delivering considerable improvement in balance sheet mix at an accelerated pace that can now clearly be seen in improved net interest income.

On an underlying basis, the loss for the period of £171.3 million was down 37% compared to the prior year (2020: £271.8 million), driven by lower expected credit losses and positive operating jaws. Operating expenses increased 13% year-on-year and income increased 17%, despite £63 million of lost income as a result of the mortgage portfolio sale.

2021 has seen us continue to focus on shifting our deposit mix, which has led to the cost of deposits falling from 0.65% in 2020 to 0.24% in the current period. Alongside this we have delivered an increasing lending yield and our approach of optimising the balance sheet is now seeing us generate a greater level of interest income as a proportion of risk-weighted assets.

We ended the year with a CET1 capital ratio of 12.6% and a Total Capital plus MREL ratio of 20.5%. These compare to the regulatory minima of 5.1% and 18.0% respectively, or 9.3% and 20.5% respectively including buffers (excluding any confidential buffer, if applicable). We continue to take a proactive, measured approach to capital management as we focus on building greater risk-adjusted returns on regulatory capital.

Our primary aim remains the transformation of the Bank and in doing so we are taking a prudent approach in our assessment of the pace of economic recovery. We recognised an expected credit loss expense of £22.4 million for the period which is a significant improvement on the prior year (2020: £126.7 million).

| | 2021 £m |
|---|---|
| **Underlying loss before tax** | (171.3) |
| Impairment and write-off of PPE and intangible assets | (24.9) |
| Remediation costs | (45.9) |
| Transformation costs | (8.9) |
| Business acquisition costs | (2.4) |
| Portfolio sale | 8.3 |
| **Statutory loss before tax** | (245.1) |

For more on our alternative performance measures see pages 224 to 226

### Income

Underlying net interest income increased 18% year-on-year to £295.7 million (2020: £250.3 million), reflecting increased front book yields, including our meaningful entry into the personal lending market, combined with actions we have taken to reduce the cost of deposits.

Net interest margin at 1.40% is 18 bps above 2020 (1.22%) reflecting the higher-yielding asset mix and lower cost of deposits. The average lending yield increased to 3.07% from 2.68% a year earlier benefitting from high consumer lending yields and an improvement in the blended mortgage lending yield reflecting our focus on specialist mortgage products. Meanwhile our emphasis on current accounts and instant access deposits combined with the roll-off of higher-rate fixed-term accounts reduced the cost of deposits meaningfully to 0.24% compared to 0.65% a year earlier.

A strong Q4 2021 net interest margin of 1.56% holds us in good stead for 2022 with continued focus on lending mix and improved yields as a result of the base rate rises, potentially tempered by higher cost of deposits.

## Fee, commission and other income

Fee, commission and other income remain below pre-pandemic levels as the lockdowns at the start of the year continued to constrain activity. However, as restrictions started to be lifted in the second half we saw an uptick in activity particularly in areas such as foreign exchange, where volumes had been significantly depressed throughout the pandemic.

Fees and commission income is an area where we believe that we can deliver strong capital-efficient returns by building on our expanding account base and leading customer service, however, the growth of these income streams will be influenced by the pace of recovery from the pandemic.

## Operating expenses

Underlying operating expenses grew to £546.8 million from £486.0 million in 2020. The year-on-year increase is impacted by several factors, including the acquisition of RateSetter which occurred in September 2020.

As expected, expenditure on the ‘Change the Bank’ investment programme began to reduce in the second half of the year. This trend is anticipated to continue, contributing to an expected low single-digit percentage reduction in total underlying operating costs in 2022.

On a statutory basis total operating expenses increased by less than 4% to £641.2 million compared to £617.3 million in 2020 as the underlying cost increase, including the additional RateSetter running costs, was partially offset by lower write downs and BCR costs together with reduced transformation and integration expenditure.

Depreciation and amortisation remained largely unchanged at £80.2 million (2020: £74.4 million).

| | 2021 £m | 2020 £m | Change % |
|---|---|---|---|
| Depreciation and amortisation | 80.2 | 74.4 | 8% |
| Total operating expenses | 641.2 | 617.3 | 4% |
| Total non-underlying operating expenses | 94.4 | 131.3 | (28%) |
| Total underlying operating expenses | 546.8 | 486.0 | 13% |
| ‘Run the Bank’ costs | 435.5 | 390.4 | 12% |
| 'Change the Bank' costs | 111.3 | 95.6 | 16% |
| Statutory cost: income ratio | 153% | 143% | |
| Underlying cost: income ratio | 137% | 143% | |

Remediation programmes continue to be a significant expense with associated costs of £45.9 million recognised in the period (2020: £40.8 million). These costs include the penalty resulting from the PRA investigation, which was concluded in December, as well as a provision for the settlement of the related FCA investigation. We are continuing to work closely with the regulators on the outstanding regulatory matters.

Non-underlying costs also reflect the decision taken to close three stores in 2022. We regularly review how our existing stores are performing as well as assess new markets where there is potential for growth in the longer term. The three stores have consistently underperformed compared to other locations and upcoming lease events provided us with an opportunity to close. We still remain committed to stores and continue to invest in them. In 2021 we opened our 78th store in Bradford, alongside preparing to launch our new store in Leicester which we opened in February 2022.

We also acquired four further freeholds during the year; which means a third of our store estate is now freehold. By trading right of use assets for freeholds at attractive prices we can both reduce costs and gain flexibility for minimal additional risk-weighted assets. Whilst we will continue to take advantage of opportunities where these arise and there is a strong commercial rationale for doing so, the stabilisation of commercial property prices will likely limit these opportunities in the near term.

Non-underlying items in 2022 are expected to be less than 20% of the total in 2021 as remediation costs fall away.

## Expected credit loss expense

Although the macroeconomic environment has improved in 2021, uncertainty remains, particularly in respect of new COVID variants and the sustainability of recently lifted public health restrictions. The expected credit loss charge for the year of £22.4 million (2020: £126.7 million) is primarily driven by growth in unsecured lending origination, the purchase of RateSetter back book and a small number of large single name commercial cases.

A fourth severe downside macroeconomic scenario was introduced in 2021 across all portfolios, with associated changes in the probability weightings. This aligns our approach to market best practice and further captures the potential risks associated with a more extreme downside scenario.

We continue to maintain a prudent level of post model overlays to capture factors that are not fully reflected in the scenarios. These reflect our cautious outlook driven by the impact of higher energy prices, increase in national insurance contributions, and inflationary pressures on individual customer affordability. During the year we have reduced the overall number of post model overlays applied through the continued development of our models.

# Financial review continued

Unsecured lending has increased significantly in the year, in line with our strategy. We manage this exposure within a defined risk appetite, with a focus on prime lending, underpinned by strong credit scoring criteria to limit losses, which to date remain low.

Further information on our approach to credit risk can be found in the Risk Report on pages 64 to 80

## Deposits

| | 2021 £m | 2020 £m | Change % |
|---|---|---|---|
| Retail customer (excluding retail partnerships) | 6,713 | 7,364 | (9%) |
| Retail partnerships | 1,814 | 1,596 | 14% |
| Commercial customers (excluding SMEs) | 3,157 | 2,692 | 17% |
| SMEs | 4,764 | 4,420 | 8% |
| **Total customer deposits** | 16,448 | 16,072 | 2% |

Deposits grew by 2% from 31 December 2020 to £16,448 million at 31 December 2021 (31 December 2020: £16,072 million). The increase was primarily driven by commercial and SME customers which were up 17% and 8% respectively from the start of the year.

| | 2021 £m | 2020 £m | Change % |
|---|---|---|---|
| Demand: current accounts | 7,318 | 6,218 | 18% |
| Demand: savings accounts | 7,684 | 6,430 | 20% |
| Fixed term: savings accounts | 1,446 | 3,424 | (58%) |
| **Total customer deposits** | 16,448 | 16,072 | 2% |

Current account balances grew by 18% during the year and make up 44% of total customer deposits as at 31 December 2021 (31 December 2020: 39%). We continue to see customer preference moving towards having instant access to funds, leading to the growth of current accounts and instant access savings accounts, whilst at the same time we have proactively let higher cost fixed term deposits roll off as we continue to manage the cost of deposits downwards.

In 2022 we anticipate higher growth in deposits than in 2021 with continued focus on mix improvement.

## Assets

| | 2021 £m | 2020 £m | Change % |
|---|---|---|---|
| Loans and advances to customers | 12,290 | 12,090 | 2% |
| Total assets | 22,587 | 22,579 | 0% |
| Loan to deposit | 75% | 75% | |
| Cost of risk | 0.18% | 0.86% | |

Net lending ended the period at £12,290 million, up 2% from £12,090 million at 31 December 2020. The £200 million increase has been driven by a £686 million growth in consumer lending, offset by a moderate reduction in the commercial loans and retail mortgage books. The growth in consumer lending is a result of both organic origination through the RateSetter platform, and the purchase of the £337 million back book from peer-to-peer investors. Our investment in consumer lending, including integrating the RateSetter lending capabilities in-store, provides a strong base on which we can capitalise as the economy continues to recover and we are ready to serve a consumer-led recovery.

Retail mortgages remained the largest component of the lending book at 54% of gross lending (31 December 2020: 56%), down £169 million to £6,723 million at 31 December 2021 from £6,892 million at 31 December 2020. The decrease reflects the attrition of older loans, offset by our continued penetration through our specialist mortgage products into underserved areas of the mortgage market, which has replaced some of these balances.

Commercial loans, which now comprise 39% of our lending, saw a £302 million reduction from £5,148 million at 31 December 2020. The decrease is down to older term loans repaying combined with a slowdown and the start of repayments of BBLS loans in the second half, partially offset by government-backed Recovery Loan Scheme lending.

We anticipate a higher rate of growth in overall lending in 2022 compared to 2021, with expansion in existing categories with higher risk-adjusted returns including consumer unsecured and specialist mortgages, complemented by the expected launch of new products including automotive finance and digital lending products for SMEs.

Non-current assets have decreased during the period, driven by a reduction in our property, plant and equipment balance, reflecting the scaling back of our store opening programme.

Intangibles remained flat during the year as continued investment, albeit at a slower rate, was offset by amortisation and impairment charges.

## Taxation

During 2021 we made a total tax contribution of £152.5 million (2020: £132.9 million), which comprised £91.6 million (2020: £86.5 million) of taxes we paid and a further £60.9 million (2020: £46.4 million) of taxes we collected.

| Taxes paid | 2021 | 2020 |
|---|---|---|
| Business rates | 15.0% | 13.5% |
| Land transaction tax | 1.6% | 1.3% |
| Employer NICs | 23.7% | 20.4% |
| Irrecoverable VAT and customs duty | 59.4% | 64.5% |
| Other | 0.3% | 0.3% |
| **Total taxes paid** | £91.6m | £86.5m |

| Taxes collected | 2021 | 2020 |
|---|---|---|
| Employees' NICs | 22.3% | 25.1% |
| PAYE | 64.0% | 65.5% |
| Net VAT | 13.7% | 9.1% |
| Other | 0.0% | 0.4% |
| **Total taxes collected** | £60.9m | £46.4m |

In 2021 our tax expense recognised in the income statement was £3.1 million (2020: credit of £9.7 million).

## Capital

| | 2021 £m | 2020 £m | Change |
|---|---|---|---|
| CET1 capital | 936 | 1,192 | (21%) |
| RWAS | 7,454 | 7,957 | (6%) |
| CET1 ratio | 12.6% | 15.0% | (240bps) |
| Total regulatory capital ratio | 15.9% | 18.1% | (220bps) |
| Total regulatory capital plus MREL ratio | 20.5% | 22.4% | (190bps) |
| Regulatory leverage ratio | 4.4% | 5.6% | |

Our CET1, Tier 1 and MREL ratios at 31 December 2021 were 12.6%, 12.6% and 20.5% respectively, compared to the minimum capital requirement including buffers (excluding any confidential buffer, if applicable) of 7.6%, 9.3% and 20.5%, respectively.

On 1 January 2022 software assets will revert to being deducted from capital, reducing our CET1 and MREL ratios by 0.8% and 0.7% respectively. At the same time, the original IFRS 9 transitional relief will move from 50% to 25% along with the COVID-19 transitional relief which moves from 100% to 75%, reducing CET1 and MREL by 0.3%. From 13 December 2022, the Bank of England has announced that the countercyclical buffer will increase from 0% back to its pre-pandemic level of 1%.

Although we will operate in buffers we will ensure we remain above regulatory minima as we continue to focus on executing our strategy and returning to sustainable profitability.

Risk-weighted assets ended the period down 6% to £7,454 million (31 December 2020: £7,957 million) reflecting our change in asset mix and our focus on improving return on regulatory capital. The reduction was also supported by the settlement of the final tranche of the mortgage portfolio in February 2021. We continue to progress our AIRB application, the approval of which would reduce the overall risk-weighting of our lending.

| | Reconciliation |
|---|---|
| **Total capital plus MREL ratio at 1 January 2021** | 22.4% |
| Annual operational risk adjustment | (0.1%) |
| Intangibles investment and other | 0.1% |
| RateSetter back book acquisition | (0.3%) |
| Profit and loss account (excluding ECL and mortgage sale) | (3.1%) |
| Profit and loss account – ECL | (0.3%) |
| Quick-fix ECL add back | (0.1%) |
| Lending volume and mix | (0.1%) |
| Mortgage book disposal completion | 2.0% |
| **Total capital plus MREL ratio at 31 December 2021** | 20.5% |

Following discussion with the Bank of England, post the publication of their December 2021 MREL Policy Statement, the Bank of England has provided us with a 6 month adjustment to the point in time at which the Bank of England's revised policy on MREL eligibility is implemented. As such, the requirement to establish a holding company has moved to 26 June 2023, which is in line with the call date of the existing Tier 2 debt instrument. For the avoidance of doubt, there has been no change to Metro Bank's end-state MREL deadline of 1 January 2023.

Further information can be found in our Pillar 3 disclosures. These can be found on our website www.metrobankonline.co. uk/ investor-relations/.

## Liquidity

Our liquidity position continues to be strong, owing to the liquidity freed up from the mortgage portfolio sale. We ended the year with a Liquidity Coverage Ratio of 281%. We will continue to prudently manage our investments and to invest in high-quality securities while maintaining a strong cash position.

## Looking ahead

2021 has seen us gather clear momentum, continuing to demonstrate that our strategy is delivering.

2022 will see us continue to build on this work with a focus on containing costs whilst maximising our risk-adjusted returns on regulatory capital, including continuing to progress our AIRB application.

We continue to adopt a cautious outlook as the economy recovers from the effects of the COVID-19 pandemic as well as the uncertainties resulting from the war in Ukraine.

At present we have no direct exposure to either Russia, Ukraine or any individuals currently subject to sanctions, although we continue to monitor the situation closely.

We are also closely monitoring the outlook the effects of the conflict have on the macroeconomic environment, especially as the inflationary impacts start to impact our customers. Given the rapidly evolving nature of events, including the global response, it is difficult to either predict or quantify with any certainty the impact at this stage.

# Environmental, social and governance review

## Our ambition is to become the UK's best community bank and an essential part of this is acting sustainably and responsibly. Our approach to ESG is simply about doing the right thing.

### Our approach

We aim to drive positive environmental and social change and generate positive stakeholder outcomes. As we grow, we are taking the opportunity to incorporate environmental, social and governance (ESG) priorities into our business and ensure we build it in the right way. In doing this, we are committed to being open and transparent about what we are doing and why.

Oversight of ESG, our strategy and priorities sit at Board and ExCo level. A new internal ESG structure involving colleagues across the Bank, coordinated by a dedicated ESG Steering Committee, will come into effect in early 2022.

### Our values

Our AMAZEING values underpin everything we do, including our approach to ESG. Our values align to our belief that we should act responsibly and with integrity in everything that we do.

### Non-financial information statement

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

A description of our business model and strategy, as well as the non-financial Key Performance Indicators ('KPIs') relevant to our business can be found on pages 10-21.

| 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 pages 28 to 29 for a description of each policy) |
|---|---|---|
| **Environmental matters** | – Our Planet, page 40 | – Climate pledges<br>– Supplier Management |
| **Employees** | – Our Colleagues, pages 34-38<br>– Colleague engagement, page 100<br>– Gender pay gap, page 34<br>– Annual report on remuneration, pages 137-147 | – Diversity and Inclusion<br>– Recruitment and Selection<br>– Health and Safety<br>– Whistleblowing<br>– Conflicts of Interest |
| **Social matters** | – Our FANS and Communities, pages 30-33 | – Climate pledges |
| **Respect for human rights** | – Our Suppliers, page 39<br>– Modern slavery, page 39<br>– Diversity, equality and inclusion, page 34 | – Modern Slavery<br>– Outsourcing<br>– Diversity and Inclusion |
| **Anti-bribery and corruption** | – Our Suppliers, page 39 | – Anti-bribery and Corruption |

## Materiality assessment

As part of reviewing our approach to current and emerging ESG issues, as well as our prioritisation of current initiatives and programmes, we undertook a materiality assessment in Q4 2021.

The process was carried out by external sustainability consultants using the Global Reporting Initiative (GRI) approach on materiality.

### Issue identification

Desk research was undertaken to identify ESG topics to assess. The research included reviewing internal documentation, competitor analysis and external horizon scanning including reporting standards and guidelines, thought leadership and white papers.

A detailed long list of potential topics was initially identified based on the desk research. The list of topics was then refined and consolidated to a shortlist of 19 ESG topics for assessment.

### Engagement

Surveys were conducted with more than 150 internal and external stakeholders who ranked the 19 topics based on the perception of impact to the business and level of importance. Participating stakeholders included the Board, colleagues, business banking customers, personal banking customers and mortgage brokers. Interviews were conducted with members of the senior leadership team, Executive Committee and Board in order to explore the topics in more detail.

### Results and validation

The results of the survey were reviewed and validated. The 19 topics assessed have been mapped to our ESG priorities as outlined in the table below.

All 19 ESG topics were considered to be important, with those identified as the highest priority being:

- Customer service and experience – creating FANS
- Data privacy and cyber security
- Ethics and compliance
- Financial crime and fraud
- Risk management and business resilience
- Good governance practices
- Diversity, equality and inclusion

The results of the materiality assessment will feed into our considerations of ESG issues and our new internal ESG structure in 2022.

## Mapping the materiality assessment onto our ESG priorities

### OUR FANS 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

Read more on page 30

### 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

Read more on page 34

### 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

Read more on page 38

### 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

Read more on page 39

### 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

Read more on page 40

### GOVERNANCE AND BUSINESS RESILIENCE

**All the above topics are underpinned by good governance, compliance and risk management practices – making 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

# Environmental, social and governance review continued

## Management of principal risks and due diligence for ESG policies

We manage risk through a comprehensive governance and control framework, as described in our Risk Report on pages 52-91. The Risk Report also describes the principal and emerging risks to our business. Our risk management policies and controls are reviewed regularly to reflect changes in market conditions, regulations and our activities.

Through regular training and additional standards, guidance and procedures, we aim to develop a robust and effective control environment in which all our colleagues understand their roles and obligations. The policies disclosed on this page and page 29 form part of our wider risk management approach. All colleagues are responsible for managing risk as part of their day-to-day roles and our AMAZEING culture is all about our colleagues doing the right thing for our FANS and the business. As such, everyone at Metro Bank plays a role in risk management.

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

**Key**

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

| POLICY | DESCRIPTION | ESG PRIORITIES |
|---|---|---|
| **Vulnerable Customer** | The policy sets out our approach to identifying and interacting with vulnerable customers to ensure we deliver fair customer outcomes. | 1 2 |
| **Lending and Arrears Management Policies (including Retail, Business & Commercial Lending)** | These policies set out 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 our FANS and the Bank in pursuit of our goals and how we support our FANS during periods of financial difficulty. | 1 |
| **Anti-Money Laundering/Counter Terrorist Financing** | The policy sets out the systems and controls to identify, assess, monitor and manage financial crime risks and the procedures in place to assess their effectiveness. | 1 2 |
| **Health and Safety** | The policy protects our customers and colleagues. It recognises our statutory duties and responsibilities under relevant Health and Safety and Welfare legislation. | 1 2 |
| **Diversity and Inclusion** | The policy means that we treat our colleagues fairly. It sets out our commitment to having a diverse workforce which reflects our customer base, and to employment policies which follow best practice based on equal opportunities for all colleagues. | 2 |
| **Recruitment and Selection** | The policy relates to all recruitment-related activities and is relevant for all colleagues and any third-party recruitment partners. The policy outlines responsibilities for hiring aligned to our Company objectives/ethos and in accordance with the relevant legislation and regulation. | 2 |
| **Whistleblowing** | The policy encourages colleagues to disclose information, in good faith and without fear of unfair treatment, when they suspect any illegal or unethical conduct or wrongdoing affecting the Bank. | 2 |
| **Anti-bribery and Corruption** | The policy outlines our approach to managing the risk of bribery and corruption and to ensure we conduct business in an honest and ethical way, with a zero-tolerance approach to bribery and corruption. | 2 |
| **Conflicts of Interest** | The policy provides consistent practical guidance to all relevant parties in relation to the identification, recording and maintenance of actual and perceived conflicts of interest. | 2 |

| POLICY | DESCRIPTION | ESG PRIORITIES |
|---|---|---|
| **Anti-Tax Evasion** | The policy sets out our zero-tolerance approach to tax evasion. | 1 |
| **Business Continuity** | The policy makes sure we are able to continue delivering services to our stakeholders 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 |
| **Data Governance** | 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 5 |
| **Data Protection** | The policy is in place to ensure that the Bank is complying with its data protection obligations and has the adequate level of data protection as prescribed by the General Data Protection Regulation. | 1 2 3 |
| **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 |
| **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 4 |
| **Complaints** | The policy sets out the way in which 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 |

# Environmental, social and governance review continued

## OUR FANS AND COMMUNITIES

Metro Bank's strong growth since our launch in 2010 has been built on our unwavering commitment to great customer service. Turning customers and the communities we serve into FANS remains our purpose and is therefore at the heart of everything we do.

### Creating FANS

We create FANS by 'surprising and delighting' customers across every channel and every interaction – integrating physical and digital channels through our technology and AMAZEING colleagues. We are proud to have been ranked the number one high street bank for service eight times in a row by the Competition and Markets Authority's Service Quality Survey. We were also voted Best Bank for Customer Service at the Personal Finance Awards 2021/22.

We continue to invest in customer experience and in 2021 we delivered a number of digital servicing features, such as card activation and payment warnings in our mobile app, and online change of details to offer customers the choice to self-serve on simple transactions. This was alongside the Bank's first ever start-up accelerator programme to help us identify and deliver game changing future 'Magic Moments' to our FANS and colleagues. We have also developed and rolled out a set of customer promises across the business that connect customer experience to the overall ambition of the Bank and our brand strategy.

We continually monitor customer service delivery through our Voice of the Customer (VoC) programme, which is used right across our business down to individual store level, to monitor performance and drive improvements. The data from this programme shows we are consistently delighting our customers at account opening, both in store and online.

We are continuing to invest in VoC to ensure we represent what really matters to our customers in everything we do.

In keeping with our AMAZEING values, we always do our best to make every wrong right. We strive to make sure our customers' experience is as positive as possible by working to resolve complaints as quickly as possible. We publish a half-yearly review of customer complaints data on our website here: www.metrobankonline.co.uk/help-and-support/forms/give-us-feedback/complaints-data.

### Extending our services to new communities

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

Since our launch in 2010, we have opened 79 stores across the UK supporting 2.5 million customer accounts. We have opened seven stores during the pandemic: Sheffield and Cardiff opened in 2020 followed by Bradford, our most northern store, in August 2021 offering local residents and businesses physical access to banking services available seven days a week, plus thousands of safe deposit boxes.

We were overwhelmed by the support of local residents and businesses at our new store Grand Opening events in Bradford in October and Leicester in February 2022.

Our new AMAZE Direct contact centre in Bristol opened and took its first customer calls in June. We expect the contact centre will ultimately create 100 jobs in Bristol.

### Outcomes

**#1**

voted #1 bank for store service for both personal and business customers eight times in a row by the Competition and Markets Authority's Service Quality Survey

**100**

new jobs will be created at our new AMAZE Direct contact centre in Bristol


## Metro Bank helps local family butcher bounce back

Bishop's Stortford-based family butcher Farm2Table specialises in supplying quality free range products to the retail and catering trade, but business dried up overnight when the hospitality sector was forced to close during the pandemic. Metro Bank Chelmsford's Local Business Manager, Daniel Collins, helped Farm2Table through the Bounce Back Loan process, enabling the business to invest in a consumer website, social media, new equipment and a small retail unit, to provide home deliveries and a click and collect service. Proprietor Tony Hopkins noted that pivoting to this new model saw the business "overwhelmed by local support which has not only seen this business grow, but also saved the livelihoods of many local farmers".

### Supporting communities and customers through the pandemic and into the recovery

We have helped our customers and communities adapt to the ongoing challenges presented by the pandemic, working together to find solutions that meet our customers' specific financial needs. We have always been available, and through 2020 and 2021 the majority of our stores remained open seven days a week.

In 2021, our AMAZE Direct contact centres served 2.3 million customer calls, 17,000 customer emails and 15,000 postal enquiries as well as 45,000 tweets and Facebook messages. Importantly we maintained best-in-class service levels during this time, with customers waiting on average just 60 seconds to get through to us.

Our support during the pandemic has included offering capital repayment deferrals, interest roll ups and waiving overdraft arrangement fees. We understand that for many people having access to cash is a vital part of their everyday lives, and we've helped customers access cash when self-isolating by nominating another person to collect cash on their behalf, with appropriate security checks.

Metro Bank has consistently supported government-backed business lending schemes which have provided a vital lifeline to UK businesses in the last year, and by the end of 2021 we had extended £1.6 billion of finance to 37,000 businesses. In 2021, we became an accredited lender for the Recovery Loan Scheme, offering financial assistance to businesses as they recover from the impact of the pandemic. Our unique network of Local Business Managers and Commercial Relationship Managers, based in every Metro Bank store, provides expertise and guidance to help our customers manage their finances in the current environment.

### Enhancing SME products and services

We have continued to enhance our offer to small and medium-sized businesses. New products and services include our first insurance offering; our new online FX tool, which provides enhanced foreign exchange with access to real rates and a broader range of currencies; broadening access to our Business Account Online opening process, which allows businesses to open a new account digitally; and mobile app features including in-app invoicing. We are introducing enhancements to our business overdraft, allowing customers to apply, receive a decision and get access to working capital funding within minutes.

# Environmental, social and governance review continued

**Colleagues have climbed mountains, cleared miles of gardens, collected litter, planted trees, tended animals and pets, cooked for homeless people and much, much more in support of local communities.**

### Backing female entrepreneurs
Metro Bank is a founding signatory to the Investing in Women Code, a commitment to support the advancement of female entrepreneurship by improving access to tools, resources and finance. Our dedicated team continually reviews our products and services to make them more accessible to women; works with external bodies to ensure they are maximising the opportunities for women in business and encouraging female-led start-ups to get off the ground; and has created our own series of free events.

### Hands-on help for communities
Every year we give all our colleagues a Day to AMAZE – a paid day for volunteering within their local community. In Southend, our colleagues were part of the first open air art installation, moving tons of shingle; while in Ashford, colleagues reached out to chat with elderly people isolated by the pandemic. Elsewhere colleagues have climbed mountains, cleared gardens, collected litter, planted trees, tended animals and pets, cooked for homeless people and much more in support of local communities.

Colleagues have walked, run, danced, played golf and cycled to raise thousands of pounds for local charities. They have organised food donations, baked cakes, slept rough and volunteered at local hospitals and hospices. Our stores in the Midlands not only sponsored a kennel at Birmingham Dog's Home, but also organised dog rehoming days. Hosting charity events has been a strong theme this year, so while our Sheffield store hosted part of a 'Bears of Sheffield' interactive art exhibition, our Harrow store displayed Tembo the grassy green baby elephant to participate in Harrow's Animal Trail, while our Crawley store displayed portraits of inspirational local residents.

### Supporting vulnerable customers
Our diverse customer base reflects the broad appeal of our banking proposition and we welcome customers from all backgrounds. We have invested in refresher training for all Metro Bank colleagues on supporting customers with additional needs, including specialist training delivered by Money Advice Trust to our customer-facing teams. Colleagues record where our customers require additional support so that their future interactions with Metro Bank can be made even easier based on their individual circumstances.

We consider the needs of vulnerable customers across all areas of the Bank from product and service design to communications, through to customer service. We constantly strive to ensure we support our customers in times of need and continually identify opportunities to make everyday banking easier for our customers including those who require additional support.

In 2021 we became a signatory to the Financial Abuse Code of Practice and we are committed to further improving the support we offer to victim-survivors of financial abuse to regain control of their finances and independence.

### Supporting care leavers
Metro Bank supports the Care Leaver Covenant, a joint promise made by private, public and voluntary sectors to provide support for care leavers aged 16-25 to help them live independently. We have extended a bespoke version of our free financial education programme, Money Zone, to care leavers providing guidance about budgeting, saving and banking, along with introducing a special identification process for care home residents and care leavers to make it easier for them to open bank accounts and become financially independent. In addition, we have worked with our recruitment team and the Care Leaver Covenant to communicate our 'hire for attitude and train for skills' ethos by promoting suitable roles across the business.

## Supporting kids and families

We are passionate about supporting the kids in our communities. Every Metro Bank store runs our Money Zone financial education programme, which introduces pupils to key financial skills.

The sessions are linked to wider Government curriculum guidelines for Key Stages 2 and 3 and are offered in English and Welsh. We have educated 230,000 kids through Money Zone and even the pandemic didn't stop us, as this year we launched a virtual version of Money Zone for Key Stages 2 and 3.

Every store supported a children's charity for Christmas via our Magic Money Christmas Tree campaign, raising thousands of pounds for children's hospitals, hospices, cancer and Make-A-Wish charities.

We have continued to host our in-store family extravaganzas including our Easter, Back to School, Halloween and Christmas craft events, following all health and safety precautions. Families have been able to enjoy our free crafts in-store or take them away to have fun at home.

## Supporting the Armed Forces community

In July, Metro Bank was awarded the Armed Forces Covenant's Employer Recognition Scheme Gold Award, affirming our commitment to supporting the armed forces community by proactively seeking veteran hires, offering time off for reservist training, mentoring other organisations in their Armed Forces Covenant progression, and forces community engagement.

We signed the Armed Forces Covenant in July 2019, achieving Bronze that same year, Silver in 2020 and now Gold, the top-level award, in 2021. This is the fastest progression possible and no other organisations are known to have managed this trajectory.

Since signing the Covenant in 2019, we have hired 15 ex-military colleagues, have run careers events for military spouses, and we plan to expand our Money Zone programme into barracks and armed forces schools.

The forces community is also an attractive customer segment and we offer mortgages as part of the Armed Forces Help to Buy scheme and are scoping further products for armed forces customers and veteran-owned businesses.

## Outcomes

# 230k

kids educated through our free Money Zone programme

> **We signed the Armed Forces Covenant in July 2019, achieving Bronze that same year, Silver in 2020 and now Gold, the top-level award, in 2021. This is the fastest progression possible for any organisation.**

# Environmental, social and governance review continued

## OUR COLLEAGUES

Our colleagues are what make Metro Bank unique. People-people banking is what we do, and our ambition is to become the UK's best community bank. To make that happen, we are committed to creating an AMAZEING colleague experience, based on an inclusive culture and a community where colleagues feel they can be their best authentic selves. Community and connection have never been so important and, by providing the right culture for our colleagues, they can fulfil their potential and provide the best service to our customers.

All colleagues learn about our culture in their first interaction with Metro Bank, through their recruitment journey, to their very first day where they participate in our cultural engagement programme, Visions.

### Diversity, equality and inclusion

We have always believed it is imperative that we represent the communities we serve; this is the foundation of our community banking model. We believe a diverse organisation with a broad range of skills, backgrounds, knowledge and experience is most effective and we are deeply committed to promoting greater diversity and inclusion throughout the Bank and transparently reporting against progress.

This year we appointed a Director of Colleague Experience and Inclusion, bringing significant experience that has enabled us to turn the dial on diversity and inclusion in a short time. Our recent, independent, Voice of the Colleague survey demonstrates our strong foundations for inclusion, with a company-wide score of 79 in response to the authenticity question "I can be myself at Metro Bank", supported further by a score of 76 to the question "Regardless of background, everyone at Metro Bank has an equal opportunity to succeed". These scores sit above the global benchmark with comparable organisations and reflect an inclusive culture on which to build our strategy. The Inclusion Committee has met on a monthly basis this year, bringing together the chairs of our colleague networks to progress collaborative inclusion goals and cross-cutting activity.

This year, we introduced the Opportunities Programme, a career development programme for colleagues from diverse backgrounds relating to ethnicity, gender, sexual orientation and socioeconomic background. We launched a cohort of 20 colleagues in July, with a 12-month programme of tutorials focused on enhancing skills and raising profiles backed by sponsorship from the Executive Committee and senior leaders.

Looking forward, we will carry on using data-informed efforts to support diversity, equality and inclusion. 2022 will see a new bold diversity and inclusion strategy, supporting our ambition to become the UK's best community bank.

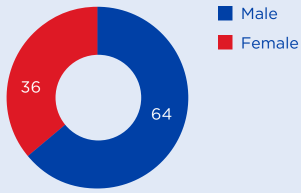
### Gender diversity

We are proud signatories of the Women in Finance Charter, which aims to achieve gender balance at all levels across financial services firms. With senior executive accountability, we have committed to the targets for representation of gender at senior management levels. In line with the charter, the target forms part of the scorecard that affects senior executive remuneration.

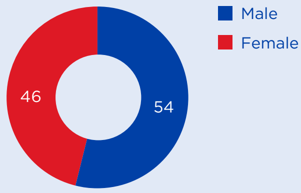
As well as our Women on Work colleague network, we run mentoring circles and leadership seminars on key topics and provide diverse candidate shortlists to hiring managers.

## GENDER DIVERSITY AS AT 31 DECEMBER 2021

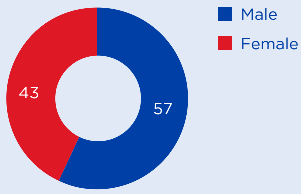
**Board** (%)



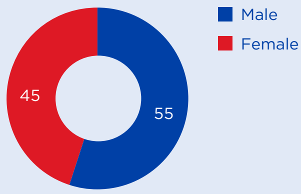

**Executive committee** (%)




**Senior leadership team** (%)




**All Business** (%)




**Gender pay gap**
(as at April 2021)

**11.7%**
Median pay gap

**22.1%**
Mean pay gap

Further details on our gender pay gap can be found on our website www.metrobankonline.co.uk

### Ethnic diversity

The events of 2020 remain a compelling impetus to do more to tackle racism and inequality in every aspect of life. We are proud that our metrics for overall ethnic diversity at Metro Bank are positive, yet as we look forward we know there is more to do to ensure that ethnic diversity is reflected at all levels of our business.

We will continue our work to understand the identities and experiences of all of our Metro Bank colleagues. We partner with BAME Recruitment who provide advice, guidance and support in attracting and selecting from a diverse pool of talent.

## Mpride

Mpride's purpose is encouraging inclusion and striving for equality within Metro Bank for our LGBTQ+ colleagues and our customers in the communities we serve. To meet this purpose, Mpride has three main objectives: to educate colleagues; to enable celebrations of diversity; and to champion positive change for our colleagues and customers.

This year, with executive sponsorship from Chief Information Officer, Cheryl McCuaig, Mpride focused on inclusion for colleagues who identify as trans. We introduced optional gender pronouns on email signatures and People records, as well as allowing candidates to select their preferred gender pronouns when applying for roles. We have also added a statement to our office dress code, encouraging colleagues to dress in a way that fits with the gender they identify with.

To celebrate the inclusion of our LGBTQ+ colleagues, we hosted a digital pride event in the absence of in-person events, with colleagues across the business taking part in our virtual parade.

We are delighted to be shortlisted as a Top 10 Inclusive Employer by the British LGBT Awards for the work done by Mpride in 2021.

## Women on Work

Our Women on Work (WOW) network focuses on issues that matter to women and those who identify as women while welcoming involvement from male allies.

WOW's purpose is to support career journeys within Metro Bank, promote wellbeing and act as a barometer and sounding board for the Bank on issues that matter to female colleagues. In 2021, with ExCo sponsorship from Managing Director, Distribution, Ian Walters, WOW extended its visibility via monthly events supported by online content on spotlight topics, awareness days and women's celebrations ranging from sharing experiences to career journeys and women's health issues, to panel discussions with guest speakers.

Highlights include supporting around 30 colleagues through launching five 'Mentoring Circles'; instigating Metro Bank's 'Safe Spaces' initiative on social media following high profile incidents against women in society; facilitating a Domestic Abuse Working Group, with the Bank signing up to the Financial Abuse Code; and raising awareness on the menopause, implementing initiatives to support colleagues in this life stage and committing to the Menopause Workplace Pledge.

# Environmental, social and governance review continued

## Mbrace

The Mbrace colleague network, Metro Bank's ethnic, racial and religious diversity group, focuses on celebrating and educating; provides a forum for colleagues to collaborate, network and discuss diversity and inclusivity; and represents colleagues and our customers' needs.

Sponsored by Chief Operating Officer, Aisling Kane, activities in 2021 ranged from holding internal 'lunch and learn' sessions on topics such as Chinese New Year, Eid and Islamic Banking, to a panel event for Black History Month which raised over £1,000 for two charities. Mbrace has formed partnerships with external networks such as the London Metropolitan Police's Sikh Network to share best practice.

Building on the momentum of Black Lives Matter and the events of 2020, the Committee has provided a swift response to public matters which impact colleagues. For example, issuing a social media and internal response following the racist attacks on players at Euro 2020; and following the Taliban taking control of Afghanistan, signposting support provision to colleagues.

### Parents and carers

We offer flexible working arrangements and 14 weeks' parental leave for all new parents, regardless of gender. We have also revised our guidance for colleagues that take time off for fertility treatment.

## Mparents

Mparents provides a community and support network for working parents and parents-to-be, sponsored by Brand and Marketing Director, Jessica Myers.

Since the start of the pandemic, with schools and childcare sometimes being subject to restrictions, Mparents has provided regular updates and support through online YamJam sessions and regular coffee and chat mornings to share advice and experiences. Membership of the network has grown strongly during this period.

Mparents supported more than 50 colleagues with home-schooling via an initiative to deliver unused iPads. During Baby Loss Awareness Week the network held a powerful session on miscarriage, with colleagues sharing personal experiences and connecting with others who have experienced similar loss. Mparents worked with the People Team to review the Bank's baby loss policy resulting in a new webpage with clear information regarding policy and support.

### Social mobility

We are incredibly proud of our work on social mobility, championing equality in communities and creating career opportunities for all colleagues. We work with a range of charities and organisations including the Armed Forces Covenant, the Mayor's Fund and many universities and schools.

Our activities include running skills workshops, providing CV and career advice for schools in the South and London regions, teaming up with the Job Centre to hold CV and interview skills workshops and partnering with Open University and Brunel University to run events. We have also recently signed the care leavers covenant.

### Mental and physical wellbeing

We want our colleagues to be at their best both at work and at home, and we have continued to work on enhancing our holistic health and wellbeing offering. Based on colleague feedback we introduced support such as free subscriptions to Headspace mindfulness tools and techniques. More than 60 colleagues have posted blogs to share their experiences and offer support. Our health partner, Vitality, has adapted its offering to provide online exercise classes, and rewarded colleagues for healthy behaviour during lockdown with a range of benefits that can be accessed at home.

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

Disability data is collected on a voluntary basis, encouraging colleagues to declare and disclose in the interests of receiving support and reasonable adjustments that enable them to perform at their best.

## Mbody

Mbody's focus is on promoting health and wellbeing in both mind and body, including those with both visible and non-visible challenges, which is more important now than ever. 2021 has been about refreshing the Committee and its agenda, and with new momentum from the arrival of the Director of Colleague Experience and Inclusion and Executive sponsorship from Director of Corporate Affairs, Tina Coates, the network has been revived with a fresh purpose and objectives.

### Developing careers

We offer career development opportunities to all colleagues:

- Our apprenticeship programmes support young people to achieve a qualification in financial services while starting their career as financial services customer advisors in our stores and AMAZE Direct contact centres.
- Colleagues have access to thousands of blended learning resources to help them develop personally and professionally and take the next step in their careers.
- We always look for internal candidates before searching externally.
- During the year, we promoted 565 colleagues.

We're committed to supporting colleagues and investing in their careers. Our Talent Programmes help our colleagues develop the skills they need to succeed, including 25 Local Business Managers, 12 Local Directors and 82 new leaders from within our customer-facing teams and corporate functions. This year we have also welcomed new colleagues from RateSetter by running our cultural induction programme, Visions.

Now more than ever, we recognise the importance of adapting our delivery methods and using technology so that colleagues can learn in a truly blended way, incorporating self-led content and virtual classroom sessions. We have created over 500 hours of virtual learning content plus a library of over 3,000 learning items which have been completed more than 570,000 times. Colleagues have interacted with our content nearly 3 million times!

We recognise that colleagues want to develop more specialist skills in their roles, so we have collaborated with experts internally and externally to create new bespoke content. This has included training on supporting vulnerable customers with the Money Advice Trust; two new technical knowledge frameworks for the professional development of our Risk and People Teams; and creating a new business and commercial lending programme for our relationship managers.

### Apprentices

We currently have 13 apprentices across our store and call centre networks. We are accredited as an employer provider and since 2017 we have run a Level 2 Financial Services Customer Advisor Apprenticeship Programme (equivalent to five GSCEs), with 85 colleagues having graduated. In May 2021 we introduced a Level 3 Senior Financial Services Customer Advisor Apprenticeship (equivalent to two A-Levels) and currently, there are 11 colleagues on this programme.

In partnership with Cranfield School of Management, we run the UK's first master's-level apprenticeship for senior banking professionals, funded from the Apprenticeship Levy. Initially, this was exclusive to Metro Bank but has since opened up to applicants from other banks. The MSc in Retail and Digital Banking saw its first cohort of 17 colleagues graduate in 2021. Cohort two (six colleagues) started in October 2019 and is due to finish in March 2022 and cohort three (19 colleagues) started in March 2021.

### Developing leaders

Our leaders support our colleagues to be their best authentic selves each day. Our engagement survey results show that colleagues feel supported by their leaders. The survey revealed a score of 79 against the statement "I have ongoing conversations with my manager about my performance", which is 10 points above benchmark and stable from the 2020 score.

**"We are incredibly proud of our work on social mobility, championing equality in communities and creating career opportunities for all colleagues.**

**565**

colleagues were promoted in 2021

To ensure our leaders are equipped to lead, we have provided new and relevant training options in a mixture of self-led and virtual classroom formats. New elements this year included a refreshed People Management Essentials series, a new senior leadership platform offering executive level leadership learning, and content on communication and leading teams. To support the shift from remote working to hybrid working, leaders completed a Future Ways of Working series, covering the journey of leading colleagues through change as well as how to get the best results from hybrid working patterns and meetings, along with psychometric sessions to enhance effective collaboration in a remote working setting.

### Rewarding and retaining our colleagues

We know that our colleagues are integral to growing our business. Our reward principles, which reflect this and apply to all colleagues, are designed to reward our colleagues for high performance and retain the talent upon which our business depends.

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. 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.

## DATA PRIVACY AND SECURITY

We have continued to evolve and mature our cyber capabilities, building on the substantial improvements made in 2020. We have also improved our broader information security, rewriting our policy and standards to better align to international best practice standards (ISO 27001/2) and refreshing our information security strategy with input from across the business.

### Cyber defence

Our Security Operations Centre is now fully operational and we have been running simulation exercises to fine tune both our technical detection capability and our response processes. Our Upgrades and Patching programme has been very successful, leading to a vulnerability risk rating that consistently beats the benchmark for the sector. We have introduced multi-factor authentication, strengthened cyber controls in our regular supplier risk reviews and prioritised upgrades to improve the resilience of our infrastructure. These actions will continue throughout 2022 and into 2023.

### Cyber fraud

The motivation behind many cyber attacks is to attempt to steal money. Our cyber and fraud teams continue to work closely together, tracking fraud techniques and sharing data and intelligence with other banks and the law enforcement community. This allows us to react quickly to an attack and minimise the impact on the Bank and our FANS.

### Data privacy

The privacy of our customers' data remains a top priority and a long-term area of investment for us. We have significantly strengthened our Data Privacy team, making data privacy assessments a key part of our overall data governance and process management. Our Data Protection Operations team continues to respond quickly and efficiently to customer data requests and our new Data Retention team is making significant progress in reducing unnecessary personal data, reducing the risk of breaches and cost of storage.

### Fraud prevention

We have a range of safeguards and solutions in place across all channels to help protect customers against fraud. We can't do this alone and continue to work closely with other stakeholders including other banks, network operators and law enforcement agencies.

We continue to evolve our processes and systems to fight the ever-increasing levels of sophistication deployed by fraudsters. We were one of the first banks to sign up to the Authorised Push Payment (APP) voluntary code – this gave consumers significantly increased protections against authorised push payment scams and we are always working to enhance our security, whilst ensuring that customers enjoy a convenient banking experience.

Customer fraud awareness is a key part of fraud prevention and we're active supporters of UK Finance's Take Five fraud awareness campaign. We have an extensive online security centre that provides information on how we protect customers' accounts and how they can keep their personal details safe. We continually update and share via social media the latest threats and advice on practices to guard against them. In 2021 we launched a 'scam of the month' campaign, which has received extensive press coverage, to help protect our FANS and consumers more widely, and raise awareness of the latest fraud trends.

## OUR SUPPLIERS

It is important to us that we work with suppliers who uphold our values. We assess and monitor the controls put in place by our suppliers across a range of areas including data and information security, anti-bribery and corruption and modern slavery. We are introducing a new Supplier Code of Conduct, explaining in one place what we expect from the suppliers we engage with.

We are active members of the Financial Services Supplier Qualification System (FSQS) and encourage all our suppliers to become members. Membership allows our suppliers to share details on their control environments with us, reduces duplication of effort in responding to due diligence requests, and benefits us by sharing resources and best practice within the financial services community. We also operate a formal supplier management regime as well as conducting supplier assurance reviews using a risk-based approach.

### Anti-bribery and corruption

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

Our Whistleblowing Policy ensures that all colleagues are encouraged to raise any concerns they may have about the conduct of others in the business or the way in which the business is run in good faith and without fear of unfair treatment.

### Modern slavery

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

During 2021 we continued to follow and progress our processes to support our Modern Slavery Policy, including:

- Publishing Metro Bank's fifth Modern Slavery Statement, approved by the Board and signed by the CEO, on our website in June 2021 (https://www.metrobankonline.co.uk/about-us/modern-slavery/).
- Delivering the fourth report of the Modern Slavery Champion to the Board in April 2021, including:
  - i) The annual review of our Modern Slavery Policy.
  - ii) Carrying out a risk assessment using the toolkit designed by the Liechtenstein Initiative to spot any gaps within our policies and procedures.
  - iii) Updating on progress against the Modern Slavery Statement and Action Plan.
  - iv) Working on developing plans for sustainable banking, responsible business conduct and environmental and social risk, including modern slavery risk.
- Metro Bank continues to leverage FSQS to support due diligence on suppliers before contracting and ongoing during the relationship, on a risk basis. In 2021, we managed 1,415 active third parties. 24 (1.7%) were either based in riskier locations (where the 2019 Measurement Action Freedom score, an independent assessment of government progress towards UN Sustainable Development Goal 8.7, is less than 50) or were more likely to be exposed to modern slavery risk due to the nature of the services. In accordance with our Modern Slavery Policy further investigation was conducted, following which, all suppliers demonstrated adequate controls to mitigate modern slavery risk.
- All colleagues were required to undertake modern slavery computer-based training during 2021.

### Tax

As a large business and a major employer, investor and purchaser of goods and services, we recognise our responsibilities and make a significant contribution to the UK exchequer each year. Paying our fair share of tax helps deliver benefits for society: our customers, colleagues and communities. We pride ourselves on always acting with integrity, honesty and transparency with regard to tax and we continually adhere to the highest standards of corporate governance. In 2021, we made a total tax contribution of £152.5 million, which comprised £91.6 million of taxes we paid and £60.9 million of taxes we collected on behalf of the government.

# Environmental, social and governance review continued

## OUR PLANET

We recognise that climate change is one of the biggest challenges facing society and understand the important role we can play in tackling climate change. We are committed to working with our customers, colleagues and communities to support their transition to a resilient, Net Zero economy.

We are now able to announce two new climate pledges which accelerate our plan to tackle climate change and apply it across our operations; by making our own operations Net Zero by 2030, and by driving material reductions in the climate impact of our financing activity and value chain by 2050.

We have also set intermediate targets to support meeting our climate pledges:

- We plan to reduce our direct emissions (Scope 1 and 2 emissions) by at least 82% by 2026 (compared to 2019 levels).
- We will maintain travel carbon emissions below 70% of pre-COVID-19 (2019) levels, embedding for the long-term the reduced levels of commuting and business travel seen during the pandemic and supporting colleagues to switch to low carbon transport.
- We will reduce our paper usage by 25% by 2026 (compared to 2019 levels), while maintaining optionality for customers who need or have a preference to receive paper communications.

We are working on formulating our Net Zero strategy, including setting the decarbonisation pathways to achieve them. In 2021, our Board and ExCo reviewed our sustainability ambition, including a deep dive session on climate with external experts. As a result, we've repositioned climate change to be a pillar of our ESG strategy and increased our ambition in this area. Our approach is to prioritise three strategic focus areas:

### New climate pledges

**2030**

Our climate commitment for 2030 Net Zero: operational emissions

**2050**

Our climate commitment for 2050 Net Zero: all operational, supply chain and financed emissions

**10%↓**

10% YOY reduction in Scope 1 and 2 emissions by 2022 from 2021

**82%↓**

82% reduction in Scope 1 and 2 emissions by 2026 from 2019 baseline

**25%↓**

25% reduction in paper use by 2026 from 2019 baseline

**70%↓**

Travel carbon emissions below 70% of pre-COVID-19 levels

1. Identifying and managing the impact of climate change on the business by integrating climate considerations into risk management frameworks and stress testing our portfolios, and setting risk appetites to help steer our portfolios in line with the Paris Agreement.
2. Supporting our customers' transition to a low-carbon economy by promoting awareness of customer GHG emissions and, in the future, developing products and services that promote a reduction in GHG emissions.
3. Reducing the impact that the business has on the environment by reducing emissions in our operations and supply chain, and offsetting residual $CO_2$ emissions.

In 2022, we will begin to integrate climate KPIs into our strategic planning framework with a view to making the achievement of the strategy measurable. For key portfolios, respective targets, and time horizons will be set and progress tracked and monitored against interim targets.

We continue to believe that comprehensive, robust and comparable disclosures are essential to enabling stakeholders to understand our activity and progress in managing our climate-related opportunities and risks. In our report this year, we are pleased to have been able to enhance our level of disclosure – further meeting the TCFD recommendations and demonstrating an evolution in our response to climate change, from the point of view of our governance, our strategic approach, and an increasingly sophisticated approach to our management of climate risk.

# Section 172 statement

## Stakeholder engagement is essential to the execution of our strategy to become the UK's best community bank.

### OUR SIX KEY STAKEHOLDERS

**OUR FANS**

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

**OUR COMMUNITIES**

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

**REGULATORS**

Following our Regulators' Principles, Rules and Guidance helps us to put FANS at the heart of everything we do.

**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 INVESTORS**

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

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

| S.172 FACTOR | RELEVANT DISCLOSURES |
|---|---|
| **(a) the likely consequences of any decision in the long-term** | – Our purpose and strategy framework – pages 4–5<br>– Business model – pages 10–13<br>– Risk report – pages 52–91<br>– Focus on Strategic Priorities – page 99 |
| **(b) the interests of the Company's employees** | – Non-financial information statement – page 26<br>– Our colleagues – pages 34–38<br>– Colleague engagement – page 100<br>– Board activity and stakeholder engagement – pages 98–99 |
| **(c) the need to foster the Company's business relationships with suppliers, customers, and others** | – Board activity and stakeholder engagement – pages 98–99<br>– Environmental, Social and Governance Review – pages 26–40<br>– Supplier engagement – page 102 |
| **(d) the impact of the Company's operations on the community and the environment** | – Stakeholder engagement – page 102<br>– Board activity and stakeholder engagement – pages 98–99<br>– TCFD – pages 42–51<br>– Environmental, Social and Governance Review – pages 26-40 |
| **(e) the desirability of the Company maintaining a reputation for high standards of business conduct** | – Whistleblowing – page 115<br>– Anti-bribery and corruption – page 39<br>– Audit Committee Report – pages 110–117<br>– Modern slavery – page 39 |
| **(f) the need to act fairly between members of the Company** | – Stakeholder engagement – page 101<br>– Annual general meeting – page 148<br>– Share capital – page 148 |

# Task Force on Climate-related Financial Disclosures

## We are committed to reporting the impact of climate change on our business in a transparent manner, and taking responsibility for the actions required to make positive changes to reduce our impact on the environment.

This new section of our annual report includes our climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the requirements of PRA's Supervisory Statement 3/19, and provides an update on our progress and areas of future focus.

We have made good progress during 2021 to update our governance and risk management framework to consider climate change, analysing climate risks and opportunities and developing our scenario analysis capability. We've been working hard to overcome some of the challenges, especially around data, tools and metrics. There remains work to do to assess 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 tools and methodologies mature.

| TCFD RECOMMENDATION | KEY ACHIEVEMENTS | FUTURE DEVELOPMENTS |
|---|---|---|
| **Strategy**<br>page 43 | – Conducting a materiality assessment to identify the Bank's priority ESG issues<br>– Established climate scenario analysis to quantify physical and transition risk | – Refresh the Bank's ESG strategy, with new aspirations, aligned to the Bank's overall strategy<br>– Develop scenario analysis capabilities to inform future strategy refreshes, evolving origination strategies and extending the range of product offerings<br>– Expand dialogue with customers on climate-related risks and opportunities |
| **Governance**<br>page 45 | – Established climate risk governance, including refreshed ToRs for Board and Executive-level committees<br>– Held bespoke education sessions on climate change with the Board<br>– Maintained responsibility for climate risk with the CRO under SM&CR | – Set up ESG governance forums and KPI framework to communicate and report back to key stakeholders |
| **Risk management**<br>page 47 | – Performed a preliminary assessment of climate-related risks<br>– Embedded climate change as a cause in the Bank's Enterprise Risk Management Framework<br>– Developed dedicated Climate Change Credit Risk Standard to support the management of climate change as a cause of credit risks<br>– Created internal modelling capabilities to track the exposure of the Bank's lending portfolios to climate risk, including initial flood risk and transition risk analysis | – Update credit risk policies and standards to reflect any changes to origination strategies<br>– Evolve scenario analysis tools in line with industry benchmarks and regulatory guidance<br>– Undertake climate scenario analysis for less material portfolios |
| **Metrics and targets**<br>page 49 | – Set stretching aspirations and initial short-to-medium term targets for reduction in scope 1, 2 and 3 emissions | – Develop roadmap and interim milestones to move towards 2030 aspirations<br>– Participate in industry-led forums to advance our carbon accounting and the setting of science-based targets<br>– Evolve climate risk appetite and metrics, with ongoing climate risk MI |

## Strategy

While changes associated with the transition to a lower-carbon economy present risks, they also create significant opportunities for organisations focused on climate change mitigation and adaptation solutions. In line with our strategic ambition to become the UK's best community bank, we have an important role to play in facilitating the UK's 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 customers and businesses in their transition to a low-carbon economy, and to building our own resilience by identifying and managing the impact of climate change on the business, and reducing 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 through the use of scenario analysis

We see these emerging through three key channels:

1. Business opportunities arising as economies and customers transition to a low-carbon economy;
2. Transition risks arising from potential disruptions and shifts associated with the transition to a low-carbon economy; and
3. Physical risks arising from the physical impacts of climate change which could disrupt the business, operations, or supply chains of the Bank and its customers.

### 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. Climate risk is no different in this regard, although it requires us to address risks that may be present over a much longer 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 identify a number of factors arising from climate change which we monitor over the short, medium and long term.

Our first step has been to identify and quantify risks to the business. We have begun progressively embedding climate risk into our key risk processes throughout 2021. We continued to develop our own internal climate scenario analysis and stress testing capability in line with emerging industry methodologies. We have used outputs from initial methodology developments in 2021 to develop an initial impact assessment to inform considerations in formulating our strategic response. At present we do not believe climate risk to have a material impact on the Bank.

Risks to the Bank in the medium-term primarily result from transition risks, with physical risks representing a longer-term risk (primarily from our mortgage portfolio) and the most material risks expected to crystallise over the long term.

- Changes in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk. In addition, tightening minimum energy efficiency standards for domestic buildings may lead to transition risks which could impact the value of mortgaged properties or the ability of borrowers to service debt.
- 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.

Given our low exposure to carbon-intensive industries within our commercial lending portfolio, we start from a strong place. We have a robust credit decisioning process on carbon-related commercial lending. However, we recognise the significant challenge of improving the energy efficiency of the UK's housing stock, which will support the transition to Net Zero. Achieving Net Zero across the economy will require a combination of industry initiatives and cooperation, government policy and regulation, a change in consumer behaviour and the development of products and services from lenders.

In 2022, 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 during FY21. 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.

More information about the specific climate-related risks faced by the Bank, their materiality, and the processes through which they are identified, assessed and managed, is available in the Risk management section.

# Task Force on Climate-related Financial Disclosures continued

### Supporting our customers' transition to a low-carbon economy

We recognise the importance of climate change to our customers and are actively addressing the risks and exploring the opportunities with them in mind. We will continue to enhance and extend our support for customers as the UK makes the transition to a greener future, by launching new customer propositions that will support a more sustainable future and calculating preliminary estimates of our financed emissions. This work will support future planning and setting science-based targets to reduce these emissions over time.

The key opportunities identified to date relate to our lending portfolios, particularly within mortgages and commercial lending. As retail customers become more influenced by green issues, we expect there to be opportunities to build our green retail propositions, including greener mortgage products to incentivise green purchases and to support customers to retrofit their homes, green/sustainable bonds to fund green lending products, and reduced carbon footprint from increased customer digitisation. In addition, we will continue to work with our commercial customers to help them understand what the transition means for them, and then help deliver the financing needed to achieve it.

This increasing public focus on climate-related issues may create reputational risks as we balance the speed of transition to a low-carbon economy against the costs of doing so. However, it also creates opportunities to enhance our reputation by demonstrating that we understand both the importance and urgency of climate change, and have a clear sense of our role in accelerating the transition to a low-carbon economy.

We will also adapt our strategy to respond to external developments, particularly those in governmental policy and their adoption. We are supportive of a cross-industry sector approach, underpinned by government strategy, guidance and assistance for customers to help them to improve the efficiency of their home.

### Reducing the impact that the business has on the environment

During 2021, we continue to make significant progress in managing the environmental impact of our own operations and have subsequently targeted delivering Net Zero operational emissions by 2030. We have maintained a strong position in managing our emissions from colleague business travel and property, and we continued investing in energy efficiency measures, sending zero waste to landfill, supplying from renewable sources, and recycling wherever possible.

#### Operations

We started the year in a strong position with the majority of our electricity being generated from renewable sources, continuing to reduce waste as far as possible and maximise recycling rates. We delivered zero waste to landfills, which we have achieved consistently since 2020. This helped us exceed our targeted reduction of combined Scope 1 and 2 emissions in 2021 and we have achieved a 57% reduction in emissions against a 2019 baseline across our Scope 1 and 2 emissions. As we are now using close to 100% renewable energy, our market-based footprint for Scope 1 market-based emissions will reduce further in 2022. We will pay close attention to the quality of Renewable Energy Guarantee of Origin (REGO) certificates, given the UK government's ongoing review of the REGO system. During 2021, we have improved our ability to track unplanned and unpredictable energy consumption, installed electric vehicle charging infrastructure, introduced software to power off PCs in the evening, modernised air conditioning and cooling systems, and replaced lighting with LED lights. In 2022, we will review our property strategy to set out a clear path to reduce our overall location-based energy consumption, as well as deliver further energy efficiency and carbon reduction initiatives.

With the unprecedented impact of COVID-19 causing a shift in ways of working, there has been an 80% reduction in corporate travel in 2021 compared to 2019 and enabled us to design a future way of working that permanently reduces the need for people to travel into and between office locations. Our new model provides colleagues with the flexibility to design the way of working that suits them and their team best, enabling the majority of colleagues to work remotely. We will use data on colleagues' home energy usage and commuting to inform our future approach to the balance between homeworking and business travel as we seek to minimise our carbon footprint, while balancing the need for collaboration.

We also reduced our paper usage by 9% this year, while maintaining optionality for customers who need or have a preference to receive paper communications.

**Suppliers**
We are focused on better understanding our indirect (Scope 3) emissions and building a roadmap to reduce the emissions linked to our suppliers and partners. We are taking further steps to build climate change considerations into our procurement and supply chain management processes – both in the selection and ongoing management of suppliers. We are cooperating with c.50 other banks and FIs on ESG due diligence through the Financial Services Supplier Qualification System. We will focus on continued reduction in the operational emissions we already track, while extending our data capabilities to capture more of our indirect Scope 3 emissions relating to suppliers. Initially, we will work with the suppliers with the largest footprint to gather data on their carbon emissions and to understand their plans to embed sustainability into their organisation.

We are introducing a new Supplier Code of Conduct, which has a specific focus on environmental management requirements, including establishing operational practices that minimise the impacts on the environment, and deploying measures to prevent and reduce environmental harm. Through the Code of Conduct, we also expect suppliers to track performance and report environmental improvements, as well as setting environmental targets and commitments.

## Governance

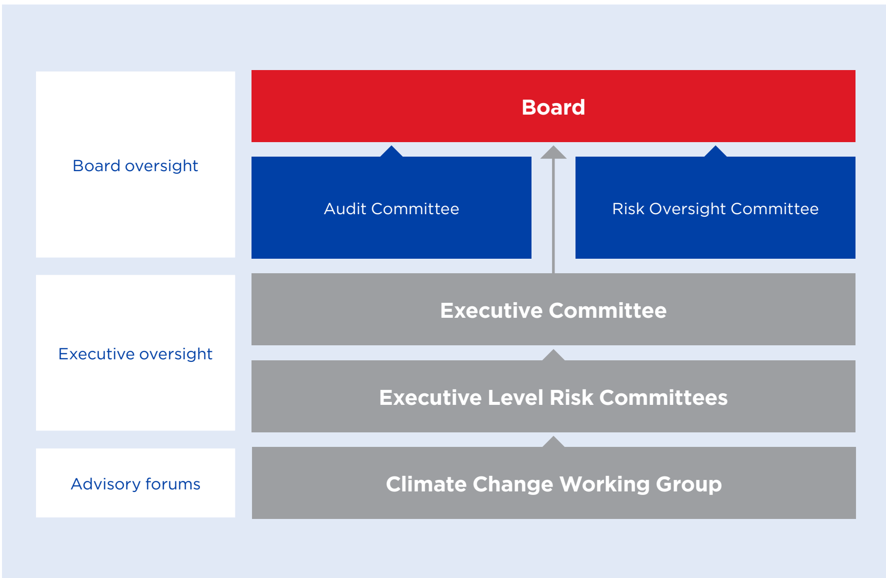
### Board oversight of climate-related risks and opportunities

The Board has ultimate accountability for all climate change risk-related matters. During 2021, the Board has been engaged in the development of our ESG strategy and will receive periodic updates on the execution of this strategy from the Executive Committee and members of the Senior Leadership Team. The Board will review our ESG strategy, which includes climate-related risks and opportunities, as part of the annual strategic and financial planning process to ensure our approach to ESG matters evolves with emerging developments.

The Risk Oversight Committee has oversight of the framework for managing and reporting the risks from climate change, through the Enterprise Risk Management Framework. A review of the Risk Oversight Committee charter resulted in its responsibilities in relation to climate-related risks being updated. The Committee is now formally required to oversee the activity being undertaken to embed the identification, assessment and management of climate change risk into the risk management process, and receives reports regarding the risk profile associated with climate change. The Committee can escalate any climate-related risk matter to the Board. In 2021, the Risk Oversight Committee was updated on the progressive integration of climate into risk management processes and considered an initial assessment of the impact and implications of climate risk across our credit portfolios, highlighting key areas of focus and sensitivity.

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.

The Board has been building their understanding of the financial risks and opportunities from climate change throughout the year. This year the Board attended two bespoke climate change training sessions. These sessions covered the implications, risks and opportunities to financial services of climate change and the transition to a Net Zero economy, and a deep dive into climate change risk and the changing expectations of our investors and regulators, and the role of the Board.



# Task Force on Climate-related Financial Disclosures continued

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

Climate risk responsibilities extend across the organisation, based on a 'three lines of defence' approach, in line with the Enterprise Risk Management Framework. As climate risk impacts through existing risk channels, it requires integration across multiple risk frameworks. With coordination from second-line Risk oversight, Risk Owners are integrating climate into existing risk control frameworks, policies and strategies.

The accountability for our ESG strategy sits with the CEO and is devolved to relevant members of the Executive Committee. The Chief Risk Officer has Senior Manager Function responsibility under the Senior Managers and Certification Regime for our approach to managing financial risks from climate change, which includes:

- embedding the consideration of financial risks from climate change in governance arrangements;
- incorporating the financial risks from climate change into risk management practices;
- using long-term scenario analysis to inform strategy setting, risk identification and assessment; and
- developing approaches to disclose the financial risks from climate change in line with the TCFD framework.

The Enterprise Risk Management Framework and Climate Change Credit Risk Standard also articulate clear roles and responsibilities for managing and monitoring climate change risk across the Bank, with a summary provided in the table.

| Team | Roles and responsibilities |
|---|---|
| First-line Risk | – Identification, assessment and management of climate change risks<br>– Monitoring and reporting of climate change risk<br>– Enhancing decision-making to embed climate change |
| Treasury | – Ownership of the climate change risk stress testing scenarios |
| Second-line Risk oversight | – Ownership of the Climate Change Credit Risk Standard<br>– Development of climate change scenario analysis capabilities<br>– Ownership climate change risk governance and reporting<br>– Ownership of climate-related financial disclosures |
| Internal Audit | – Independent assurance of activity to embed climate risk management |

**Executive Risk Committee**
The Executive Risk Committee has delegated authority from the Risk Oversight Committee for overseeing our exposures and approach to managing the financial risks from climate change. During the year, the Committee received updates on the progress of the climate change risk management plan, including the outputs of the scenario analysis stress test.

**Credit Risk Oversight Committee**
The Credit Risk Oversight Committee has specific responsibility for oversight of climate-related aspects of credit risk including recommending strategies to adjust the credit risk portfolio to react to change 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 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. As appropriate, this includes the impact of climate change on aspects under its remit.

**Climate Change Credit Risk Working Group**
We also established a Climate Change Credit Risk Working Group to bring together first- and second-line risk management from across key risk types to support the 2021 work plan to embed climate risk into the RMF and support our wider ESG goals and ambitions. This Group focused on driving the delivery of credit risk-related activities during 2021 and planning for future activities.

We will continue to update and engage with the Board and other committees as the ESG agenda, data capabilities and our analysis of financial risks and opportunities from climate change evolve. The new Environment Committee will help to accelerate progress and prioritisation, particularly in relation to our climate change response.

## Risk management

### Identification and assessment

We classify climate-related risks as either physical risks – those that arise from the physical effects associated with changes to the climate such as extreme weather events – or transition risks – those that may arise from the shift to a low-carbon economy. We are exposed to 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 risks of climate change; 2) the operation of our own infrastructure, business and premises which may be exposed to both transition and physical risk; and 3) through a deteriorated perception of the Bank 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, a short, medium and long-term horizon is being applied to the consideration of impacts. This assessment has been included in the 2021 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 obligors. | Medium-Term to Long-Term |

*Secured lending*
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 has previously been affected by flooding or is situated on a flood plain, new or increased lending is only provided where certain conditions are met. We do not lend where the risk could render a property uninsurable. Specific requirements are in place on lending to properties rated below EPC E. In accordance with the Minimum Energy Efficiency Standards Regulations, all buy-to-let properties must have a minimum EPC rating of E.

Climate-related risks, including flooding and subsidence, along with energy performance, are used to inform the potential impact on future property values at the point of a secured lending decision for both retail and non-retail lending. 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. The valuation methodology includes controls to exclude the use of automated valuations in vulnerable areas, for example, properties in areas with a high potential for flood risk.

During 2021, we engaged a third-party provider and started 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, 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 identified those sectors particularly susceptible to climate change risk, with restrictions on lending to specific carbon-intensive industries. Customers in these sectors face additional due diligence to understand their exposure and vulnerability to climate-related risks. Our Commercial Lending Policy also outlines the prohibited and restricted industries where we have either no or limited appetite to lend. To support these updates, training and supporting material on climate risks were provided to colleagues in first- and second-line roles. During 2022, further enhancements will be made to credit assessment processes.

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 CDP, Sustainability Accounting Standards Board or TCFD. Our focus will be on how we can support customers with adaptation and mitigation, and have started engaging in conversations with commercial customers with regard to ESG and sustainability. This is supported by third party reports, which signify the nature of and the extent to which ESG issues either provide an opportunity to enhance or hinder firms' business performance.

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 exposure to transition risk.

**Capital and liquidity risk**

| RISK EXAMPLES | TIME HORIZON |
|---|---|
| – The Bank's capital position is indirectly subject to climate risk through Bank-wide exposures across all risk types.<br>– Longer-term climate change risks may adversely impact the Bank's future revenue through customer behaviour, balance sheet or strategy changes over the longer term in response to climate change risk factors.<br>– 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 |

Consideration of climate risk will be 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 test is used to inform the understanding of how capital management may be impacted. Climate change risk has been considered as part of the 2021 ICAAP. This includes a qualitative assessment of the potential financial implications of climate-related risk. The ICAAP is a key planning process for the Bank 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 for physical risk would be immaterial.

Climate risk and broader ESG considerations are now reflected in the bank's Treasury portfolio investment strategy, with implications for securities that can be included in the Liquidity Pool. The 2022 ILAAP will outline the potential funding and liquidity risks that may arise as a result of certain physical risks or transition risks.

The impacts of climate change will continue to be assessed within both the ICAAP and ILAAP.

**Operational risk**

| PHYSICAL RISK EXAMPLES | TRANSITION RISK EXAMPLES | TIME HORIZON |
|---|---|---|
| Business interruptions due to extreme weather events and damage to facilities. Disruptions in supply chain. | Increased operating costs for facilities and higher capital expenditures for resiliency and carbon reduction measures. | Medium-Term |

Climate change is included as part of existing Risk Control Self-Assessment. All loss events are recorded in the Bank's 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 are also taking steps to build climate change considerations into its procurement and supply chain management processes, including exploring different methods to collect environmental performance data from third parties. More broadly, the Operational Resilience programme will outline the requirements (including requirements of suppliers) to respond to business disruption.

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

During the year, the Bank-wide Risk Appetite Statement has been expanded to include a qualitative statement in relation to climate risk. In support of this appetite, complementary quantitative risk appetite metrics are being developed which will be included in future disclosures. 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 developed a dedicated Climate Change Credit Risk Standard to aid the embedding, management and monitoring of climate change risk as a cause to our credit risks. Climate change is a risk driver that intensifies impact within existing risk types. As such it is not a new risk and we are managing climate change already in a variety of ways as it emerges.

## 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. During FY21, we have developed scenario analysis capabilities to enhance our ability to identify climate-related risks and opportunities and assess the resilience of our business model.

In 2021, we undertook climate scenario analysis for our retail mortgages and commercial real estate portfolios using scenarios published by the Bank of England as part of the 2021 Biennial Exploratory Scenario on the Financial Risks from Climate Change. The three climate scenarios explore the physical, transition and economic impacts of climate change on lenders:

- Early Policy Action – The transition to a carbon-neutral economy starts early and is gradual and orderly. The Paris Agreement target of global warming staying below 2°C is met.
- Late Policy Action – The global climate goal is met but the transition is delayed until 2030 and is more sudden and severe. The Paris Agreement target are met.
- No Additional Policy Action – No policy action beyond that which has already been enacted is delivered. Carbon emissions continue to increase and physical events become more frequent and severe as Paris Agreement targets are not met.

We have developed new capabilities to assess and quantify the physical and transition risks from climate change, using new data sources and modelling approaches. Based on data provided by the Environment Agency, National Resources Wales, the British Geological Survey and the Ministry of Housing, we can track the exposure of our residential mortgage and commercial real estate portfolios to climate physical risks and energy efficiency. Using this data, we have developed new models that provide a forward-looking assessment of credit losses over long time horizons (30-60 years).

From a physical risk perspective, the climate scenario assessment captured the deterioration in river, coastal and surface water flooding, as well as subsidence and coastal erosion risks aligned to RCP 2.6 and RCP 8.5 IPCC scenarios up to 2080. Key physical risks identified and analysed were the risk that certain properties could reduce in value due to frequent flooding, coastal erosion. We modelled the impacts of these risks on property values, probability of default and credit losses based on risk likelihood and expected physical damage.

From a transition risk perspective, properties were assessed at a ‘cost’ to upgrade from their current energy performance grade to the maximum potential grade, as well as at a cost to acquire a heat pump. The key transition risk identified was the potential loss in value of certain properties due to lagging energy efficiency or owners required to retrofit, incurring large costs. The value of properties that cannot be upgraded beyond EPC grade F was reduced to the value of the land. Increased energy costs were factored into loan affordability. The impact of these assumptions on property values, probability of default and credit losses were modelled.

The scenario analysis showed the biggest impacts on credit losses to be associated with the “No Additional Policy Action” scenario. In this scenario, a proportion of properties in our portfolio are affected by physical risks, especially flood risk, with increasing frequency and severity. This results in the properties becoming unlivable or uninsurable and losing most of their value. The “Late Policy Action” scenario showed the crystallisation of climate transition risks, macroeconomic risks and some climate physical risks, driving increased credit losses. The main driver of losses in the “Early Policy Action” scenario was transition risk. Due to early policy action, retrofitting costs were assumed to be subsidised. Costs therefore remained lower across all property types.

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 extending the range of product offerings to support customers’ transition to improved energy efficiency or reduce exposure to physical risks.

## Metrics and targets

Our climate change metrics are anchored to our ambitions 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 are working on developing further metrics as our and the industry’s understanding continues to mature. These metrics will aid discussions and inform strategic decisions made by management and the Board. The metrics will be shared in various committees, through the climate change governance model, to support committee responsibilities.

### Operational emissions

Greenhouse gas (GHG) reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013, and the UK’s recently released 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. To reflect the needs of our climate commitments, we have modified the manner in which we account GHG emissions. Up until 2020, we reported our GHG emissions using the operational control approach. As part of introducing new targets in 2022, we have moved to the financial control approach and now have developed a complete Scope 3 emission inventory. To ensure comparability and transparency between years, we have revised our 2020 and 2019 inventories.

We report GHG emissions in accordance with the financial control approach, to define our boundary of responsibility. The only material estimated omissions in the GHG emission data relate to: business travel where data for all individuals was not

# Task Force on Climate-related Financial Disclosures continued

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| Scope 1 emissions | 336 | 67 | 319 |
| Scope 2 emissions (location based) | 3,327 | 3,799 | 4,247 |
| Scope 2 emissions (market based) | 1,194 | 729 | 3,256 |
| Scope 3 emissions | 155,182 | 190,333 | 248,979 |
| Total GHG emissions (location based) | 158,845 | 194,199 | 253,538 |
| Total GHG emissions (market based) | 156,712 | – | – |
| FTE | 4,184 | 3,850 | 3,555 |
| Total emissions per FTE | 38.0 | 50.4 | 71.3 |

**Energy consumption** (MWh)


**Water consumption** ($m^3$)


**Paper used** (tonnes)


available; or energy consumed in properties where actual meter readings were not available before year end. In this latter instance, an average rate per kWh has been used.

We have seen a further reduction in Scope 1 and 2 emissions this year as detailed in the table below. Electricity continues to be the main source of Scope 1 and 2 emissions in our operations, although purchases of certified renewable energy have dramatically reduced the amount of electricity emissions. With the unprecedented impact of COVID-19 causing a shift in ways of working, the majority of our colleagues now work from home. This has caused a reduction in energy consumption across our buildings and through reduced travel, resulting in lower carbon emissions. We have not included the emissions as a result of employees working from their homes – these would be captured as Scope 3. We are aware that emissions may not stay at this level as further changes in work patterns take place in 2022.

We recognise that the climate impact of our operations goes beyond carbon emissions from fuel consumption and electricity purchased. Therefore, we have measured our Scope 3 emissions from our own operations in 2021, which is also laid out in the table below. The most significant contributions to Scope 3 emissions in our value chain come from Category 1 – Purchased Goods & Services and Category 15 – Investments. In 2021, Purchased Goods & Services were estimated to generate 78,860 t $CO_2$-e/year and accounted for approximately 50% of Scope 3 emissions. Investments were estimated to generate 69,189t $CO_2$-e/year and accounted for approximately 45% of Scope 3 emissions, with the reduction from 2019 due in large part to the mortgage portfolio sale in 2020 and reduced commercial lending volumes. Other categories contributed relatively modest emissions.

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 seen a larger reduction in energy, paper and waste consumption this year in comparison to previous years, which can be attributed to the increase in home working due to COVID-19. The evolution of this trend will be dependent on future working patterns.

As part of our new action plan, we have now committed to making our own operations Net Zero by 2030 and have set a number of targets against emissions, with some metrics still under development due to the additional work required to enhance data capabilities and set baselines in these areas. These targets comply with guidance from the Science-Based Targets Initiative (SBTi), although have not been officially approved by SBTi.

## Financed emissions

This year, we set ourselves the challenge to making our financing activity and value chain Net Zero by 2050 and to do what is necessary to achieve alignment with the 2015 Paris Agreement. Financing activity refers to the loans and investments on our balance sheet. We recognise that measuring financed emissions is fundamental to analyse scenarios, set targets, inform actions and disclose progress. We will use financed emissions as a key metric to estimate the climate impact of our financing activity on the real economy. Financed emissions are absolute GHG emissions that we finance through its lending and investment activity. These activities fall within Scope 3, Category 15 of the GHG protocol.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | £m | % lending | £m | % lending |
| Energy – coal mining | – | – | – | – |
| Oil and gas | – | – | – | – |
| Utilities – electric and gas | – | – | – | – |
| Agriculture, forestry and fishing | 9 | 0.4% | 8 | 0.3% |
| Construction | 67 | 2.7% | 64 | 2.4% |
| Transportation | 49 | 1.9% | 48 | 1.8% |
| Concrete, chemicals and metal manufacture | 1 | 0.02% | 1 | 0.02% |
| Commercial real estate | 912 | 36.1% | 1,067 | 39.8% |

We are still in the early stages of our journey and need to develop the data and technology required to accurately assess and manage our carbon-related assets and exposures. Accounting for 53% of our customer lending as at December 2021, the residential mortgage portfolio has been identified as an area of material climate-related risk and opportunity for the Bank, and hence a priority for calculating emissions baselines and developing green propositions. While progress has been made, we will continue to develop climate-related data across the portfolios, to enable more in-depth analysis and reporting, which will support our efforts to achieve Net Zero by 2050 or sooner. The Partnership for Carbon Accounting Financials (PCAF) Standard provides methods to measure financed emissions and will enable us to assess data quality challenges and recognise areas for improvement.

**Physical risks**
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 residential 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 rating | % of properties |
|---|---|
| Negligible | 94.3% |
| Low | 3.2% |
| Medium | 1.7% |
| High | 0.6% |

**Transition risks**
The use of EPC data has been critical to our understanding of the impact of transition risk. EPC ratings of the mortgage portfolio are monitored to provide a view on the energy efficiency of our housing stock. The table below shows a summary of EPC ratings on the mortgage book. 75% of mortgaged properties were matched to an EPC rating. The most common EPC rating in our mortgage book is D, which is slightly lower than the UK average, with approximately 36% of the book currently rated EPC C or better on an interpolated basis.

| EPC rating | % of properties |
|---|---|
| A | 0% |
| B | 10% |
| C | 26% |
| D | 42% |
| <E | 22% |

We may also be exposed to future transition risks through commercial lending portfolios. The table below summarises exposures to sectors identified as exposed to heightened climate-related risk impacts. In terms of portfolio mix, we have minimal direct exposure to fossil fuels in energy and extraction, and as a predominantly retail lending bank. This sees the key risk mitigation strategy relating to supporting our customers' transition to the green economy with sustainable financing to improve the energy efficiency of their properties and business operations, and adapting to climate change through, for example, flood protection measures at a property or community level.

Whilst we have not yet set science-based targets for Scope 1, 2 and 3 emissions, there are plans to explore this to enable the Bank to track our progress towards a carbon emissions target aligned to Net Zero. In line with the Science Based Targets Initiative, for key portfolios, respective targets and time horizons will be set and progress tracked and monitored against interim targets. These activities form the foundation of future risk analysis and target setting activities, leading to mitigating activities to help reduce risks to the Group in the future. All metrics and targets will be developed in line with the Science-Based Targets methodology to ensure consistency, accountability and achievability.

# Risk report

Effective risk management is critical to realising our strategy. We have an established risk management framework to manage and report the various risks that we face over the course of our daily business.

## Changes in principal risks and risk profile

In line with the UK Corporate Governance Code requirements, we have performed a robust assessment of the principal and emerging risks we face, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. In deciding on the classification of principal risks, we considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur.

An overview of the principal risks and how they have changed over the year are set out to the right.

During the year, we have continued to support our customers and minimise the negative impact of COVID-19 for businesses and households across the UK, maintaining our customer service operations and store distribution with minimal interruption. However, COVID-19 continues to impact all of our principal risks. The measures introduced to support the economy have created operational, conduct and financial risks for the Bank. These risks are being managed and monitored in line with our risk management framework.

Change in risk from 2020

Increased risk

No change

Reduced risk

**PRINCIPAL RISKS**

### Credit risk

We continue to rebalance our lending mix in line with our strategy, increasing the proportion of unsecured consumer lending and developing our specialist mortgage portfolio. During 2021, the impact of COVID-19 and the potential for economic downturn has remained the primary factor impacting credit risk performance and outlook. The lending portfolio has remained resilient despite the disruption faced by our FANS. However, there continues to be a high level of uncertainty within the external environment due to the potential longer-term impacts of the pandemic which is reflected through our Expected Credit Loss (ECL) position.

### Operational risk

Operational risk has remained largely consistent this year. The impacts of COVID-19 on our operations, colleagues and customers have stabilised as we have effectively transitioned into new working patterns. Elevated risk has been observed in certain areas including cyber attacks and evolving modes of external fraud. Targeted and strategic responses continue to be applied.

### Liquidity and funding risk

Liquidity and funding risk remained low through the year, with prudent liquidity and funding levels, enhanced by the proceeds from the mortgage portfolio sale in December 2020. The Bank refinanced its TFS drawings through the TFSME scheme.

## Conduct risk

Conduct risk remains unchanged but elevated, where customers are increasingly vulnerable to the challenges of the economic and social impacts of the external environment, driven by the COVID-19 pandemic. This is leading to increased regulatory focus on the treatment of customers in the retail banking sector, especially in relation to lending decisions, those at risk of financial difficulty and potential vulnerability.

## Regulatory risk

Regulatory risk remains unchanged and continues to be a key focus due to the complexity, pace and volume of regulatory change to be managed. During 2021, there was ongoing regulatory oversight by supervisory bodies as a result of COVID-19 which focused on the key areas of business model and profitability risk, credit risk, impairment provisioning, capital adequacy, business continuity management and operational resilience. Existing programmes continued and new programmes were established during the year to continue preparations for the significant regulatory change agenda over the coming years.

## Financial crime risk

Financial crime risk has remained stable during the year. Whilst Financial Crime continues to present a heightened risk external to the Bank, enhancements made to our AML and sanctions controls enable the Bank to better manage this risk.

## Legal risk

There continue to be uncertainties around the UK legal framework as Brexit is implemented, however, we have not faced any significant additional legal risks in 2021.

## Market risk

Market risk remained low throughout the year, following a temporary increase resulting from the mortgage portfolio sale. This reduced significantly in 2021, with proceeds from the mortgage portfolio sale lent to customers and invested in treasury assets.

## Capital risk

The continued tightening of the regulatory capital framework and economic uncertainty relating to COVID-19 have been the primary drivers of capital risk during 2021. Capital risk is managed through the ICAAP which is based upon the Long Term Plan. The Long Term Plan remained on track during the year.

## Model risk

Model risk remains stable with enhancements to model risk governance, risk appetite metrics and scope mitigating potential increases in model risk from the impact of COVID-19 and the resulting uncertain economic environment. We continue to monitor and assess model risk closely through the model lifecycle.

## Strategic risk

There have continued to be significant macroeconomic headwinds in 2021, notably the ongoing effects of COVID-19. We have considered this uncertainty and potential challenges as part of the annual strategic and financial planning process. We have also continued our work to understand how to define, monitor, manage and report the impact of climate change on our strategy, business and sustainability aspirations.

## Emerging risks

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

Technology and cyber resilience has been added as an emerging risk reflecting the increasing reliance on digital solutions. The assessment of technology and cyber risks arising in the normal course of business is incorporated within the existing operational risk framework. Climate risk has been retained as an emerging risk to capture the inherently unknown and unpredictable elements.

### 1. Macroeconomic environment

There are significant uncertainties for the global and UK economic outlook, including those emerging following both the invasion of Ukraine by Russia and the associated global response. The pandemic-driven recession has increased corporate and government indebtedness, raising the risk that inappropriately rapid fiscal tightening or corporate cost cutting and investment postponement could hinder the economic recovery.

The inflation and interest rates outlook is also uncertain. There may be upward pressure on inflation and interest rates due to both COVID-19 impacts and higher oil and gas prices resulting from the global uncertainty. Higher interest rates as well as higher living costs could trigger vulnerabilities within highly indebted companies and households, and to asset prices which have been boosted by high levels of liquidity provided by central banks.

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

Change in risk from 2020

- Increased risk
- No change
- Reduced risk

### 2. Digitalisation

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

**Mitigating actions**
Our strategy is now predicated on new and exciting digital propositions, with the implications of the pandemic both supporting that ambition, but also accelerating the timeframe for delivery. Our rapid response to the pandemic has demonstrated our ability to implement change and digital solutions swiftly. We are continuing with our investment and digital development in the near term to position us for the future.

### 3. Technology and cyber resilience

COVID-19 has highlighted the extent to which technology underpins our ability to serve our customers. Progressive deployment of new technologies will change our risk profile, including increased supplier risks, evolved data risks, and enhanced cost risks where new technologies are running in parallel with existing architecture.

We, like our industry peers, are subject to a growing number of sophisticated attacks aimed at compromising systems and data. Increasingly, criminals are demanding ransom payments for their return meaning safeguarding the confidentiality, integrity and availability and our customers' information and services remains critical.

**Mitigating actions**
Our IT resilience programme has continued to deliver strategic enhancements throughout 2021. We are investing in flexible, resilient cloud-based solutions and working with our strategic technology partners to simplify and streamline. Where technology disruption does arise, we continue to undertake detailed analysis of the underlying causes and rapidly take action to prevent recurrence.

We continue to invest in our cyber security and resilience capabilities in response to these rapidly evolving threats. Key areas of focus relate to access controls, network security, disruptive technology and the denial of service capability. Progress has continued in patching and upgrading our IT platforms and we operate advanced technology solutions to detect and prevent criminal attacks. We actively participate in the sharing of threat information with other organisations, helping to ensure the continued availability of our exceptional service offering whilst also making banking safer for all.

## 4. Regulatory change

The regulatory landscape continues to evolve, with the requirement to respond to ongoing prudential and conduct driven initiatives. Any sudden or unexpected change to the rules and regulations governing the measures could create material market disruption, requiring large-scale prioritisation decisions in a fast-paced environment.

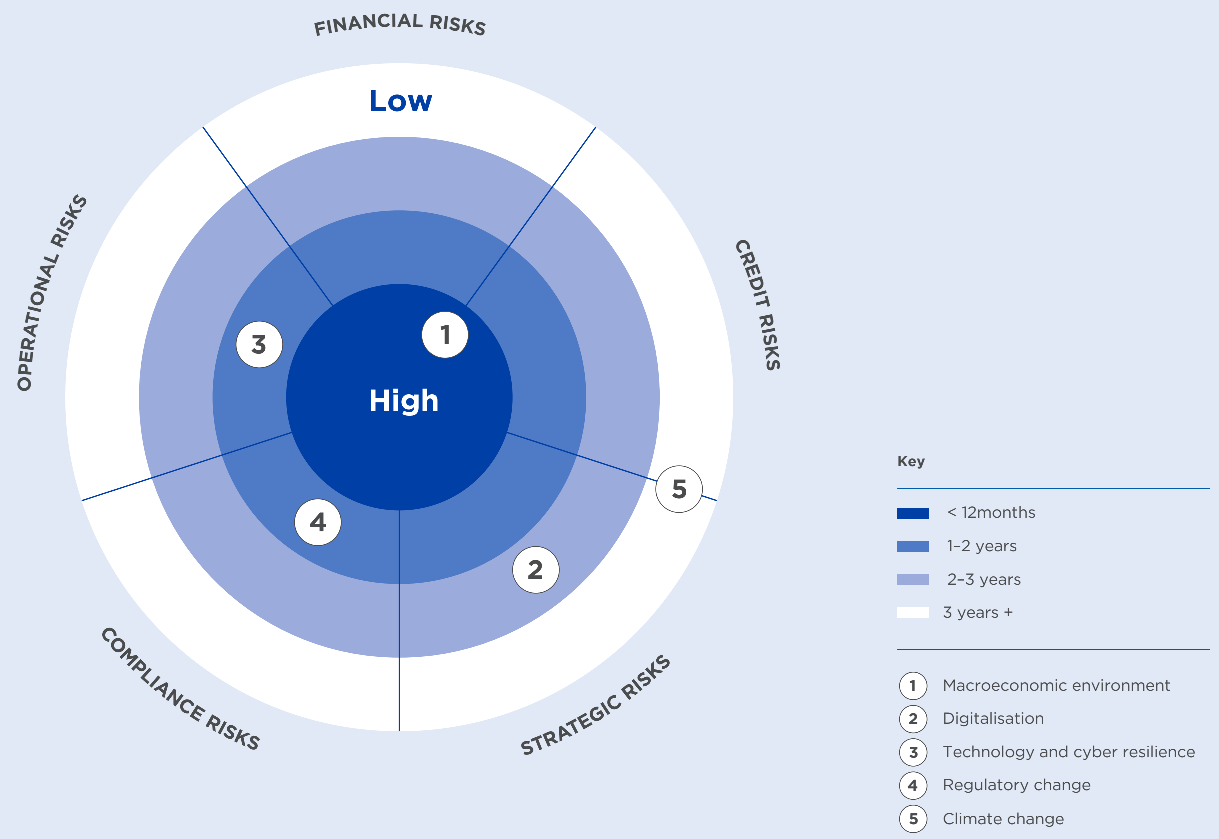
**Mitigating actions**
We continue to monitor emerging regulatory initiatives to identify potential impacts on our business model and ensure we are well placed to respond with effective regulatory change management. We continue to work with regulators to ensure we meet all regulatory obligations, with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

## 5. Climate change

Climate risk is classified as a cross-cutting risk type that manifests through other principal risks – primarily credit risk, capital risk and operational risk. We are exposed to physical and transition risks arising from climate change. However, it is also treated as an emerging risk given the significant uncertainty around the time horizon over which climate risks will materialise, as well as the exact nature and impact of climate change on our strategy, performance and operating model.

**Mitigating actions**
Work continues to build our capability and enhance our policies and processes to ensure these risks are identified, measured, monitored and managed. We are committed to working together with customers, colleagues and communities to support the transition to a Net Zero economy by 2050, in line with the UK government's ambitions and actions. We have also set a target to make our own operations Net Zero by 2030 and to build our own resilience by embedding climate-related impacts in lending and investment decisions.

## Emerging risks



# Risk management framework

### Approach to risk management

Effective risk management is critical to realising our strategic priorities and underpins day-to-day operational activities and strategic change initiatives. We have an established risk management framework to manage and report the various risks that we face over the course of our daily business.

The framework:

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

### Risk appetite, policies and procedures

In line with our business model, outlined on pages 10 to 13 we strive to generate long-term tangible book growth as well as sustainable growth for all our stakeholders. We define risk appetite as the aggregate level and types of risk that we are willing to accept in our pursuit of our stated business objectives.

We achieve this by developing risk appetite statements which articulate our risk appetite to stakeholders and provide a view on the risk-taking activities with which the Board is comfortable, guiding decision-makers in their strategic and business decisions.

The risk appetite statements detail the risk parameters within which we operate, promoting good customer outcomes and protecting us from excessive risk exposures. The risk appetite statements include qualitative and quantitative limits which inform strategies, targets, policies, procedures and other controls that collectively ensure we remain within the Board's approved risk appetite. Information on performance against relevant risk appetite statements, breaches and trends is reported to the Executive Risk Committee, Risk Oversight Committee and Board regularly.

Alongside our risk appetite statements a Policy Governance Framework is in place to provide structure and governance for the consistent and effective management of the policies we develop in order to manage risk within our risk appetite. These policies define the minimum control requirements that must be observed across the Bank to manage material sources of risk.

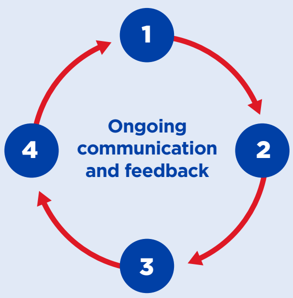
### Risk management process

Our risk management process comprises the following key stages:

- Identification of the risks we are exposed to at various levels
- Assessment or measurement of the identified risks using suitable risk management tools
- Response to the risk exposure, including risk mitigation strategies (controls) where appropriate
- Monitoring and reporting of these risks to ensure that they remain within risk appetite.

### Risk management process and governance overview

The following diagrams provide an overview of the risk management process and activities undertaken within our business that allow the Board to fulfil its obligations under the Corporate Governance Code 2018.




1. Risk identification
2. Risk assessment
3. Risk response
4. Risk monitoring and reporting

**INTERNAL REPORTING**

**Consolidated Bank-wide risks**
- Consolidation of significant risks from underlying risk registers
- Overlay of Bank-level risks
- Review and agreement of the principal risks by the executives
- Review and approval by the Executive Risk Committee

**Business and functional risk registers**
- Development and ongoing maintenance of risk registers, including consideration of emerging risks, by the business and functional leadership teams
- Review and challenge of risk content and quality of mitigation plans by Risk
- Review and challenge of risks at leadership forums

**PARTIES INVOLVED**

**Top down**
- Board
- Risk Oversight Committee
- Executive Risk Committee
- Risk team

**Bottom up**
- Risk team
- Business and functional leadership teams

**EXTERNAL REPORTING**

**Principal risks and uncertainties**
- A summarised version of principal risks for external reporting
- Review and approval by the Risk Oversight Committee

## Risk governance and oversight

We operate a 'Three Lines of Defence' risk model based on the overriding principle that risk capability must be embedded within the first line of defence (Business) teams to be most effective. Responsibility for risk management resides at all levels within the Bank and is supported by Board and Executive-level committees. The table sets out how responsibility for risk management is allocated and how that responsibility is discharged.

### BOARD
SETS RISK APPETITE AND STRATEGY

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

### RISK OVERSIGHT COMMITTEE
OVERSEES RISK GOVERNANCE AND MANAGEMENT

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

### AUDIT COMMITTEE
OVERSEES FINANCIAL REPORTING

- Reviews our annual and half-year financial statements and accounting policies.
- Advises on the appointment of external auditors.
- Reviews reports presented by external audit, monitors the scope of the annual audit and the extent of the non-audit work undertaken by external auditors.
- Reviews internal audit reports, effectiveness of the internal audit function and whistleblowing.

### EXECUTIVE-LEVEL COMMITTEES
OVERSEE THE RISK MANAGEMENT FRAMEWORK

**Executive Risk Committee**
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk policies for approval by the Board or Risk Oversight Committee.
- Oversees the quality and composition of the credit risk portfolio.

**Impairment Committee**
- Reviews monthly portfolio level impairment results.
- Approves portfolio level credit provisions ensuring that these are adequate for the risk profile and meet IFRS 9 requirements.

**Asset and Liability Committee**
- 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**
- Approves higher value lending requests, policy exceptions.

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

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

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

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

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

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

# Risk management framework continued

### Risk culture

Everything at Metro Bank starts with our culture, which supports risk awareness by encouraging every colleague to think about the relationship between their role and our purpose of creating FANS and growing safely and sustainably. Our risk culture aligns our people, processes, and systems to the way we manage the risks inherent in our business activities.

This culture begins with our Executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation. Enabled through the Senior Managers and Certification Regime framework, personal accountability is at the heart of our risk culture.

Risk management is a key aspect of every colleague's objectives and is embedded within our scorecards, against which performance is measured. Colleagues are provided with training to develop and maintain the required levels of competence. This supports colleagues in making decisions and judgements with risk in mind.

We continually seek to enhance and further embed our risk management framework to ensure effective risk ownership and management within risk appetite, supporting appropriate customer outcomes, and the delivery of our strategic plan. We promote an environment of effective challenge in which decision-making processes stimulate a range of views. The robustness of our risk culture can never be taken for granted and we will continue to mature our risk culture to ensure colleagues at all levels routinely anticipate risks and report issues of concern, look out for each other and the Bank, and respond to evolving opportunities and threats in line with our risk objectives.

During the year, a multifaceted programme of work has been undertaken to embed the principles, tools and techniques of the risk management framework. Training has been redesigned and delivered to all colleagues on the importance of managing risk, our collective responsibility and the ways in which it benefits our customers and ourselves.

# Risk management

Change in risk from 2020

Increased risk

No change

Reduced risk

## 1. Credit risk

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

Change from 2020

Increased

### EXPOSURES

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, and commercial.

We continue to rebalance our lending mix in line with our strategy, increasing the proportion of unsecured consumer lending.

### MITIGATION

We mitigate credit risk primarily through holding collateral against our retail mortgage and commercial term loan portfolios.

We manage our credit risk within clear risk appetite limits via a comprehensive set of policies and lending standards. Individual credit decisions are controlled through both quantitative models and underwriter review depending on the product, materiality, and complexity of the exposure. All commercial exposures are approved by an independent commercial underwriting team.

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

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.

### FUTURE FOCUS

We remain focused on assessing the impact of the external environment on our FANS and continuing to support them through any potential economic downturn. Given the ongoing volatility in the economic environment, we continue to assess outlook for credit performance and the adequacy of ECL.

As we develop our product offering, we will continue to update our credit risk policies and processes to ensure that these remain appropriate for the developing balance sheet.

We continue to focus on ensuring that we have the models and broader capabilities in place to support our journey towards Advanced Internal Ratings Based (AIRB) status.

See pages 64 to 80 for further details on our approach to risk management for credit risk.

## 2. Operational risk

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

Change from 2020

Stable

### EXPOSURES

We are subject to a range of operational risks across a number of distribution channels, businesses and functions. Our overall operational risk exposure has remained broadly stable this year, with top operational risk exposures including:

- Information Security and Cyber – The risk that the confidentiality, integrity or availability of the data we hold and/or systems we operate is compromised
- Fraud – The risk of direct or indirect loss to both ourselves and our customers as a result of criminal activity
- Technology (including third parties) – The risk that performance of IT infrastructure (including that supported by third-parties) impairs our performance and operational resilience
- Data – The risk that the data we hold does not support our strategic objectives and customer propositions or is maintained outside agreed data standards.

### MITIGATION

Our Operational Risk Management Framework details the key principles, tools, governance structure, roles and responsibilities required to identify, manage, measure, monitor and, where appropriate, mitigate our operational risks.

Business Risk Committees manage operational risks at business and support area level, supported by a number of forums and working groups. These escalate to the Operational Risk Oversight Committee which in turn provides Executive and Board visibility.

We aim to minimise incidents and losses arising from operational risk events by maintaining a resilient infrastructure, including robust systems, employing and training the right colleagues. When they do occur, operational risk events and losses are recorded and assessed, corrective actions are completed and steps taken to avoid recurrence.

### FUTURE FOCUS

Programmes of work to further enhance our management of operational risk will continue in 2022.

Particular focus will remain on operational resilience with the management of risks associated with our critical business services a priority.

We will continue to invest in our risk management capability, both people and technology with the benefits of automation utilised where possible.

In accordance with regulatory requirements, we hold capital appropriate to our operational risk exposures, informed by assessment of a range of severe but plausible operational risk event scenarios. Increasingly, we will seek to utilise available loss data to refine these assessments.

See pages 89 and 90 for further details on our approach to risk management for operational risk.

## 3. Liquidity and funding risk

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

Change from 2020

Stable

### EXPOSURES

Liquidity risk exposures arise through the redemption of deposits where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of customer and wholesale funding at maturity and the requirement to fund new and existing committed lending obligations, including mortgage pipeline and credit card facilities.

Funding risk exposures arise from an unsustainable or undiversified funding base.

### MITIGATION

We continue to hold high levels of liquidity as a result of the mortgage portfolio sale. As this reduces we will 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 we set higher-quality targets for liquid assets for the earlier part of a stress period.

Our retail deposit-led approach means we do not currently have reliance on wholesale funding to enable our ongoing lending.

### FUTURE FOCUS

As we look to grow in the coming years, we will continue to grow our retail and SME deposits to support our funding requirements.

See pages 80 to 82 for further details on our approach to risk management for liquidity and funding risk.

## 4. Market risk

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

Change from 2020

Stable

| EXPOSURES | MITIGATION | FUTURE FOCUS |
|---|---|---|
| Market risk exposures arise from structural interest rate risk and the banking book mismatch between the fixed rate assets and liabilities. It comprises the sensitivity of our current and future NII and economic value to movements in market interest rates. We do not have a trading book. | We benefit from natural offsetting between certain assets and liabilities, which may be based on both contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes.<br><br>We have very limited exposure to foreign exchange risk. Foreign exchange assets and liabilities are matched off closely in each of the currencies we operate and less than 5% of our assets and liabilities are in currencies other than pounds sterling. We do not have any operations outside the United Kingdom. We offer currency accounts and foreign exchange facilities to facilitate basic customer requirements only. | We will continue to manage our market risk in line with policy while mitigating interest rate risk. We will continue to enhance our risk framework taking into consideration regulatory developments in this area. |

See pages 82 to 84 for further details on our approach to risk management for market risk.

## 5. Financial crime risk

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

Change from 2020

Stable

| EXPOSURES | MITIGATION | FUTURE FOCUS |
|---|---|---|
| We remain exposed to financial crime risk as a consequence of our normal business activities, including our primary product offering (current accounts), international customers and account parties across Commercial Lending and Private Banking and industry coverage of our underlying customers.<br><br>Relationships with customers where it is felt that the financial crime risks are too great to manage effectively will be ended and continual investment is made in our expertise, partnerships and systems to improve our management of risk in this area. | Our Financial Crime Improvement Programme, which was mobilised in 2019, continued to deliver enhancements to our business-wide financial crime systems and controls throughout 2021.<br><br>We continue to invest in our systems and controls through conducting horizon scanning activity to identify emerging trends and typologies as well as to identify and prepare for new legislation and regulation.<br><br>Resourcing continues to be a significant focus for the Bank to ensure the Financial Crime Framework is implemented effectively. Investment into the 1LoD and 2LoD continued in 2021 to enhance our Financial Crime Risk capability through increasing headcount including recruiting additional specialist resource in 2021. | The Financial Crime Improvement Programme and BAU Financial Crime teams will continue to deliver enhancements to our framework to ensure financial crime controls are appropriate to manage the risk posed by our customers and transactions and operate in line with legal and regulatory requirements.<br><br>At the time of writing, the situation in Ukraine is highly concerning and developing rapidly; we're closely monitoring and fully complying with all applicable sanctions. |

See page 87 for further details on our approach to risk management for financial crime risk.

## 6. Regulatory risk

The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.

Change from 2020

Stable

| EXPOSURES | MITIGATION | FUTURE FOCUS |
|---|---|---|
| We remain exposed to regulatory risk as a direct and indirect consequence of our normal business activities, as well as significant ongoing and new regulatory change. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of our business, as an outcome of risk events in other key risk categories and/or from changes in external market expectations or conditions. | We manage regulatory risk under the Enterprise Risk Management Framework. The Regulatory Risk Framework facilitates the consistent monitoring and measurement of compliance with laws and regulations. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second-line Compliance team. Our Risk Oversight Committee and Executive Risk Committee monitor and oversee our focus on maintaining regulatory compliance. This includes periodic reporting on regulatory themes and regulatory changes on the horizon.<br><br>We undertake a range of key mitigating actions to manage regulatory risk. These include the maintenance of proactive and coordinated engagement with our key regulators, oversight of key regulatory implementations, and a risk-based assurance framework, designed to assess areas of the control framework underpinning compliance with regulations. | We have placed significant focus on overseeing and ensuring compliance with regulatory requirements and have made positive progress across a range of matters from a regulatory perspective. The ongoing enhancement of regulatory risk frameworks and a strong compliance culture will remain a prirority in 2022, along with the pipeline of regulatory engagement and developments. |

See page 88 for further details on our approach to risk management for regulatory risk.

## 7. Conduct risk

The risk that our behaviours or actions result in unfair outcomes or detriment to customers and/or undermines market integrity.

Change from 2020

Stable

| EXPOSURES | MITIGATION | FUTURE FOCUS |
|---|---|---|
| Customers are increasingly vulnerable to the challenges of the economic and social impacts of the external environment, driven by the COVID-19 pandemic. Key focus remains on those at risk of financial difficulty and scams to ensure that the appropriate level of governance and oversight is in place to support customer needs. | We have enhanced our risk management framework to improve oversight of our Bank-wide conduct risks, and have implemented programmes to address the key drivers of potential customer harm to support fair outcomes. | We will continue to ensure our products and services meet customer expectations, and deliver fair outcomes, particularly in relation to potential customer vulnerability. We will continually assess our internal processes in-line with regulatory changes, ensuring we meet our regulatory requirements and prevent customer harm. We will continue to work with the FCA on the consumer agenda and will implement any changes resulting from the new Consumer Duty consultation. |

See pages 88 to 89 for further details on our approach to risk management for conduct risk.

## 8. Model risk

The risk of potential loss, poor strategic decision making and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the assumptions, development, implementation or use of such models.

Change from 2020

Stable

### EXPOSURES

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks, which can result in financial and reputational losses, as well as having a detrimental impact on customers.

### MITIGATION

The main mitigant to model risk is the robust governance process that is followed. This includes two dedicated model committees and an expert panel to opine on contentious issues.

A comprehensive model inventory is maintained to provide stakeholders with a holistic picture of our model landscape which is used to guide strategic decision-making. We track model compliance status against regulatory requirements such that where material gaps are identified, appropriate and adequate remediation activities are undertaken.

A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.

### FUTURE FOCUS

The impact on models from the unwinding of government support measures during COVID-19 is being closely monitored. Expert judgement will continue to be used to supplement model outcomes in line with thorough governance processes.

We continue to develop our AIRB models as we progress with our application.

See page 86 for further details on our approach to risk management for model risk.

## 9. Capital risk

The risk that we fail to meet minimum regulatory capital (and MREL) requirements.

Change from 2020

Stable

### EXPOSURES

Capital risk is driven by RWA growth and losses. Management of capital is essential to the Bank in the prudent management of our balance sheet, ensuring our resilience under stress and the maintenance of the confidence of our current and potential creditors (including bond holders, the bond market, and customers) and key stakeholders in the pursuit of our business strategy.

### MITIGATION

Capital risk is managed within a capital adequacy framework which includes policies, strategy, limit setting, continuous monitoring, and stress testing.

The key mitigation to capital risk is the sucessful delivery of our strategic priorities, the execution of which will allow us to generate additional capital through the accumulation of profits.

### FUTURE FOCUS

We will continue to ensure that we have enough capital to meet the regulatory requirements at all times.

We remain focused on the delivery of our strategic priorities to ensure our return to long-term sustainable profitability.

As part of our strategic priorities we continue to progress our AIRB application, the successful approval of which would reduce our RWA density, freeing up capital.

See pages 84 and 85 for further details on our approach to risk management for capital risk.

## 10. Strategic risk

The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders.

Change from 2020

Stable

### EXPOSURES

Strategic risk arises if we design or implement an inappropriate strategic plan, design an appropriate plan but fail to implement it or implement the strategic plan as intended, however fail to take account of a change in external circumstances.

The impacts from COVID-19 continue to create an uncertain outlook for the UK. In addition, we operate in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives.

### MITIGATION

Strategic risk is addressed through the Board-approved five-year Strategy and long-term Financial Plan. We consider strategic risk as part of ongoing risk reporting, including the risk implications from project prioritisation. The management of identified strategic risks is allocated to members of the Executive Committee.

### FUTURE FOCUS

The Strategy and long-term Financial Plan retains a focus on optimising our efficiency, with emphasis on supporting the change governance framework, to deliver positive outcomes for our customers.

We will continue to develop and embed our sustainability agenda in managing environmental, climate, social and governance-related risks.

## 11. Legal risk

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 law applies to the Directors, the business, its relationships, processes, products and services.

Change from 2020

Stable

### EXPOSURES

We remain exposed to a range of Legal Risks across the Bank in relation to our normal business activities. These risks may arise from:

- Defective contracts
- Claims and litigation against the Bank
- Failure or inability to take appropriate measures to protect Intellectual Property
- Failure to comply with specific legislation (e.g. Market Abuse)

### MITIGATION

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

### 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. In 2022, we plan to enhance our approach further by updating our risk management framework to clarify the role of the Legal function in helping the business manage and mitigate Legal Risk.

## Credit risk

Despite a challenging external environment for our customers, credit portfolio performance has remained relatively resilient during 2021. Market demand for new lending has remained subdued, however, we have remained focused on supporting our customers and developing our lending product offering within specialist mortgages and unsecured consumer lending. Total gross loans and advances to customers have increased by £215 million from £12.2 billion to £12.5 billion. As a result of the growth in unsecured lending consumer lending now comprises 7% of the total loans and advances to customers (31 December 2020: 2%). New commercial business over 2021 demonstrates our support of customers impacted by COVID-19, with government supported Recovery Loan Scheme (RLS) lending balances of £157 million at 31 December 2021 (31 December 2020: £nil).

The impact of government initiatives and easing of COVID-19 related restrictions led to an improvement in the macroeconomic environment in 2021. Within the retail mortgage portfolio, this improvement, our ongoing active management of our credit exposures and the reduction in balances has contributed to a £7 million reduction in the expected credit loss allowance. Overall impairments increased due to a £5 million increase in commercial and a £17 million increase in consumer loss allowance. The commercial increase related to a small number of individually assessed impairments on larger loans. In consumer, the coverage ratio (31 December 2021: 4.7%) has decreased since 31 December 2020 (12.2%) driven by new originations in RateSetter and the run-off of the legacy consumer finance portfolio.

## Credit risk management

**Risk appetite (audited)**

We control credit risk through a set of quantitative limits on the risk we are willing to take to support our strategic objectives, whilst also ensuring we remain within our tolerance for credit losses. These limits, which are set at total portfolio and product level, are supported by a suite of product-level policies and lending standards which define the parameters within which individual exposures can be approved. Credit risk is further controlled through the use of automated decision tools within our retail business and approval and monitoring of individual transactions. Independent oversight is provided by the Credit Risk function and includes underwriting commercial lending, monitoring performance against limits, ongoing portfolio monitoring and regular portfolio reviews.

The 2021 credit risk appetite limits were set to reflect both the expected impact of COVID-19 and our strategy to rebalance our lending mix, increasing the proportion of unsecured lending and increasing lending in specialist retail mortgages. The lending growth during the year has been within risk appetite.

As part of the broader development of climate change risk management we have developed a model to estimate the impact on credit losses over a forecast horizon out to 2080. The requirements for this model were developed in line with guidance issued by the Bank of England as part of its Climate Biennial Exploratory Scenario Exercise with results being based on three climate scenarios, early policy action, late policy action and no additional policy action. In addition to this, we have made changes to our commercial lending policy which has been updated to prohibit sectors which are of particular concern for climate change, and enhance borrower assessment, particularly where borrowers operate in a carbon intensive industry. In retail mortgages, there are policies in place on new originations 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.

**Governance**

Credit risk is overseen by the Chief Risk Officer (supported by the Chief Credit Officer), Executive Risk Committee and Risk Oversight Committee. The Credit Risk function reports to the Chief Risk Officer and is led by the Chief Credit Officer. It is responsible for:

- Recommending and overseeing Credit Risk Appetite limits.
- 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.
- Monitoring and reporting credit risk performance.

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

**Assessment and monitoring (audited)**

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. In some circumstances, a manual underwriter review is also performed as part of the credit approval process. Commercial exposures are approved by an independent commercial underwriting team.

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 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 central 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 geography. 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 Executive Risk Committee (ERC) and Risk Oversight Committee (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 Credit Risk Oversight Committee (CROC). 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 expected credit losses under IFRS 9, as well as Advanced Internal Ratings Based (AIRB) models as part of our journey to seek permission to use the AIRB 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 watch list categories one to three. Closer Monitoring and Early Warning List categories support IFRS 9 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 are required in response to ongoing developments in the external environment.

In addition, we have performed various different credit risk stress tests over the year. We have developed models to assess and estimate the risks associated from climate change and plans are in place to further develop our quantitative capabilities to further support our longer-term objectives and increased focus in this area.

**Mitigation**
We mitigate risk through regular monitoring and analysis of our customers and their ability to maintain contractual obligations, as well as the external influences that can impact customer affordability. We have established Credit Risk policies and lending criteria and assess customer affordability stress rates. We employ specialist expert judgement in our assessments of our commercial customers and categorise customer risk as part of our Early Warning List. This allows for the early identification of customers who may be experiencing financial difficulties, but which have not yet fully materialised. Monthly analysis and reporting provide insight into portfolio credit performance and highlight where deterioration has occurred 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. At 31 December 2021, 79% (31 December 2020: 84%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average debt-to-value of 55% (31 December 2020: 56%) and 57% (31 December 2020: 56%) respectively.

Our exposure to loans of greater than 100% debt-to-value (or where no real estate collateral is present) remains low at less than 1% of retail mortgage lending (31 December 2020: less than 1%) and 19% of commercial term lending (31 December 2020: 12%). In the retail mortgage lending portfolio, these loans have principally been part of portfolios we have acquired. For commercial term lending, additional forms of collateral (such as debentures or unsupported guarantees giving recourse to our customers) are excluded from these debt-to-value figures. In addition, government guarantees are also excluded from these debt-to-value figures, so the true credit risk exposure on these loans is lower. Commercial lending is underwritten on the strength of all types of collateral. For our retail mortgage portfolio, our policy is to accept standard applications with an LTV of up to 95%. In addition, further limits covering both LTV and value are in place and are specific to product type and loan amount.

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 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 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 for the customer to support them 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 forbearance options outlined on page 67.

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 or 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.

Government initiatives and temporary support measures to assist customers with the challenges posed by COVID-19 were not considered to be forbearance in line with regulatory guidelines.

## Credit risk measurement

We measure credit risk performance through a suite of reports covering performance against risk appetite limits and key credit risk metrics including new business flow, portfolio quality, early warning indicators, arrears and recovery performance, sector and geographical concentration, and exceptions to lending policy. Reports are provided periodically to ERC, the ROC 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 and incorporate assessments of the Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD), individual assessments of defaulted commercial exposures and where relevant management judgement via Post Model Adjustments (PMAs) and Post Model Overlays (PMOs). The impairment assessment for year-end 2021 has been undertaken in line with our Impairment Policy. Model changes have taken place as a result of the Annual Model Review cycle and these have been implemented into production. A fourth severe downside macroeconomic scenario was introduced in 2021 across all portfolios, with associated changes in the probability weightings. This aligns the approach to market best practice and further captures the potential risks associated with a more severe downside scenario. There have been no material changes this year in the ECL estimation techniques, beyond this addition of the fourth scenario.

All models are subject to independent validation and approved through the Model Governance Committee (MGC) and Model Oversight Committee. PMOs have also been reviewed and approved at the Model Governance and Model Oversight Committees. The overall ECL position and methodology is reviewed and approved by the Impairment Committee which is a sub-committee of the Executive Risk Committee. Individual impairments for defaulted commercial customers are approved by the Individual Impairment Committee, a sub-committee of the Impairment Committee.

In order to assess the reasonableness of the impairment calculations, these have undergone rigorous internal challenge to ensure we are adequately provided for. In addition, these are also independently re-performed and challenged by external audit.

### 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), and Stage 1 is everything else. IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. For loans in Stage 2 and Stage 3 a lifetime ECL is recognised compared to a 12-month ECL for performing loans (Stage 1).

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the PD 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, considering reasonable and supportable information, including information about past events, current conditions, and future economic conditions.

As a result of the COVID-19 pandemic we introduced the ability for our customers to request temporary support measures (e.g. payment deferrals). The use of temporary support measures is not in itself considered to be a trigger of SICR and as such the granting of a COVID-19 related payment deferral does not in itself result in a transfer between stages for the purposes of IFRS 9. Temporary support measures are however a potential indicator of increased risk and this is considered as part of our ECL assessment.

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach. In light of this classification, our stage allocation criteria must include:

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

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

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is determined when the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, different thresholds are used by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The threshold is set at three times the median PD of the portfolio at origination.
- Qualitative criteria – instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative analysis. In addition, instruments classified on the Early Warning List as higher risk, are allocated to Stage 2, regardless of the results of the quantitative analysis. Exposures are considered as past due when a counterparty has failed to make their contractual payments.

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

**Non-performing loans**
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 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, accounting, and regulatory definitions.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

- a modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or
- a total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

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, with a backstop to ensure that the instrument should meet the Stage 2 criteria for 12 consecutive months.

**Table 1: Non-performing loans**

| | 31 December 2021 | | 31 December 2020 | |
|---|---|---|---|---|
| | Non-performing loans £'million | Non-performing loan ratio | Non-performing loans £'million | Non-performing loan ratio |
| Retail mortgages | 114 | 1.70% | 118 | 1.70% |
| Consumer lending | 21 | 2.36% | 13 | 6.13% |
| Commercial (including asset and invoice finance) | 327 | 6.75% | 127 | 2.48% |
| **Total** | 462 | 3.71% | 258 | 2.10% |

Non-performing loan ratio is considered an alternative performance measure. Further details on the calculation can be found on page 224.

NPLs increased significantly to £462 million (31 December 2020: £258 million). This increase was primarily driven by BBLS and a small number of large commercial single name cases migrating to Stage 3. Excluding BBLS the NPL ratio for commercial lending as at 31 December 2021 was 2.50%. NPLs for mortgages have remained broadly flat. The NPL ratio for consumer lending decreased to 2.36% (31 December 2020: 6.13%) driven by new lending growth together with the run off of the legacy portfolio.

**Expected Credit Loss**
Table 2 provides a breakdown of IFRS 9 Expected Credit Losses (ECL) stock by portfolio.

### Table 2: Impairments held on credit exposures

| Audited | 31 December 2021 £'million | 31 December 2020 £'million |
|---|---|---|
| Retail mortgages | 19 | 26 |
| Consumer lending | 42 | 25 |
| Commercial (including asset and invoice finance) | 108 | 103 |
| **Total** | 169 | 154 |

ECLs have increased during the year by £15 million to £169 million (31 December 2020: £154 million) predominately driven by new originations in the consumer lending portfolio, the purchase of the RateSetter Back Book and a small number of individually assessed impairments on larger commercial loans. The increase has been partly offset by a reduction in management overlays to reflect customers with previous payment deferral options resuming contractual payments, improvements in measurement of Loss Given Default (LGD) model for retail mortgages and portfolio reductions primarily driven by the run-off of the legacy consumer portfolio.

Whilst the post-pandemic outlook is more positive, a prudent level of management overlays has been retained given the continued uncertainty.

**Cost of risk**
Table 3 provides information on the cost of risk. Cost of risk is the credit impairment charge expressed as a percentage of average gross lending.

### Table 3: Cost of risk

| | 2021 | 2020 |
|---|---|---|
| Retail mortgages | (0.11%) | 0.19% |
| Consumer lending | 3.68% | 5.97% |
| Commercial (including asset and invoice finance) | 0.16% | 1.99% |
| **Average cost of risk** | 0.18% | 0.86% |

Cost of risk is considered an alternative performance measure. Further details on the calculation can be found on page 224.

The lower cost of risk in 2021 compared to the prior year is as a result of the significantly higher impairment charges required in 2020 in response to the pandemic. In retail mortgages, the decrease in cost of risk to (0.11%) (2020: 0.19%) is further driven by the reduction in management overlays for customers benefiting from temporary COVID-19 payment deferrals, and the implementation of the enhanced LGD model to reflect the latest effective interest rate data for the discounting of cash flows. The decrease in consumer lending cost of risk to 3.68% (2020: 5.97%) is the result of new originations in consumer finance and the reduction in the legacy consumer portfolio. The decrease in cost of risk for commercial is due to the overall size of the portfolio being relatively flat and therefore there has been a reduced need to increase provisions above those raised in 2020.

**Credit risk exposure by internal PD rating**
Table 4 summarises balances by PD bandings and IFRS 9 stage at a total group level. All PDs include forward-looking information and are based on 12-month values for Stage 1 and Lifetime values for Stages 2 and 3.

# Risk report continued

**Table 4: Credit risk exposure, by IFRS 9 12-month PD rating and stage allocation**

| | | 31 December 2021 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Audited | | Gross Carrying Amount (£'million) | | | | | Loss allowance (£'million) | | | | | |
| | IFRS 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 | 8,371 | 813 | – | – | 9,184 | 32 | 15 | – | – | 47 | 0.51% |
| Band 2 | 3.00 – 17.00 | 762 | 852 | – | – | 1,614 | 13 | 19 | – | – | 32 | 1.98% |
| Band 3 | 17.00 – 99.99 | 938 | 260 | – | – | 1,198 | 2 | 15 | – | – | 17 | 1.42% |
| Band 4 | 100 | – | – | 462 | 1 | 463 | – | – | 73 | – | 73 | 15.77% |
| **Total** | | 10,071 | 1,925 | 462 | 1 | 12,459 | 47 | 49 | 73 | – | 169 | 1.36% |

| | | 31 December 2020 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Audited | | Gross Carrying Amount (£'million) | | | | | Loss allowance (£'million) | | | | | |
| | IFRS 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 | 9,878 | 780 | – | – | 10,658 | 23 | 15 | – | – | 38 | 0.36% |
| Band 2 | 3.00 – 17.00 | 297 | 895 | – | – | 1,192 | 7 | 43 | – | – | 50 | 4.19% |
| Band 3 | 17.00 – 99.99 | – | 135 | – | – | 135 | – | 11 | – | – | 11 | 8.15% |
| Band 4 | 100 | – | – | 258 | – | 258 | – | – | 55 | – | 55 | 21.32% |
| **Total** | | 10,175 | 1,810 | 258 | – | 12,243 | 30 | 69 | 55 | – | 154 | 1.26% |

There has been minimal deterioration in the overall risk profile of our customers, excluding BBLS which are 100% government guaranteed. The migration observed across bandings is primarily driven by changes in the estimation of PD for commercial and RateSetter portfolios, driven by new models implemented during the year.

## Stage 2 balances

Stage 2 balances are identified using quantitative and qualitative tests that determines the SICR criteria. In addition, customers that trigger the 30 days back stop classification are also reported in Stage 2, in line with IFRS 9 standards. 96% of Stage 2 is driven by a SICR threshold being triggered compared to 4% being in arrears for the total portfolio.

**Table 5: Stage 2 balances**

| | 31 December 2021 £'million | |
|---|---|---|
| | Gross Carrying Amount | Loss Allowance |
| Quantitative | 1,473 | 32 |
| Qualitative | 366 | 11 |
| 30 days past due backstop | 86 | 6 |
| Total Stage 2 | 1,925 | 49 |

Stage 2 balances have remained broadly stable in 2021, with the Quantitative SICR criteria continuing to be the primary driver, however, there have been marginal shifts towards Qualitative and 30 days past due backstop criteria. As at 31 December 2021 77% (31 December 2020: 89%) of Stage 2 balances triggered Quantitative SICR criteria, 19% (31 December 2020: 11%) triggered Qualitative SICR and the remaining 4% (31 December 2020: less than 1%) triggered the 30 days past due backstop criteria.

The increase in qualitative assessment in 2021 is driven by the Early Warning List process in commercial as a result of COVID-19.

## Portfolio level analysis – Retail mortgages

The below table summarises key credit performance metrics for the retail mortgages portfolio.

### Table 6: Retail mortgages summary

| | 31 December 2021 £ million | 31 December 2020 £ million |
|---|---|---|
| Gross carrying amount | 6,723 | 6,892 |
| Loss allowance | 19 | 26 |
| Coverage Ratio | 0.3% | 0.4% |
| % Loans in Stage 2 | 15.8% | 12.5% |
| % Loans in Stage 3 | 1.7% | 1.7% |
| 90+ days past due | 0.8% | 0.7% |

**Portfolio and impairment**

Total retail mortgage balances have decreased in 2021 to £6,723 million (2020: £6,892 million) with the associated impairment charge decreasing by £7 million to £19 million in the year to 31 December 2021. This decrease is driven by improvements in the measurement of LGD for retail mortgages, improvements in the House Price Index (HPI) and a reduction in overlays for customers who previously benefited from payment deferrals and have since returned to contractual monthly payments. The total coverage ratio for mortgages is 0.3% (2020: 0.4%). This position has been reviewed internally concluding that the ECL levels remains appropriate given the ongoing uncertainty and increased risk associated with COVID-19.

There has been a decrease in coverage ratio across Stages 1 and 2 driven by improvements made in the measurement of Loss Given Default (LGD) and Lifetime Probability of Default models resulting in a reduction in modelled ECL. However, there has been an increase in Stage 3 due to the change in assumptions in the LGD model for defaulted accounts.

Arrears remained low and stable with little deterioration seen across the year. Support schemes such as payment holidays have had the intended consequence of helping customers through challenging periods with little impact observed as these schemes closed. The repossessions moratorium outcome, whilst now ceased, has meant that we still see a small number of cases demonstrating arrears for longer than they would under normal circumstances. Early indicators of portfolio performance, such as behavioural scores and early arrears, show positive trends with no current sign of emerging risk.

**Geographic exposure**

The geographic balance distribution of our retail mortgages customers 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 original customer base and store footprint. We are expanding our footprint over time which reduces geographical concentration of lending.

The below table reflects the geographic distribution of the retail mortgages portfolio.

### Table 7: Residential mortgage lending by geographic exposure

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million |
| Greater London | 2,130 | 1,048 | 3,178 | 2,213 | 1,147 | 3,360 |
| South East | 1,157 | 283 | 1,440 | 1,157 | 309 | 1,466 |
| South West | 434 | 82 | 516 | 433 | 91 | 524 |
| East of England | 309 | 69 | 378 | 298 | 73 | 371 |
| North West | 264 | 62 | 326 | 265 | 63 | 328 |
| West Midlands | 190 | 61 | 251 | 179 | 58 | 237 |
| Yorkshire and the Humber | 139 | 34 | 173 | 139 | 37 | 176 |
| East Midlands | 140 | 25 | 165 | 131 | 25 | 156 |
| Wales | 110 | 20 | 130 | 102 | 21 | 123 |
| North East | 62 | 10 | 72 | 62 | 10 | 72 |
| Scotland | 87 | 7 | 94 | 72 | 7 | 79 |
| **Total retail mortgage lending** | 5,022 | 1,701 | 6,723 | 5,051 | 1,841 | 6,892 |

**Collateral**
Table 8 shows the distribution of the retail mortgage portfolio by debt-to-value (DTV).

**Table 8: Retail mortgage lending by DTV**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million |
| **DTV ratio** | | | | | | |
| Less than 50% | 1,907 | 524 | 2,431 | 1,855 | 502 | 2,357 |
| 51–60% | 767 | 415 | 1,182 | 842 | 390 | 1,232 |
| 61–70% | 1,092 | 564 | 1,656 | 836 | 533 | 1,369 |
| 71–80% | 805 | 188 | 993 | 1,084 | 407 | 1,491 |
| 81–90% | 400 | 3 | 403 | 359 | 4 | 363 |
| 91–100% | 51 | 3 | 54 | 74 | – | 74 |
| More than 100% | – | 4 | 4 | 1 | 5 | 6 |
| **Total retail mortgage lending** | 5,022 | 1,701 | 6,723 | 5,051 | 1,841 | 6,892 |

Changes made to credit policy and criteria implemented in 2021 have not materially impacted the credit profile of our portfolio.

During 2021 we expanded our retail mortgage lending policy to allow lending up to a loan-to-value (LTV) of 95% (previously maximum 90%) and we launched our near prime product that is subject to a maximum LTV of 80%. In December 2021 we expanded buy-to-let lending to 80% LTV and reduced our buy-to-let stress rates to reflect a reduction in buy-to-let product interest rates.

Where LTV thresholds have been expanded, lending criteria has been set at a higher scorecard threshold, limiting the increase in risk. Lending to near prime is subject to a tighter LTV threshold of 80% and volumes of lending in these segments have so far been low (72 loans equalling £13 million).

The relatively low volumes of this lending, £61 million written in 2021, alongside increasing house prices during the year, has meant that the overall DTV of our portfolio has remained similar to that at year end 2020 (55% vs. 31 December 2020 of 56%) with 93% of our portfolio having a DTV of 80% or less.

**Supporting our retail mortgage customers through COVID-19**
COVID-19 has been a significant factor in our retail mortgage customers' ability to make payments. We have worked with customers to assist with how best to manage repayments and have provided payment holidays in line with regulatory guidance.

A total of 22% of retail mortgage customers took a temporary COVID-19 payment holiday during 2020-21, all of which have now ended. No material increase in arrears has been observed since the end of the payment holiday scheme.

We have also seen a general reduction in forbearance during 2021 driven by fewer customers requiring support as a result of the success of COVID-19 initiatives. New forbearance agreements are mainly being granted in the form of arrangements to pay and there has been no deterioration in their performance.

Uncertainty remains due to COVID-19 and the expected rise in the cost of living coming from areas such as energy. We are anticipating the use of forbearance tools as there remains a number of accounts within the later arrears cycles due to the possession moratorium. We will work with customers on a case-by-case basis to provide the best possible outcome.

**Interest-only lending**
We have exposure to interest-only lending with total exposure at 31 December 2021 of £3.7 billion (31 December 2020: £4.1 billion). Customers who are subject to a bullet or balloon payment at contractual maturity may find themselves unable to refinance or otherwise make this payment. All borrowers of interest-only lending are assessed as being able to refinance the lending at the end of the term or have an appropriate repayment plan in place. These loans are also appropriately collateralised to ensure we have first charge in the event of default by the borrower.

The tables below show the amounts of the retail mortgage that are subject to either interest only, or capital and interest payments.

**Table 9: Retail mortgage lending by repayment type**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million | Retail owner occupied £'million | Retail buy-to-let £'million | Total retail mortgages £'million |
| **Repayment** | | | | | | |
| Interest | 2,113 | 1,620 | 3,733 | 2,337 | 1,751 | 4,088 |
| Capital and interest | 2,909 | 81 | 2,990 | 2,714 | 90 | 2,804 |
| **Total retail mortgage lending** | 5,022 | 1,701 | 6,723 | 5,051 | 1,841 | 6,892 |

## Portfolio level analysis – Consumer lending

The below table summarises key credit performance metrics for the consumer portfolio.

**Table 10: Consumer lending summary**

| | 31 December 2021 £'million | 31 December 2020 £'million |
|---|---|---|
| Gross balances | 890 | 204 |
| ECL | 42 | 25 |
| % Loans in Stage 2 | 4.6% | 12.4% |
| % Loans in Stage 3 | 9.3% | 22.1% |
| % Loans with forbearance | 2.4% | 6.3% |
| 90+ days past due | 1.9% | 6.0% |

**Portfolio and impairment**

Consumer balances have increased to £890 million in 2021 (2020: £204 million) due to the growth in lending through the RateSetter personal loans platform and RateSetter portfolio acquisition. RateSetter loans account for 87% of consumer lending at December 2021. The performance of this portfolio has aligned with expectations and we anticipate continued growth through 2022 as we broaden the loan offerings.

All COVID-19 payment holidays have now ended with post payment holiday arrears being consistent with normal operations. Overall arrears rates remain stable.

The impairment charge has increased by £17 million to £42 million in the year to 31 December 2021. The majority of this increase relates to the new originations through RateSetter and the purchase of the RateSetter back book, offset by the legacy portfolio reducing. The total coverage position for consumer is 4.7% (2020: 12.2%). This position has been reviewed internally concluding that the ECL level remains appropriate given the ongoing uncertainty and increased risk associated with COVID-19.

**Supporting our Consumer customers through COVID-19**

We have proactively offered support measures to our consumer customers, mainly in the form of payment holidays and deferrals. Alongside this we have provided further support to households through waiving certain account fees as well as suspending interest on overdrafts.

All COVID-19 payment holidays have ended with customers reverting to contractual payment terms. No material increase in arrears has been observed since the end of the payment holiday scheme.

We have also seen a general reduction in forbearance during 2021 driven by fewer customers requiring support as a result of the success of COVID-19 initiatives. New forbearance agreements are mainly being granted in the form of arrangements to pay and interest waiver or concessions. There has been no deterioration in the performance of these arrangements.

## Portfolio level analysis – Commercial lending

The below table summarises key credit performance metrics for the commercial portfolio.

### Table 11: Commercial credit performance

| | 31 December 2021 £'million | 31 December 2020 £'million |
|---|---|---|
| Gross balances | 4,846 | 5,148 |
| ECL | 108 | 103 |
| % Loans in Stage 2 | 2.2% | 2.0% |
| % Loans in Stage 3 | 16.1% | 17.5% |
| % Loans with forbearance | 6.8% | 2.5% |
| 90+ days past due | 3.8% | 0.4% |

**Portfolio and impairment**

Our commercial lending largely comprises of term loans secured against property and government supported lending. New lending under the government's Recovery Loan Scheme has increased total government-backed lending over 2021, which reflects our ongoing support for COVID-19 impacted businesses. In addition, commercial lending includes term lending and facilities secured by other forms of collateral (such as debentures and guarantees), and Asset Finance and Invoice Finance.

Our commercial balances have decreased from £5.2 billion to £4.8 billion in 2021 reflecting the continued reduction in our Portfolio Buy to Let and Real Estate lending, in line with business strategy. New commercial business over 2021 includes government supported RLS lending of £157 million provided during the year.

Our commercial business continues to have some sector concentration in Real Estate. This concentration has reduced in 2021 in line with our strategy.

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. Total lending in Early Warning categories has stabilised over 2021, after the material increases driven by COVID-19 in 2020.

The annual impairment charge has materially reduced to £5 million in 2021 (2020: £95 million). 2020 impairments included a significant allowance for expected COVID-19 losses which have not materialised in 2021. Total provisions have increased to £108 million (2020: £102 million) with provision coverage increasing to 2.2% (2020: 2.0%). Our commercial book consists predominately of SME lending which is reflected in the provision coverage.

The proportion of commercial lending in Stage 2 has reduced from 17.5% in 2020 to 16.1% in 2021 as a percentage of total balance. Commercial has exposure to some sectors impacted by COVID-19 which influences the commercial IFRS 9 stage profile as discussed below.

Many COVID-19 impacted customers reopened in Q3 2021 and we observed improvements in trading in Q4 2021. However, there remains significant uncertainty and the impact of Omicron, the risk of new variants and further lockdown measures means a heightened risk of default. IFRS 9 stage classifications continue to reflect this heightened risk.

We have observed that some sectors have been more severely impacted by COVID-19 lockdowns. Hospitality and Leisure has experienced a more significant reduction in income than other sectors, and as a consequence we have seen higher levels of COVID-19 support required by these customers. We have provisioned for higher levels of expected credit losses in this sector to reflect the risk of higher default and to continue to manage performance closely.

Many customers who previously required temporary COVID-19 support including payment holidays and covenant suspensions, no longer require this additional support. Given the continued uncertainty and risk of an increase in default levels, we are holding provision overlays which result in coverage of 2.2% as at 31 December 2021 (2020: 2.0%).

### Geographic exposure

The below table summarises the geographic distribution of the commercial portfolio. 85% of commercial lending is to companies in London and the South (31 December 2020: 87%), which reflects our historic store network.

**Table 12: Commercial term lending (excluding BBLS) by geographic exposure**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million |
| Greater London | 676 | 1,186 | 1,862 | 780 | 1,358 | 2,138 |
| South east | 160 | 390 | 550 | 205 | 399 | 604 |
| South west | 28 | 151 | 179 | 31 | 156 | 187 |
| East of England | 39 | 71 | 110 | 48 | 67 | 115 |
| North west | 18 | 150 | 168 | 20 | 146 | 166 |
| West Midlands | 9 | 84 | 93 | 10 | 66 | 76 |
| Yorkshire and the Humber | 3 | 17 | 20 | 3 | 13 | 16 |
| East Midlands | 9 | 27 | 36 | 11 | 18 | 29 |
| Wales | 4 | 12 | 16 | 5 | 10 | 15 |
| North east | 3 | 17 | 20 | 3 | 18 | 21 |
| Scotland | 1 | 2 | 3 | 1 | – | 1 |
| Northern Ireland | – | 6 | 6 | – | 1 | 1 |
| **Total commercial term loans** | 950 | 2,113 | 3,063 | 1,117 | 2,252 | 3,369 |

### 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 2020. There has been an overall reduction in commercial real estate and professional buy-to-let of 8%.

The following table shows distribution of the commercial portfolio across business sectors.

**Table 13: Commercial term lending (excluding BBLS) by industry exposure**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million |
| Real estate (rent, buy and sell) | 950 | 837 | 1,787 | 1,117 | 1,032 | 2,149 |
| Hospitality | – | 361 | 361 | – | 376 | 376 |
| Health and social work | – | 225 | 225 | – | 248 | 248 |
| Legal, accountancy and consultancy | – | 206 | 206 | – | 208 | 208 |
| Retail | – | 136 | 136 | – | 107 | 107 |
| Real estate (development) | – | 46 | 46 | – | 60 | 60 |
| Recreation, cultural and sport | – | 88 | 88 | – | 53 | 53 |
| Construction | – | 85 | 85 | – | 36 | 36 |
| Education | – | 17 | 17 | – | 30 | 30 |
| Real estate (management of) | – | 9 | 9 | – | 10 | 10 |
| Investment and unit trusts | – | 6 | 6 | – | 9 | 9 |
| Other | – | 97 | 97 | – | 83 | 83 |
| **Total commercial term lending** | 950 | 2,113 | 3,063 | 1,117 | 2,252 | 3,369 |

**Collateral**

**Table 14: Commercial term lending by DTV (excluding BBLS)**

| Audited | 31 December 2021 Professional buy-to-let £'million | 31 December 2021 Other term loans £'million | 31 December 2021 Total commercial term loans £'million | 31 December 2020 Professional buy-to-let £'million | 31 December 2020 Other term loans £'million | 31 December 2020 Total commercial term loans £'million |
|---|---|---|---|---|---|---|
| Less than 50% | 306 | 770 | 1,076 | 353 | 876 | 1,229 |
| 51-60% | 232 | 483 | 715 | 261 | 546 | 807 |
| 61-70% | 282 | 158 | 440 | 351 | 255 | 606 |
| 71-80% | 112 | 63 | 175 | 133 | 100 | 233 |
| 81-90% | 8 | 30 | 38 | 9 | 51 | 60 |
| 91-100% | 6 | 27 | 33 | 6 | 13 | 19 |
| More than 100% | 4 | 582 | 586 | 4 | 411 | 415 |
| **Total commercial term lending** | 950 | 2,113 | 3,063 | 1,117 | 2,252 | 3,369 |

Our commercial lending remains largely comprised of term loans secured against property.

DTV covers property backed lending in commercial. At December 2021, 78% of property secured lending had DTV less than 80% 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 either the DTV or the expected credit loss but provides 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 increase in DTV>100% in 2021 reflects the increase in lending under the government's recovery loan scheme.

For commercial there have not been any changes to the collateral management or lending policies that significantly impact the quality of our collateral in 2021.

**Supporting our commercial customers through COVID-19**

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

We have provided BBLS to our customers with loans of between £2,000 and £50,000. These are available for up to 10 years, with no repayments due in the first year, at a fixed rate. The 'Pay As You Grow' scheme (PAYG) allows customers to apply for an interest only payment period of six months (up to a maximum of three periods), take a repayment holiday for both capital and interest for up to six months, and extend the term of the facility up to a maximum of 10 years. These loans are 100% guaranteed by the government.

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

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

RLS provides for term loans above £25,000 and up to a maximum of £10 million. These have been made available with terms ranging from three months to six years. The government guarantees 80% of any loss on these loans.

At 31 December 2021 we have £1,304 million of loans for BBLS, £165 million in CBILS, £37 million in CLBILS, and £157 million in RLS. Whilst these loans are guaranteed by the government, costs to collect are expected, and the risks associated from these loans is being closely monitored and reassessed where necessary, particularly as new government guidance is made available. In addition, we have provided an on-line portal enabling our BBLS customers to select from PAYG options. As at 31 December 2021 14,225 customers have applied for one or more of the PAYG options which is 39% of all eligible BBLS accounts.

The following table provides an overview of the lending provided via COVID-19 government support schemes.

**Table 15: COVID-19 government-backed loans**

| | Number of drawn customers | Balance £'millon | Average loan amount £'000 |
|---|---|---|---|
| BBLS | 36,116 | 1,304 | 36 |
| CBILS | 319 | 165 | 517 |
| CLBILS | 4 | 37 | 9,364 |
| RLS[1] | 675 | 157 | 233 |
| **Total** | 37,114 | 1,663 | 44 |

1. Recovery loan scheme includes £66 million acquired from third parties under forward flow arrangements.

**Interest-only lending**

Interest-only lending in the commercial portfolio totals £1.1 billion (31 December 2020: £1.3 billion), which is predominately comprised of professional buy-to-let loans.

**Table 16: Commercial term lending by repayment type (excluding BBLS)**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million | Professional buy-to-let £'million | Other term loans £'million | Total commercial term loans £'million |
| **Repayment** | | | | | | |
| Interest | 897 | 230 | 1,127 | 1,058 | 281 | 1,339 |
| Capital and interest | 53 | 1,883 | 1,936 | 59 | 1,971 | 2,030 |
| **Total commercial term loans** | 950 | 2,113 | 3,063 | 1,117 | 2,252 | 3,369 |

## Undrawn commitments

At 31 December 2021, we had undrawn loan facilities of £1,245 million (2020: £769 million). This includes commitments of £302 million (2020: £351 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. We mitigate credit risk in respect of these undrawn balances by regular customer monitoring to allow undrawn limits to be removed if we observe credit quality deterioration. We also have exposure to Invoice Finance assets where the amount drawn is capped both by the discounted value of available invoices and a set relationship cap. Similarly, we have a small exposure to commercial Real Estate Development Finance, where a limit to draw down is agreed in principle and funds are released in stages, throughout the development and following satisfactory surveyor reports. In commercial lending, undrawn commitments are regularly reviewed to ensure relationship caps remain appropriate. This has been particularly evident as we seek to support customers through COVID-19.

## 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 2021 we held £5.6 billion (31 December 2020: £3.4 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 depending on our intentions regarding each asset. We do not hold investment securities at fair value through profit and loss.

**Table 17: Investment securities by credit rating**

| | 31 December 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| Audited | Investment securities held at amortised cost £'million | Investment securities held at FVOCI £'million | Total £'million | Investment securities held at amortised cost £'million | Investment securities held at FVOCI £'million | Total £'million |
| **Credit rating** | | | | | | |
| AAA | 3,675 | 376 | 4,051 | 2,184 | 385 | 2,569 |
| AA- to AA+ | 1,101 | 422 | 1,523 | 456 | 388 | 844 |
| **Total** | 4,776 | 798 | 5,574 | 2,640 | 773 | 3,413 |

We have a robust securities investment policy which requires us to invest in high-quality liquid debt instruments. At 31 December 2021, 73% of our investment securities were rated as AAA (31 December 2020: 75%) with the remainder rated AA- or higher, the majority of which comprises of UK gilts.

Additionally, we hold £3.6 billion (31 December 2020: £3.0 billion) in cash balances, which is either held by ourselves or at the Bank of England where there is minimal credit exposure.

## IFRS 9 macroeconomic scenarios and use of expert judgement

**Scenarios, weightings, and macroeconomic assumptions**

The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios, and including management overlays where required. These scenarios are representative of our view of forecasted economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

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

Our credit risk models are subject to internal model governance including independent validation. We undertake annual model reviews and have regular model performance monitoring in place. The impairment provisions recognised during the year reflect our best estimate of the level of provisions required for future credit losses as calibrated under our weighted economic assumptions and following the application of expert credit risk judgement overlays.

A fourth (more severe downside) macroeconomic scenario has been introduced in 2021 across all portfolios to ensure the set of scenarios adequately reflect a wider range of downside risks which have been previously included within management overlays. Scenarios and probability weights are as follows:

**Table 18: Macroeconomic Scenario Weightings**

| | 31 December 2021 % | 31 December 2020 % |
|---|---|---|
| Baseline | 40% | 40% |
| Upside | 20% | 30% |
| Downside | 30% | 30% |
| Severe downside | 10% | – |

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

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

Key assumptions underpinning the baseline scenario include:

- The existing vaccines are effective against the new variant, and the death rate remains low compared with the previous winter.
- The UK government is offering booster jabs for vulnerable segments of the population.
- The unemployment rate spikes in the first quarter of 2022 as a result of the end of the Coronavirus Job Retention Scheme, which was extended to the end of September, and the recovery remains fragile in the second half of the year.
- Inflation starts to accelerate because of the reopening of the economy, the increase in demand, and the energy crisis. It reaches 3.6% by the start of 2022.

- The government supports the economy through massive fiscal stimulus during the first half of 2021, while the Bank of England keeps monetary policy extremely loose for several quarters.
- The UK government extends Northern Ireland ‘grace periods’ for the third time and postpones imposing checks on EU goods until 2022.

The base case macroeconomic estimates and assumptions used at 31 December 2020 reflected the COVID-19 uncertainty and the stage the UK economy was in at that time. The impact of the successful vaccine roll-out programme, vaccines proving effective against new COVID-19 variants and the economic recovery as lockdown restrictions were lifted resulted in more positive base case assumptions for 2021 and the forecast period. This has resulted in improvements in the GDP and unemployment levels.

The following variables are the key drivers of ECL:

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

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

**The use of estimates, judgements and sensitivity analysis**

*Economic scenarios*

Following the initial four-year projection period, the Upside and Downside scenarios converge to the Baseline scenario. The rate of convergence varies based on the macroeconomic factor, but at a minimum convergence takes place three years from the initial four-year projection period. We note that the scenarios applied comprise our best estimate of economic impacts on the ECL, and the actual outcome may be significantly different.

**Table 19: Economic variable assumptions**

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

| | | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Interest rates (%) – five year mortgage rate | Base | 2.7% | 3.3% | 3.7% | 4.1% |
| | Upside | 3.0% | 3.6% | 4.2% | 4.6% |
| | Downside | 2.3% | 2.8% | 3.1% | 3.1% |
| | Severe downside | 2.1% | 2.6% | 2.9% | 3.1% |
| UK unemployment (%) | Base | 4.7% | 4.4% | 4.4% | 4.5% |
| | Upside | 3.9% | 3.3% | 3.5% | 3.8% |
| | Downside | 6.2% | 6.6% | 6.5% | 6.3% |
| | Severe downside | 7.2% | 7.5% | 7.2% | 7.1% |
| UK house price index – % change year-on-year[1] | Base | 3.4% | 6.0% | 5.2% | 3.7% |
| | Upside | 14.2% | 8.5% | 4.8% | 2.1% |
| | Downside | (12.8%) | (8.1%) | (1.9%) | 4.4% |
| | Severe downside | (16.3%) | (10.3%) | (2.5%) | 4.3% |
| UK GDP – % change | Base | 3.9% | 3.1% | 1.4% | 1.0% |
| | Upside | 7.7% | 1.7% | 1.2% | 1.1% |
| | Downside | (2.3%) | 5.7% | 2.4% | 1.7% |
| | Severe downside | (3.9%) | 5.4% | 2.2% | 1.8% |

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

We have also assessed the IFRS 9 ECL sensitivity impact at a total portfolio level, by applying a 100% weighting to each of the four chosen scenarios, which is set out in table 20.

The sensitivities 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.

Post model overlays and individually assessed provisions are reflected in the sensitivities as are any resulting movements in staging allocation.

**Table 20: IFRS 9 ECL sensitivity impact**

| Audited | Stage 1 £'million | Stage 2 £'million | Stage 3 £'million | Total £'million |
|---|---|---|---|---|
| 31 December 2021 | | | | |
| Baseline | 42 | 39 | 70 | 151 |
| Upside | 39 | 35 | 69 | 143 |
| Downside | 56 | 58 | 76 | 190 |
| Severe downside | 62 | 71 | 78 | 211 |
| Weighted | 47 | 49 | 72 | 169 |

**Use of Post Model Adjustments and Post Model Overlays**

During the year we have continued to apply expert judgement to the measurement of the expected credit loss in the form of post model overlays and adjustments. As at 31 December 2021 post model overlays and adjustments made up £9.1 million and £35.0 million of the ECL stock respectively (31 December 2020: £23.1 million and £54.0 million). Further details on these can be found on pages 203 to 204.

## Liquidity and funding risk

### Liquidity and funding risk management

**Appetite**

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

**Mitigation**

*Deposit-funded approach*

Our deposit base remained stable and resilient throughout the pandemic. We aim to attract deposits that are diverse and are low cost, which are less sensitive to competition within the deposit market. At 31 December 2021, 48% of our deposits came from commercial customers (31 December 2020: 44%) with the remaining 52% (31 December 2020: 56%) coming from retail customers. Additionally, 44% of deposits at year end (31 December 2020: 39%) 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 Liquidity Coverage Ratio ensures that we comply with our own risk appetite as well as regulatory requirements.

**Assets and liabilities by maturity (audited)**

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

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

### Table 21: Contractual maturity

| Audited | Carrying value £'million | Repayable on demand £'million | Up to 3 months £'million | 3–6 months £'million | 6–12 months £'million | 1–5 years £'million | Over 5 years £'million | No contractual maturity £'million | Total £'million |
|---|---|---|---|---|---|---|---|---|---|
| 31 December 2021 | | | | | | | | | |
| Cash and balances with the Bank of England | 3,568 | 3,568 | – | – | – | – | – | – | 3,568 |
| Loans and advances to customers | 12,290 | – | 489 | 427 | 791 | 4,740 | 10,850 | 349 | 17,646 |
| Investment securities | 5,574 | – | 123 | 9 | 672 | 4,488 | 451 | 30 | 5,773 |
| Other assets | 1,155 | – | – | – | – | – | – | 1,147 | 1,147 |
| Total assets | 22,587 | 3,568 | 612 | 436 | 1,463 | 9,228 | 11,301 | 1,526 | 28,134 |
| Deposits from customers | (16,448) | (14,910) | (348) | (350) | (458) | (303) | – | (122) | (16,491) |
| Deposits from central banks | (3,800) | – | (3) | (3) | (18) | (3,924) | – | – | (3,948) |
| Debt securities | (588) | – | – | (23) | (24) | (672) | – | – | (719) |
| Repurchase agreements | (169) | – | (20) | – | (92) | (63) | – | – | (175) |
| Lease liabilities | (269) | – | (6) | (6) | (13) | (94) | (224) | – | (343) |
| Other liabilities | (278) | – | – | – | – | – | – | (214) | (214) |
| Total liabilities | (21,552) | (14,910) | (377) | (382) | (605) | (5,056) | (224) | (336) | (21,890) |
| Equity | (1,035) | – | – | – | – | – | – | (1,034) | (1,034) |
| Total equity and liabilities | (22,587) | (14,910) | (377) | (382) | (605) | (5,056) | (224) | (1,370) | (22,924) |
| Derivative cash flows | | – | (3) | – | (2) | (6) | – | – | (11) |
| Cumulative liquidity gap | | (11,342) | (11,107) | (11,053) | (10,195) | (6,023) | 5,054 | | |

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

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

The Asset and Liability Committee is responsible for liquidity and funding risk. Liquidity and funding cannot be considered in isolation, and we have regard to liquidity risk, profitability and capital optimisation when considering funding sources.

### Liquidity and funding risk measurement

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

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

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

For liquidity risk, we assess against internal and external requirements. The main external requirement is the LCR, and a series of internal requirements are set and maintained through our ILAAP. Our LCR has remained strong throughout the year, ending 2021 at 281% (2020: 187%).

## Market risk

### Market risk management

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

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

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

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

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

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

- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities and then evaluating the change in value arising from a change in the yield curve. Our risk appetite scenario is based on a parallel rate movement of 2% to all interest rates, but we evaluate based on a series of other parallel and non-parallel rate changes. The scenarios are designed to replicate severe but plausible economic events and to have regard to risks that would not be evident through the use of parallel shocks alone.
- Interest income sensitivity: the impact on 12-month future income arising from various interest rate shifts. Our risk appetite scenarios are based on parallel rate movements of 2% and of divergences of up to 1.15% between Bank of England base rate and LIBOR (from January 2022 LIBOR has been replaced with SONIA) against a constant balance sheet. We also evaluate a series of other parallel, non-parallel and non-instantaneous rate changes.

– Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.

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

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

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

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

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

Furthermore, limits are set for a set of asymmetrical movements between LIBOR and the Bank of England base rate. Our Treasury Risk function runs a series of other interest rate risk simulations on a monthly basis to ensure that the Asset & Liability Committee is kept updated of any other risks not captured by the policy measures. From January 2022 LIBOR is replaced with SONIA.

We also enter into hedging arrangements when the natural hedging in our book is insufficient to enable us to remain within our limits.

All derivatives are entered into macro or micro fair value hedge accounting arrangements in order to minimise volatility in the profit and loss account.

**Interest rate risk**
The tables below set out the interest rate risk repricing gaps of our balance sheet in the specified time buckets, indicating how much of each type of asset and liability reprices in the indicated periods, after applying expected non-contractual and out-of-course early repayments in line with the Market Risk Policy.

**Table 22: Repricing analysis**

| Audited | Up to 3 months £'million | 3–6 months £'million | 6–12 months £'million | 1–5 years £'million | Over 5 years £'million | Non-interest bearing £'million | Total £'million |
|---|---|---|---|---|---|---|---|
| 31 December 2021 | | | | | | | |
| Cash and balances with the Bank of England | 3,472 | – | – | – | – | 96 | 3,568 |
| Loans and advances to customers | 4,335 | 635 | 1,479 | 5,666 | 175 | – | 12,290 |
| Investment securities | 2,282 | – | 273 | 2,667 | 352 | – | 5,574 |
| Other assets | – | – | – | – | – | 1,155 | 1,155 |
| **Total assets** | 10,089 | 635 | 1,752 | 8,333 | 527 | 1,251 | 22,587 |
| Deposits from customers | (7,023) | (747) | (1,251) | (6,904) | (523) | – | (16,448) |
| Deposits from central banks and repurchase agreements | (3,800) | – | (99) | (70) | – | – | (3,969) |
| Debt securities | – | – | – | (588) | – | – | (588) |
| Other liabilities | – | – | – | – | – | (547) | (547) |
| Equity | (759) | (28) | (55) | (193) | – | – | (1,035) |
| **Total equity and liabilities** | (11,582) | (775) | (1,405) | (7,755) | (523) | (547) | (22,587) |
| **Interest rate derivatives** | 264 | (90) | (429) | 255 | – | – | |
| **Interest rate sensitivity gap** | (1,229) | (230) | (82) | 833 | 4 | 704 | – |
| **Cumulative gap** | (1,229) | (1,459) | (1,541) | (708) | (704) | – | – |

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

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

Table 23 shows the sensitivity arising from the standard scenario of a +200bps and -200bps parallel interest rate shock upon projected net interest income for a one-year forecasting period.

**Table 23: Interest rate sensitivity**

| Audited | 200bps increase £ million | 200bps decrease (not floored at zero) £ million |
|---|---|---|
| 31 December 2021 | 5.7 | (5.3) |
| 31 December 2020 | 19.8 | (20.1) |

# Capital risk

## Capital risk management

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

**Mitigation (audited)**
We manage our capital risk via our Capital Adequacy Framework which includes policies, strategy, limit setting, continuous monitoring and stress testing. Our ICAAP is a key component of this framework and is used to analyse material risks and assess our strategy and objectives under various stress scenarios. Capital ratios continued to be maintained within Board risk appetite and regulatory requirements throughout 2021.

*Sustainable profit growth*
The main long-term mitigation to capital risk is the sustainable generation of additional capital through the accumulation of profits. The Board and Executive Committee are focused on ensuring the successful delivery of the strategic plan to ensure the return to sustainable profitability and are currently on track in delivering this.

*Balance sheet optimisation*
Another key mitigation that we can use to manage capital risk is the efficient deployment of our existing capital resources. One of our strategic priorities is improving our balance sheet optimisation to ensure we maximise our risk-adjusted returns whilst remaining above regulatory requirements. As part of this we bought the RateSetter back book loans in March 2021.

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

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

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

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

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

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

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

During the course of 2021 we prepared for the implementation of CRD V/CRR 2 which came into effect on 1 January 2022.

### Table 24: Regulatory capital

| | 2021 £ million | 2020 £ million |
|---|---|---|
| CET1 capital | 936 | 1,192 |
| Risk-weighted assets | 7,454 | 7,957 |
| CET1 ratio | 12.6% | 15.0% |
| Total regulatory capital ratio | 15.9% | 18.1% |
| Total regulatory capital plus MREL ratio | 20.5% | 22.4% |
| Regulatory leverage ratio | 4.4% | 5.6% |

### Table 25: Capital resources

| Audited | 31 December 2021 £ million | 31 December 2020 £ million |
|---|---|---|
| Ordinary share capital | – | – |
| Share premium | 1,964 | 1,964 |
| Retained losses | (942) | (694) |
| Other reserves | 13 | 19 |
| Intangible assets | (243) | (254) |
| Other regulatory adjustments | 144 | 157 |
| **Total Tier 1 capital (CET1)** | 936 | 1,192 |
| Debt securities (Tier 2) | 249 | 249 |
| **Total Tier 2 capital** | 249 | 249 |
| **Total regulatory capital** | 1,184 | 1,441 |

## Model risk

### Model risk management

**Appetite**

We have a moderate appetite for risk due to errors on 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 monitoring**

*Assessment*

Model risk assessment underpins and supports a robust model risk governance process. An overarching model governance policy sets out the roles and responsibilities of the various stakeholders in the model risk management framework, including those of the three lines of defence, and underpinned by model development, monitoring, validation, and implementation standards. Model risk is assessed across several dimensions as set out in the model governance policy including materiality, regulatory reporting, loss computations and model risk complexity. These ensure that high and medium material models are escalated through to oversight committees.

**Monitoring**

The Credit Risk Modelling team is responsible for assessing the ongoing performance of credit risk models against pre-specified tolerances approved by the Model Governance Committee as part of model monitoring standards. Non-credit risk models are subject to a similar monitoring process; however, this is undertaken by the relevant user areas. Model performance is regularly monitored, and results are discussed both at the Model Governance Committee and Model Oversight Committee, where actions are agreed and tracked to completion.

**Mitigation**

*Governance*

The main mitigant to model risk is a robust governance process established by the Bank, which includes two dedicated model committees:

- Model Oversight Committee – which is the designated committee for the management of model risk.
- Model Governance Committee – which is the technical sub-committee of the Model Oversight Committee overseeing model risk lifecycle.

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

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

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

*Independent review and challenge*

We have established, in line with industry best practice, an independent Model Validation team. The team is responsible for reviewing and challenging all financial and non-financial model development submissions to ensure appropriateness and alignment with regulatory expectations. It maintains a model validation action log to track model risk remediation plans.

**Measurement**

Model risks are measured through the creation and presentation of a model risk appetite reporting framework to the various governance committees. This risk appetite is defined using several key risk indicators reported in a RAG (Red, Amber, Green) assessment status across each indicator. These are regularly reported and discussed based on materiality at the Model Governance Committee, Model Oversight Committee with a quarterly update provided to Executive Risk Committee and Risk Oversight Committee. All amber and red status indicators are discussed in the various governance forums and remediation action approved at the Model Oversight Committee.

# Financial crime risk

## Financial crime risk management

**Appetite**

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

**Assessment and monitoring**

We monitor compliance with policies and standards through a range of checking and assurance activities completed by dedicated and skilled resources. This includes 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. In addition we complete a Financial Crime Risk Assessment to assess and manage inherent and residual risk.

**Mitigation**

*Investment in our systems and controls*

Our Financial Crime Improvement Programme, which was mobilised in 2020, continued to deliver enhancements to our financial crime systems and controls throughout 2021. Looking forward into 2022, the programme will continue to invest in strategic technology solutions to ensure that our approach to Financial Crime risk management remains effective as the Bank grows.

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

Screening for politically exposed persons and customer transaction monitoring is carried out by Financial Crime Operations. Sanctions screening for payments is carried out by the payments team in the first line. The effectiveness and performance of these systems are discussed through internal governance and independently tested on a periodic basis.

*Resourcing and training*

Resourcing continues to be a significant focus for the Bank to ensure the Financial Crime Framework is implemented effectively. Over the course of 2022, we continued to invest in skilled resource with headcount increasing across operational, first and second line Financial Crime teams.

All colleagues have a key role to play in our management of Financial Crime risk. To this extent, all colleagues receive financial crime training, ensuring they are able to meet their personal regulatory obligations. Over 2021, we also invested in risk-based, role-based training to provide further Financial Crime training for colleagues. 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 applicable sanctions regimes and have delivered a number of enhancements to sanctions controls over the course of 2021. We continue to review our sanctions compliance framework with the support of external advisers, following our notifications to regulators on the sanctions matters discovered in 2017 and 2019.

*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 ensure the implementation of these requirements into our systems and controls. In 2020 and 2021, the Financial Crime Improvement Programme has delivered enhancements to key anti-money laundering and counter-terrorism financing controls including customer due diligence capabilities and customer screening capabilities.

*Anti-bribery and corruption and anti-tax evasion compliance*

We comply with the UK Bribery Act 2010 and have no appetite for undertaking and/or facilitating bribery and/or corruption and will always avoid giving or receiving improper financial or other benefits in our business operations. We also comply with the Criminal Finances Act 2017 and have no appetite to any facilitation of tax evasion. We are committed to acting professionally, fairly and with integrity in all our business dealings and relationships.

**Measurement**

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 plus remediation activity is escalated and tracked through our risk committees.

## Regulatory risk

### Regulatory risk management

**Appetite**

We have a low appetite for regulatory risk. We seek to minimise regulatory risk by maintaining robust systems and controls that are designed to meet existing regulatory requirements and to comply with future changes to the regulatory landscape.

**Mitigation**

The following controls and procedures help to mitigate regulatory risk:

- A Regulatory Risk Framework (with supporting policy and standards), sets out our Regulatory Risk Appetite Statement, key regulatory requirements, defined governance and approach to risk identification and monitoring.
- Ongoing development, maintenance and reporting of Regulatory Risk appetite measures (aligned to the risk taxonomy) to the Executive Risk Committee and the Board.
- Oversight and ongoing review of regulatory risk and issues (including breaches) in relevant business risk and oversight risk committees, including key regulatory change initiatives, incidents and remediation.
- Ongoing horizon scanning in preparedness of upcoming regulatory change and agility to business prioritisation.
- Maintenance of proactive and coordinated engagement with our regulators.
- Consideration of regulatory requirements in the context of product and proposition development, ongoing review, and associated appropriate governance.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

**Measurement**

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 Level 1 risk appetite metrics relating to major/critical regulatory breaches, high risk assurance and audit findings, incidents and implementation of material regulatory change.

**Monitoring**

Regulatory 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 Executive Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with laws and regulations.

Additionally, a clear governance structure is in place which enables escalation of Regulatory Risk 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 the Bank Risk Report. Our Board, Risk Oversight Committee and Executive Risk Committee in turn monitor and oversee our focus on maintaining regulatory compliance. As well as the Bank Risk Report, this also includes periodic reporting on regulatory themes and key focus areas aligned to the regulators strategic priorities, regulatory changes on the horizon and the regulatory environment, alongside supporting key risk appetite measures and Board-approved frameworks.

## Conduct risk

### Conduct risk management

**Appetite**

We have a low appetite for conduct risk. We seek to minimise conduct risk by maintaining robust systems and controls that consistently deliver fair customer outcomes. Where unfair outcomes are identified they must be remediated effectively to minimise risk, prevent recurrence and reduce customer harm.

**Mitigation**

The following controls and procedures help to mitigate conduct risk:

- 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 the Executive Risk Committee and the Board.
- Oversight and ongoing review of conduct risk and issues in relevant business risk and oversight risk committees, including progress against key customer remediation projects, complaints, vulnerable customers and arrears.

- Maintenance of proactive and coordinated engagement with our regulators around key customer initiatives, e.g. vulnerable customers, and customer impacts where material incidents are identified.
- 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 fair customer outcomes, supported and embedded through training.
- Embedding of delivering fair customer outcomes as part of our culture through the AMAZEING values which includes ‘make every wrong right’ that where conduct risks are identified, resources and expertise are dedicated to swift remediation action to appropriately mitigate any issues, avoid recurrence and, if detriment has occurred, the scale of the harm is quantified to address this with impacted customers.
- A risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

**Measurement**
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 Regulator, as well as a defined set of Board-approved Level 1 risk appetite metrics relating to Expressions of Dissatisfaction, Arrears, Vulnerable Customers and Product Governance performance and customer outcome delivery.

**Monitoring**
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 Executive Risk Committee on an annual basis, independently assesses our ability to appropriately mitigate this risk through its controls and decision making (where relevant).

Additionally, a clear governance structure is in place which enables escalation of Conduct Risk 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 the Bank Risk Report. Our Board, Risk Oversight Committee and Executive Risk Committee 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 Board-approved frameworks.

## Operational risk

### Operational risk management

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

**Assessment and monitoring**
We continuously develop and embed our approach to the management of Operational Risks and maintain robust operational processes, systems and controls, including conducting Risk and Control Self-Assessments across the Bank, in accordance with our Operational Risk Management Framework. Operational risk is overseen by the CRO and teams in the first and second lines of defence, monitored via reporting to the Business Risk Committees, second-line risk oversight committees, Executive Risk Committee and Risk Oversight Committee.

**Mitigation**
We have detailed frameworks, policies, standards and controls in place designed to mitigate Operational Risks both through minimising impacts suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering a large extreme (or unexpected) loss.

**Measurement**
Material Operational Risk events are identified, reviewed and escalated in line with criteria set out in the Enterprise and Operational Risk Management Frameworks. Root cause analysis is undertaken and action plans are implemented to prevent recurrence and continually improve our processes. We measure Operational Risk using a number of quantitative metrics, via which compliance with our risk appetite is reported to the committees set out above. We conduct regular Operational Risk scenario workshops to identify severe yet plausible events which could impact the Bank, to ensure that we quantify the potential losses that such events could cause and hold sufficient capital against them.

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

*Operational resilience*
Operational Resilience is an outcome of our ability to proactively prevent, adapt, respond, recover, and learn from operational disruption events. By identifying and monitoring our Important Business Services, we continue to ensure that adequate controls remain in place, including management of the technology upon which they rely, to minimise disruption.

*Fraud prevention*
We have continued to invest in fraud prevention tools and capabilities in 2021. This, in addition to historic investment, has resulted in significant savings by preventing attempted frauds against our customers and the Bank itself and involves our dedicated team monitoring fraudsters targeting our customers through authorised and unauthorised payment fraud attempts, with scams in particular presenting a growing threat. We share fraud prevention trends and best practice via our various communication channels to help protect our customers against such attacks.

## Viability statement

### Assessment of principal risk
The Board is responsible for monitoring the nature and extent of the principal risks it faces as well as determining the level of appetite it is willing to take in order to achieve its strategic objectives. The principal risks the Group actively monitors and manages are described on pages 52 to 90 which includes the Group's appetite, measurement, monitoring and mitigation approach.

In line with the requirements of the Corporate Governance Code ("the Code"), the Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model and impact the Group's performance, capital or liquidity. The Group's business model is set out on pages 10 to 13 which also show how this links to the Group's principal risks.

### Risk management and internal controls
As described in the Corporate governance report on page 108, 115 and 150 as well as the Risk report on pages 56 to 58, the Group's risk management and internal control systems are monitored at Board level. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

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

The Group's prospects are assessed primarily through its strategic planning process ("Long Term Plan"), the first year of which reflects the Group's 2022 budget. This process includes an annual review of the ongoing plan, led by the CEO through the Executive Committee and Board. The Board participates fully in the annual process and is responsible for signing off the plan and in doing so consider whether the plan continues to take appropriate account of the external environment (see external market review on pages 16 to 19 for further details). The latest updates to the Long Term Plan (covering the period 2022 to 2026) were formally approved by the Board in February 2022.

The Group's business model and strategic priorities (see pages 10 to 13 and 20 to 21) are central to an understanding of its prospects. The nature of the Group's activities is long-term and the Group's business model has remained unchanged since it was founded 11 years ago. The Group's current strategy was launched at the start of 2020 and good progress has been made in delivering this, (see Chief Executive Officer's statement on pages 8 and 9 for further details). The Group's strategy is subject to the ongoing monitoring to ensure it remains appropriate.

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

Whilst the Group's Long Term Plan covers a five year period to 31 December 2026, the Directors have assessed prospects and viability for the four years through to 31 December 2025. This is felt appropriate as this is the period over which forecasts have a greater level of certainty (although the fifth year still provides a robust planning tool against which strategic decisions can be made). The assessment has included reviewing the plan against the Group's principal risks (as detailed on pages 52 to 90) to examine those matters that could prevent the Group from delivering on its strategy. Of the Group's principal risks only:

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

were felt could directly lead to the business not being able to continue in its current form if they were to occur (although a failure of the Group's other principal risks could lead to one of these events). Of these three risks, insufficient capital is where there is most uncertainty and where extra consideration was given by the Directors in their assessment. These key risks were also considered as part of the assessment of the Group's viability, as explained below.

One of the key assumptions in the Long Term Plan is the Group's ability to raise qualifying debt over the forecast period to fund anticipated growth and to meet regulatory requirements. This raising of qualifying debt may require changes to the organisational structure of the Group, as well as various regulatory approvals.

## Assessment of viability and going concern

Although the Group's Long Term Plan reflects the Directors' best estimate of the future prospects of the business, they have also tested the potential impact on the Group by examining the sensitivity to 'severe but plausible' changes to the assumptions. This has been undertaken via the creation of scenarios that reflect downside (stressed) cases by overlaying additional risks into the forecasts (primarily reflecting the aforementioned principals risks).

The main downside scenarios tested included:

- Increased costs of raising qualifying debt compared to those envisaged in the plan.
- An economic stress.
- Delays in the delivery of key strategic priorities which are assumed as part of the plans (see pages 20 and 21).

The results of this stress testing showed that the Group would be able to withstand the impact of these scenarios over the assessment period and would retain sufficient capital (over and above regulatory minima).

In addition to the scenarios above, the Directors also considered a more severe scenario that combined elements of some of the standalone scenarios. In this scenario the Group temporarily fell below regulatory minima for a limited period of time before quickly recovering. The Directors considered the appropriate actions that could reasonably be deployed to allow the Group to continue to remain above regulatory minima. This involved making reasonable adjustments to the Group's operating plans, including temporary cost reductions and additional balance sheet management in the form of portfolio disposals. These mitigating actions are in line with those the Group has previously undertaken and therefore did not of themselves constitute any additional risk.

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

## Viability

Based on their assessment of prospects and viability above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the four year assessment period to 31 December 2025.

## Going concern

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

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

**Daniel Frumkin**
23 March 2022

# Corporate governance introduction


I am pleased to set out Metro Bank's corporate governance report on behalf of the Board as I mark my first full year since being appointed as Chair in November 2020. While there remains significant internal and external headwinds, our performance this year has shown the robustness of our strategy centred on our five strategic pillars and the strength of the Bank's management team.

Despite the challenges we face, I am pleased with the progress we have made towards returning to profitability. The RateSetter integration has continued to progress well and the business is making significant steps in developing our unsecured lending offering, which is a key driver of revenue for the Bank.

We held our first strategy away day in September this year in Manchester. As part of the two-day session, the Board got the opportunity to meet with colleagues from the Manchester, Sheffield, Liverpool and Bradford stores. It was great to see the zest and dynamism of our colleagues, despite the challenges they have faced as a result of the pandemic. My fellow Board members and I were pleased to have the opportunity for detailed discussions including in-depth challenge with the Executives that the strategy day provided. In particular, we considered a range of proposed new initiatives which will better meet the needs of our customers and accelerate the Bank's journey to profitability.

More information on the strategy away day can be found on page 97.

In 2021, the Board made the difficult decision to close three Metro Bank stores. This decision was made after great deliberation and detailed consideration of the impact this will have on our stakeholders.

I would like to thank the Financial Reporting Council for the letter received in relation to their review of our Annual Report and Accounts for the year ended 31 December 2020. The results were positive and the suggested matters for review have been discussed by our Audit Committee and relevant actions or amendments, where appropriate, have been considered and reflected in this year's Annual Report.

The PRA investigation into our regulatory reporting concluded in December 2021. A provision for the settlement of the related FCA investigation is included in the accounts.

## Leadership

We made a number of changes to the membership of the Board in 2020. During 2021 the Board and I have continued to build our knowledge of the business and develop our working rapport with one another. I am pleased to report that the new Board has embedded well and is working together effectively. This was reflected in both the results of our internal Board evaluation and the PRA Governance Review which was carried out earlier in the year. Monique Melis has been appointed as Senior Independent Director (subject to regulatory approval), following Sir Michael Snyder's retirement at the end of October. I would like to take this opportunity to thank Sir Michael on behalf of the Board for his significant contribution to the Bank during his tenure. He served in a number of roles, including Audit Committee Chair, Senior Independent Director and latterly Interim Chairman. His strength of leadership and tenacity has been of great value to the Bank.

Following Monique's appointment as Senior Independent Director (SID), I took over the role of Chair of the Nomination Committee and I look forward to leading the important work of this committee during 2022 and beyond.

As announced on 15 February 2022, David Arden, Chief Financial Officer, agreed with the Board to step down from the Board with immediate effect and leave the business on 1 April 2022. On behalf of the Board I would like to thank David for the important work that he has done to strengthen Metro Bank's financial controls over the past two years. He has played an instrumental role in helping to deliver the Bank's strategic priorities and turnaround plan and leaves with our best wishes for the future. The Nomination Committee will oversee the search for a short-medium and long-term replacement for the role.

This year, the Nomination Committee has directed its attention to long-term succession planning, and the mix of skills, experience, diversity and independence on our Board and Board Committees. More information on the work of our Nomination Committee can be found on pages 122-125.

As part of the agenda for 2021, the Board received regular updates on culture, including current and future initiatives to define, measure and sustain culture at the Bank as well as updates from our Non-Executive Director for Colleague Engagement. At Metro Bank, our unique and pervasive culture is what sets us apart. Being part of a strong culture brings a sense of purpose, belonging and unity. When our culture is thriving, it can be felt and experienced by anyone who interacts with the Bank, from customers to colleagues to shareholders, and it is woven into every decision we make. This is what will ultimately assist us in creating more FANS and creating a profitable, safe and sustainable organisation for the future.

## 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 our Board provides oversight of the Bank and discharges our governance duties. It also outlines the governance initiatives we have undertaken during the year.

Following the externally facilitated Board evaluation in 2020, this year we conducted an internal evaluation with the assistance of the Company Secretary. This evaluation focused on our overall effectiveness, building upon the themes that came out of the previous external evaluation as well as specific areas of focus as agreed with the Board and Committee Chairs. Overall, the results were positive and are testament to the progress we have made as a new Board and the strength of our working relationships and practices. The details of this evaluation can be found on page 107.

The continuing restrictions imposed by COVID-19 meant that our AGM in May 2021 was held virtually for the second year in a row. I would like to thank shareholders for the overwhelming support received for all resolutions, including to implement the new Directors' Remuneration Policy. Our Remuneration Policy is now better aligned with wider market practice and is linked to our turnaround plan, thereby creating better incentive for colleagues to deliver the plan. I am very much looking forward to our 2022 AGM, which I hope will provide us with an opportunity to meet with shareholders face to face.

## Future Priorities

I fundamentally believe that to be a successful bank, we must continue to offer both physical and digital services. The Bank remains committed to the community banking model, with our store presence being the differentiator for our customers and FANS. We continue to be rated the top high street bank for overall service quality for personal and business customers in the latest Competition and Markets Authority (CMA) Service Quality rankings and number one for store service for the eighth time running. I was delighted to see the successful grand opening of our newest store in Leicester in late February 2022. We have made great advances in our digital products for both personal and business customers and we continue to invest further into creating products and services that meet the needs of our diverse customer base and create an even better consumer experience for our FANS. Looking forwards to 2022, I remain very positive about the future of the Bank and the further progress we will make as we get even closer to the return to profitability. As a Board, our focus will be on continuing to provide effective oversight of management to ensure we have a robust capital position, a strong discipline on costs, and an unrelenting focus on serving our customers and shareholders.

**Robert Sharpe**
Chair
23 March 2022

## COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (THE CODE)

Good corporate governance is essential to our ambition in becoming the UK's best community bank.

The table below details where key content on the compliance with the Code can be found in this report. During 2021, there was one instance of non-compliance with the detailed provisions of the Code and we have set out our explanation below.

| | |
|---|---|
| **Board Leadership and Company Purpose** | |
| Corporate governance introduction – page 92<br>Section 172 Statement – page 41<br>Board of Directors – page 94 | 2021 governance at a glance – page 97<br>Strategic priorities – page 20<br>Business model – page 10 |
| **Division of Responsibilities** | |
| Board roles and responsibilities – page 106<br>Board and Committee attendance – page 97 | Board Independence – page 97 |
| **Composition, Succession and Evaluation** | |
| Board of Directors – page 94<br>Board and Committee Evaluation – page 107 | Nomination Committee report – page 122 |
| **Audit, Risk and Internal Controls** | |
| Audit Committee report – page 110 | Risk Report – page 52 |
| **Remuneration** | |
| Remuneration Committee report – page 126<br>Annual report on Remuneration – page 137<br><br>Provision 38 – The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to colleagues.<br><br>Explanation – As per the Bank's Remuneration Policy, any new Executive Director hire will have a maximum pension contribution at a level aligned with those available to colleagues, which is currently at a rate of 8% of base salary. | The pension contribution rate for the former CFO was 10% of base salary during the year under review. This will be reduced to a level aligned with those available to colleagues for any new hire into the role. In line with the latest FRC Guidance we have recognised this as an area of non-compliance with the Code during 2021, and as explained, we are committed to ensuring our executive pension contributions are fully aligned with the provisions of the Code. |

# Board of Directors

as at date of publication

**ROBERT SHARPE**
CHAIR

Appointed to the Board 1 November 2020

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

**DANIEL FRUMKIN**
CHIEF EXECUTIVE OFFICER

Appointed to the Board 1 January 2020

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

**ANNA (MONIQUE) MELIS**
SID

Appointed to the Board 20 June 2017

Monique is a Managing Director and the Global Service Line Leader of the Financial Services Regulatory practice at KROLL Advisory Ltd. She is also a Director of the KROLL Luxembourg Management Company Board. With extensive financial services and regulatory experience across established and growth markets, her appointments have included Executive Board member at Kinetic Partners and roles at the Cayman Islands Regulator and Stock Exchange, the Financial Services Authority and the Securities and Futures Authority. Monique has recently been appointed as a NED at The Bank of London.

**ANNE GRIM**
INED

Appointed to the Board 20 April 2020

Anne is currently a NED of Plus500, Insight Investment Funds Management Limited and Openwork Holdings Limited. Anne is an experienced executive turned advisor, consultant and NED with more than 30 years in senior financial services leadership roles at Barclays, Wells Fargo, American Express, Mastercard and most recently as Chief Customer Officer at Fidelity International. Her expertise is in customer experience, strategic planning and execution, technology innovation and business transformation. In addition, she is currently an advisor to the Investment Association's FinTech Engine, a Trustee on the UK board of Opportunity International and a Director of CXpertin Ltd. Anne was a NED of Retail Money Market Ltd (RateSetter) until 31 December 2021.

**PAUL THANDI CBE**
INED

Appointed to the Board 1 January 2019

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

**MICHAEL TORPEY**
INED

Appointed to the Board 1 September 2019

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

**CATHERINE BROWN**
INED

Appointed to the Board 1 October 2018

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

**SALLY CLARK**
INED AND DNED FOR COLLEAGUE ENGAGEMENT

Appointed to the Board 1 January 2020

Sally is a NED and Chair of the Audit Committee for Citigroup Global Markets Ltd, as well as a member of the Risk and the Nomination Committees. Sally is also a Director and advisor at Acin, the data standards firm for non-financial risk and controls. She is on the Advisory Board of Career Masterclass, a platform providing training, events, mentoring and other content to enable BAME colleagues to reach their potential. Sally is also an Executive Coach and Leadership Advisor to Board and C-suite clients which she does through Pelham Street Leadership Advisory. Previously, she was Chief Internal Auditor at Barclays Internal Audit (BIA) from 2014 to 2019. Her role was to run the 650-strong global function providing assurance to key stakeholders on the effectiveness of the control environment at Barclays. A qualified executive coach and Fellow of the Institute of Leadership and Management, Sally also mentored staff within Barclays and was the ExCo sponsor for the wellbeing agenda. She served on the Council of the Institute of Internal Auditors for three years and was Deputy President in 2018/19.

### IAN HENDERSON
INED

Appointed to the Board 20 April 2020

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

### NICHOLAS WINSOR MBE
INED

Appointed to the Board 20 April 2020

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

### MELISSA CONWAY
COMPANY SECRETARY

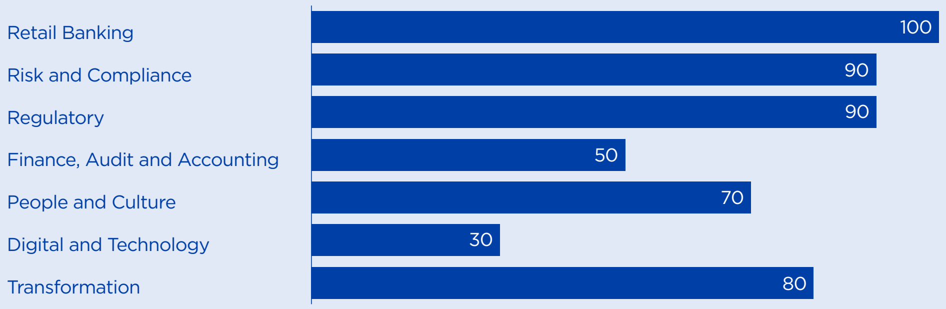
Appointed 1 December 2020

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

### KEY TO COMMITTEES

- A Audit
- O Risk Oversight
- N Nomination
- R Remuneration

### Overview of Board skills as at date of report
(% of Board Directors)




## Board Resignation After Year-End

### DAVID ARDEN
CHIEF FINANCIAL OFFICER

Appointed to the Board 29 March 2018 and resigned on 15 February 2022

# Executive Committee

as at date of publication

**DANIEL FRUMKIN**
CHIEF EXECUTIVE OFFICER

Daniel is responsible for leading the Bank with a focus on driving long-term growth by delivering great customer service at the right cost, to create even more FANS.

**MARTIN BOYLE**
CHIEF TRANSFORMATION OFFICER

Martin is responsible for developing and delivering the Bank's transformation and change agenda.

**TINA COATES**
DIRECTOR OF CORPORATE AFFAIRS

Tina is responsible for safeguarding and promoting the Bank's culture and reputation, and driving excellence in the Bank's communication.

**CAROL FROST**
CHIEF PEOPLE OFFICER

Carol is responsible for all aspects of Metro Bank's People function, with a focus on developing diverse talent and capability across every level to build on the Bank's unique culture.

**AISLING KANE**
CHIEF OPERATIONS OFFICER

Aisling looks after everything that makes Metro Bank run smoothly, including its call centres, all banking and lending operations, customer support, financial crime prevention, and facilities and property management.

**RICHARD LEES**
CHIEF RISK OFFICER

Richard is responsible for management and oversight of the risk and control framework across the Bank.

**RHYDIAN LEWIS OBE**
MANAGING DIRECTOR, CONSUMER FINANCE

Rhydian is responsible for the Bank's unsecured lending to consumers and businesses under both the Metro and RateSetter brands.

**JESSICA MYERS**
DIRECTOR OF BRANDS AND MARKETING

Jessica's role focuses on shaping Metro Bank's brand strategy, building transformational marketing capabilities, and investing in brand and marketing communications that exemplify the brand to drive business growth.

**CHERYL MCCUAIG**
CHIEF INFORMATION OFFICER

Cheryl is responsible for running and developing Metro Bank's IT, ensuring that customers' money and information are safe and secure, and that customers can access their banking 24 hours a day.

**DAVID THOMASSON**
MANAGING DIRECTOR, BANKING PRODUCTS AND DIGITAL

David is responsible for planning, implementing, and managing all product, digital and customer analytics-related functions; both day to day and for the long term; including the development of new products and services for customers and to deliver the Bank's commercial plan.

**IAN WALTERS**
MANAGING DIRECTOR, DISTRIBUTION

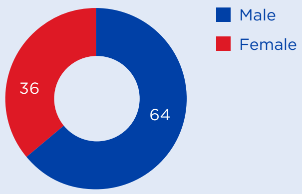
Ian is responsible for the Bank's Retail, Business and Commercial teams. He is passionate about helping customers achieve their ambitions through the personal and nimble relationship service Metro Bank provides.

**CHIT GHEE YEOH**
CHIEF INTERNAL AUDITOR

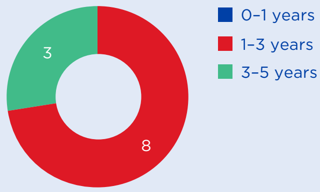
Chit Ghee is responsible for providing assurance to ensure that the Bank operates in a safe and sustainable way.

# 2021 governance at a glance

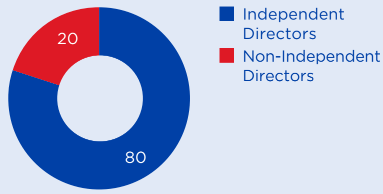
**Board Gender Diversity** (%)
as at 31 December 2021




**Board Tenure**
as at 31 December 2021




**Board Independence** (%)[1]
as at 31 December 2021




## HIGHLIGHTS

**2021 Board changes**
Sir Michael Snyder stepped down as Senior Independent Director and Non-Executive Director of the Bank, effective as of 31 October 2021, following six years of service. Monique Melis became the Bank's Senior Independent Director, effective 31 October 2021.

**AGM**
New Remuneration Policy approved. The new policy is in line with wider market practices and provides greater levels of transparency and incentive to our people.

**Board training sessions during the year**
Climate risk held in April; and Directors' duties held in May. Upcoming training sessions for 2022: regulatory; non-executive director market trends; cyber; and evolving risk landscape, climate, and ESG.

**Employee engagement scores for 2021**

**73%**
Overall score for culture – reflecting our colleagues' enduring positive sentiment for our unique culture

**79%**
Agreed "I can be myself at Metro Bank"

**76%**
Agreed that "Regardless of background, everyone at Metro Bank has an equal opportunity to succeed"

**2021 Board and Committee attendance**

| | Board 8 meetings | Audit 8 meetings | ROC 10 meetings | Rem 7 meetings | Nom 3 meetings |
|---|---|---|---|---|---|
| Robert Sharpe | 8 | | | | 3 |
| Sir Michael Snyder[1] | 7 | | | | 3 |
| Daniel Frumkin | 8 | | | | |
| David Arden[2] | 8 | | | | |
| Catherine Brown | 8 | | 10 | 7 | 3 |
| Monique Melis | 8 | 8 | | | 3 |
| Paul Thandi[3] | 8 | 3 | | 7 | 2 |
| Michael Torpey | 8 | 8 | 10 | | |
| Sally Clark | 8 | 8 | | 7 | |
| Nick Winsor | 8 | | 10 | | |
| Ian Henderson[4] | 6 | 8 | 10 | | |
| Anne Grim[5] | 8 | 4 | | 2 | |

1. Sir Michael Snyder resigned from Board 31/10/21
2. David Arden resigned from Board 15/02/22
3. Paul Thandi resigned from Audit Committee 31/03/21; appointed to Nomination Committee 01/04/21
4. Ian Henderson was not able to attend two Board meetings for personal reasons
5. Anne Grim resigned from Audit Committee 31/03/21; appointed to Remuneration Committee 01/04/21

**Board Strategy Days**
In September 2021, the Bank held its first strategy away day with the Board and senior leadership. As part of the two day session, the Board also got the opportunity to meet with colleagues from the Manchester, Sheffield, Liverpool and Bradford stores.

**The Board considered the following areas:**

- How do we continue to use our service leadership to grow customer and account numbers?
- How can we grow revenue and expedite revenue initiatives?
- What actions are required to further optimise our balance sheet?
- Do we have the right level of momentum on the delivery of our strategic objectives?
- How do we attract, retain, and motivate our people to deliver on our transformation?

**Actions, considerations, and priorities for the Board, the Bank, and senior leadership team for 2022:**

- Service is our differentiator and we will continue to invest to improve our customer experience
- Continue to focus on balance sheet and close management of the Bank's capital position
- Maintain cost discipline whilst delivering a number of new revenue initiatives to expedite the Bank's return to profitability
- Ensure that we evolve our talent acquisition strategy; strengthen our colleagues' skills through internal development; continue our focus on differentiated culture and our diversity and inclusion agenda
- Ensure that operations, IT and Risk continue to develop the core capabilities required to support our strategy

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

David Arden resigned from the Board on 15 February 2022. The information on this page is for the full financial year and therefore David's statistics have been included.

# Board activity and stakeholder engagement

## Key activities in 2021

**Our stakeholders**

Our stakeholders are considered at all times throughout the decision-making process:

Our FANS Our colleagues The communities we serve Our suppliers The regulators Our investors

### Board activities

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

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

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

### ESG

The Board has always been focused on doing the right thing for our colleagues, customers, shareholders and other stakeholders. This year the Board has spent time considering and agreeing two new operational climate pledges and an ESG roadmap to implement ESG actions. More information on how we plan to work with customers, colleagues and communities to support their transition to a resilient, Net Zero economy can be found on the 'our planet' section on page 40 and the Taskforce for Climate-related Financial Disclosures section on page 42.

Stakeholders considered:

### The Pandemic

The Board have kept the Bank's response to the pandemic under continuous close consideration. The Board recognises the incredible effort made by colleagues who continue to work in our stores and offices to ensure we support our communities throughout the pandemic. The Board also had oversight of the return to the office for colleagues who had been able to work remotely during the pandemic and then, in line with government guidance, subsequently returned to working remotely in December 2021. Throughout the year, the Board have kept Colleague attrition and wellbeing under review and the Bank oversaw the management team's rapid response to the 'pingdemic' and spread of new variants. During 2021, the Board had oversight of the Bank's continued support of its communities through new UK government-backed BBLs top-ups and Recovery Loan Schemes as well as continued monitoring of the government-backed loan schemes which were offered in 2020.

Stakeholders considered:

| | Jan | Feb | Mar | Apr | May |
|---|---|---|---|---|---|
| **Board and Committee meetings** | Board<br>ROC<br>Audit<br>RemCo<br>RemCo x2 | Board<br>ROC<br>NomCo<br>Audit<br>RemCo<br>RemCo x2<br>Audit x2 | ROC<br>Audit | Board<br>ROC | Board<br>ROC<br>NomCo<br>Audit<br>RemCo |
| **Key announcements, decisions, and Board activity** | Started offering the government-backed BBLS top-ups | 2021 Results announcement<br><br>We completed the sale of a portfolio of owner occupied mortgages to NatWest Group on 2 February. The portfolio had a gross book value of £3.1 billion | | RateSetter transaction completed on 2 April 2021. The Portfolio had an aggregate book value of £337 million at completion | AGM held and new Remuneration Policy approved by shareholders |

# Focus on Strategic Priorities

## Costs

In July 2021, the Board considered cost priorities to ensure the return to profitability in the near term. The Board made the difficult decision to close three Metro Bank stores. Taking into account the needs of all the Bank's stakeholders, the Board felt the right thing to do was to close the stores in line with their performance and the life of the leases, as is the usual procedure at many retail firms.

The Bank remains committed to the store model, with the Bank opening the Leicester store most recently in February 2022.

The Board considered the store closures again during the November 2021 Board meeting and a clear plan was developed to support our stakeholders through this process. We also liaised with our Regulators to ensure any vulnerable customers' needs were fully considered, any risks mitigated, and are pleased to have implemented a range of initiatives to help identify those customers who might need additional support and guidance.

The Board oversaw the purchase of four freehold stores and the consolidation of our call centre operations to three main sites.

Stakeholders considered:

## Revenue

Throughout the year the Board has had oversight of the Bank's pivot toward specialist lending and was pleased to be able to offer a number of new products to our customers.

The Board also oversaw the Bank's entry into the insurance market. The Board believes that diversifying revenue streams provides our customers with the choice that they need as well as supporting the Bank's strategic objectives.

We also considerably strengthened our consumer lending operations, with customers now able to take a loan through the RateSetter platform in-store, online and via our mobile app, as well as on the main aggregator sites and on RateSetter's own website.

Stakeholders considered:

## Infrastructure

The Board considered throughout the year what part of the Bank's infrastructure would benefit from investment or upgrade. We invested in the Bank's IT resilience and delivered upgrades and improvements that reduced vulnerability by 67%, as well as decommissioning more than 200 unused servers. Multi-Factor Authentication was successfully rolled out, protecting our colleagues, our FANS, and importantly the Bank's data.

The Bank has focused on its regulatory requirements and introduced Strong Customer Authentication and card migration to meet PSD2 requirements. There has been progress in our Financial Crime Improvement Programme and GDPR programmes, which have both delivered a range of improvements to meet our regulatory commitments.

Stakeholders considered:

## Balance Sheet

During the year the Bank was focused on enhancing risk-adjusted returns on capital through the ongoing focus on balance sheet optimisation.

The Board considered a number of balance sheet actions with this in mind, including the acquisition of the RateSetter back book. The Board debated the long term consequences of the decision and the interests of the Bank's employees and concluded that the acquisition would strengthen the Bank in the long term. The Board felt that the acquisition was in the best interests of the Bank's shareholders, colleagues and FANS, as it was expected to accelerate the optimisation of our balance sheet.

We completed a sale of a £3.1 billion portfolio of owner occupied mortgages to NatWest Group plc. The sale creates additional lending capacity and enables the Bank to rebalance asset mix towards higher yielding assets such as specialist mortgages and unsecured loans.

Stakeholders considered:

## Communication

The Bank continuously communicates to its internal stakeholders, such as its colleagues, and externally to its FANS, investors, communities, regulators, and suppliers – all with the aim to strengthen our relationship and engagement. We've done lots of work to showcase what makes Metro Bank stand out from the crowd, from our small business banking campaign to our refreshed RateSetter website. This year saw us increase our spend on digital and performance marketing and a launch onto the social media platform Facebook.

To ensure smooth integration of our new colleagues from RateSetter, both Sally Clark and Anne Grim had the opportunity to attend RateSetter Townhalls and answer questions.

Stakeholders considered:

| Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| ROC | Board<br>ROC<br>Audit | | Board<br>ROC | Board<br>ROC<br>NomCo<br>Audit<br>RemCo | Board<br>ROC<br>Audit<br>RemCo | |
| In June 2021, we completed the disposal of the RateSetter car dealer finance loan portfolio to LE Capital UK (Asset 1) Limited. The Portfolio had an aggregate book value of £15 million and formed a non-core part of the RateSetter back book acquired by us in April 2021 | | | Board strategy days held | Sir Michael Snyder stepped down as Senior Independent Director and Non-Executive Director of Metro Bank plc, effective as of 31 October 2021, following six years of service<br><br>Monique Melis became the Bank's Senior Independent Director, effective 31 October 2021 | On 18 November 2021, we and Carlyle agreed to terminate discussions regarding the possible offer for the Bank | Conclusion of the PRA Investigation, resulting in a c.£5 million fine. The Bank fully cooperated with the investigation and agreed the resolution of this matter with the PRA |

# Stakeholder engagement

## OUR FANS

Our diverse range of FANS all have their own individual needs, but what binds them together is the desire for AMAZEING service and a range of banking services. We are rated the top high street bank for overall service quality for personal and business customers in the latest CMA rankings and number one for store service for the eighth time running.

### What matters most to them

- Continuity of business throughout the pandemic
- 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

This year we have invested into our digital channels by upgrading our online banking platform and enhancing self-serve options online and via our mobile app. Our FANS can view and share IBAN and SWIFT information, view payment warning messages and an HMRC warning message, activate their card and change their address and email address online, with over 5,000 customers self-serving already.

We have continued our programme of launching new products and services for our SME community. This includes our new Business Account Online opening process, which also allows 'multi-director' businesses to open a new business account with us digitally; our first insurance offering; enhanced foreign exchange giving customers access to real rates and broader range of currencies; and new mobile app features including in-app invoicing.

We implemented a new Make a Great Idea Count ('MAGIC') initiative to generate AMAZEING ideas from our colleagues to find best ways to serve our FANS.

### 2021 outcomes and highlights

- Investment into our digital infrastructure – all to heighten the consumer experience
- New Business Account Online opening process
- Launch of RateSetter loans in store

## OUR COLLEAGUES

We understand that our colleagues are what makes the Bank different. We do people-people banking and to live up to that ethos we ensure we support and invest in our people.

### What matters most to them

- Health, safety and wellbeing
- Development and career opportunities
- Inclusion, diversity, culture
- Fair pay, reward, opportunity to make a difference
- Agile and flexible working practices

### How we engage

- Voice of the Colleague (VOC) surveys
- Have your say cafés, colleague meetings with leaders
- Revolution Updates with ExCo members
- Remuneration Working Groups
- "Get Chatty with Sally" – colleagues have the opportunity to meet and provide feedback to our designated NED for Colleague engagement, Sally Clark

The Board reviews VOC surveys and receives updates on People and Culture, as well as Culture Monitoring updates to ensure we keep track of how our culture is evolving and that it continues to be strong, healthy and reflects our purpose and beliefs. The VOC surveys assist the Board in understanding the feedback from our colleagues and the actions taken by Management to address this.

We engage with our colleagues through our internal networks, including: Women on Work (WOW), Mpride for our LGBTQ+ colleagues, Mbrace for our Black, Asian and Minority Ethnic (BAME) colleagues, Mparents for all working parents, parents-to-be or non-parents, and MBody which is focused on Colleague wellbeing. During the year, the Board and ExCo were invited to speak at Colleague network events. To ensure smooth integration of our new colleagues from RateSetter, both Sally and Anne had the opportunity to attend RateSetter Townhalls and answer any questions they may have regarding the acquisition.

The Board also took time to visit our colleagues in our Manchester store during the Strategy Day. The store visit enabled the Board to engage directly with our colleagues and understand their views, feedback, and priorities for the future.

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 going through to Zest Den, have the chance to work alongside an ExCo nominated sponsor, to prepare and build the concept into an AMAZEING pitch to our ExCo panel.

The Board received Colleague Engagement updates throughout the year. More information on how we engaged with our colleagues is on page 103 of the DNED Letter.

### 2021 outcomes and highlights

- Engagement score of 69/100
- Revolution Updates and Welcome Back sessions
- 'Get Chatty with Sally' on Teams
- Online Q&As with senior leadership (Yam Jams)
- Board presence at RateSetter townhalls
- Appointed a Director of Colleague Experience and Inclusion

## OUR INVESTORS

Engaging with our investors to keep them up to date on our performance, share our vision for the future and understand their views continues to be very important to us. 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 profitability
- Successful RateSetter integration
- Ability to maintain cost discipline and profile of 'Change the Bank' expenditure
- ESG
- Timing and outcome of the Bank of England's planned MREL consultation and the effect on our future capital requirements and progress on AIRB

### How we engage

- 2021 Annual General Meeting and Annual Report
- Quarterly results meetings
- Investor roadshows and conferences
- Proxy adviser and institutional investors 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 view, the market and latest trends.

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.

### 2021 outcomes and highlights

- 95.11% approval of the new Remuneration Policy at the 2021 AGM

## THE 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 the regulators.

### What matters most to them

- Compliance with relevant laws and regulations
- Governance and accountability
- Support to local economies and the communities we serve
- Transparency and openness
- Proactive and constructive engagement

### How we engage

- Annual PRA presentation at Board meetings
- Open, constructive and regular meetings with the Chairman, NEDs, Executives and the FCA and PRA

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

We have engaged constructively with our regulators during 2021 with respect to key initiatives and will continue this engagement across upcoming changes to the regulatory landscape in 2022 and beyond.

The Board has reviewed and engaged with the PRA in relation to the investigation into the RWA adjustment. The Bank has made significant improvements to, and substantial investment in, its regulatory reporting processes and controls. It has also strengthened its broader risk management and governance, demonstrating our commitment to improving our regulatory reporting controls.

The Board spent a considerable amount of time reviewing the Bank's capital position. We understand that this is important to our investors and during the year we have undertaken a programme to apply for AIRB accreditation. The full application is still progressing.

### 2021 outcomes and highlights

- Application for AIRB accreditation

# Stakeholder engagement continued

## 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
- Introduction of Supplier Code of Conduct
- Consistent supplier feedback loop
- Dedicated relationship manager with the Bank
- Supplier surveys

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 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 2021 to 31 December 2021 we had an average invoice payment turnaround of 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.

We understand the risks posed by our suppliers and ensure 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 actively solicit suppliers' feedback on their relationship with Metro Bank and act on it as appropriate. In 2021, we held our first ever supplier conference to improve communication channels with our key suppliers and foster open relationships. We also introduced a supplier survey so we can gather their perspective on working with the Bank.

### 2021 outcomes and highlights

- Supplier conference
- Introduction of a Supplier Code of Conduct (from 2022 onwards)
- Further steps to ensure climate change considerations are imbedded in the procurement process

## 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 UK's best community Bank. Our communities bring Metro Bank to life, providing vital services to local people and businesses, as well as employment opportunities 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 best 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
- Networking and community events
- Days to AMAZE volunteering
- Fundraising for charities

The Board understands how important it is to have a physical presence in our communities and are proud to have opened our new stores in Bradford and Leicester. In deciding where to build a new store, we take into account where we can reach the most people so that we can continue to offer convenient banking at a time that suits our FANS.

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.

In 2021, we were proud to be the only bank to keep all of our stores open, to enable us to provide face to face support for our customers who were also navigating their way through this difficult time. In making this decision, the Board had oversight of how colleagues could be kept safe through various adaptations to our stores and ways of working and how the adjusted store hours would impact the communities.

The Board considered the interest of the communities when it reviewed and approved the amendments to the Capability and Innovation programme, which included store delivery, Mcard and Mpay opportunities.

### 2021 outcomes and highlights

- Opened new store in Bradford
- Only bank to keep all of our stores open during 2021

# Letter from Non-Executive Director for colleague engagement

**SALLY CLARK**
INDEPENDENT NON-EXECUTIVE DIRECTOR

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).

As I reported last year, the ongoing pandemic has meant that staying connected to our colleagues, listening to them, and supporting them, continues to be of the upmost importance.

This year, I'm pleased to report that the Board has made great strides in measuring, defining, and monitoring culture at the Bank. The current and future initiatives we have planned aim to further strengthen a sense of belonging and inclusion.

The FRC published a report earlier in the year exploring the different approaches firms have taken to providing a workforce voice in the boardroom and how effective they have been from both a management and a workforce perspective. With the support of the Company Secretarial team, I conducted a gap analysis against the FRC's conclusion on the principles of good practice and our practices for Colleague engagement at the Bank. I'm pleased to report that the Bank was already in a good position and the potential areas for improvement identified have been discussed and actions agreed.

### 2021 DNED Engagement Activities and Feedback

The DNED Working Group, comprised of myself, the Director of Corporate Affairs, the Chief People Officer, and members of the Company Secretarial team, meet periodically throughout the year to discuss the DNED schedule of events, feedback from colleagues, and the strategy for engagement.

Throughout 2021, I have had many opportunities to speak to colleagues and listen to what they like about working at Metro Bank and also what leadership can do to enhance their experience to ensure their careers are truly AMAZEING. The general consensus is our colleagues love the culture at the Bank, they feel they can be themselves, and that we all work together as one team towards a common goal in becoming the best community bank.

Our people informed me at one of the 'Get Chatty…' sessions that they would like more communication on the activities of the Bank (especially the positive steps the Bank is undertaking to ensure a return to profitability), how the Bank operates and makes money, and that the messaging should be in simple, plain language. I have notified this to the relevant teams and an action plan has been agreed. In 2022, we will also invite other Non-Executive Directors of the Bank to take part in "Get Chatty…" sessions.

**RateSetter Engagement**
With respect to our RateSetter colleagues, Anne Grim and I were both delighted to be invited to attend the January and February RateSetter Town Halls to have the opportunity to introduce ourselves and observe managements updates and the Q&A session. I also took the opportunity to explain more about the remit of the Colleague Engagement role and in ensuring Colleague views are heard by the Board.

From the RateSetter Town Halls, the observations from Anne and myself were of a few concerns around the transfer into the Bank, which is natural for employees of a recently acquired company, focused principally around the differences in culture and job stability. In response to this, the Bank's leadership teams have ensured they have communicated with, and reassured, RateSetter colleagues and it was pleasing to see that as the consultation process progressed, there were fewer concerns being raised. I thank the Consultation Representatives for their support on this.

### Looking Forward

My role as the Non-Executive Director for Colleague Engagement is to ensure that the views and experiences of colleagues continue to be brought into the boardroom. I remain committed to my role in guaranteeing that the Board recognises its responsibility to listen, engage, and consider the impact on colleagues when making decisions. The Board collectively recognises the impact that true engagement with the workforce can have on creating a sense of purpose, trust, and unity. We have some exciting Colleague engagement plans in the pipeline for 2022 and I look forward to meeting more of our AMAZEING people.

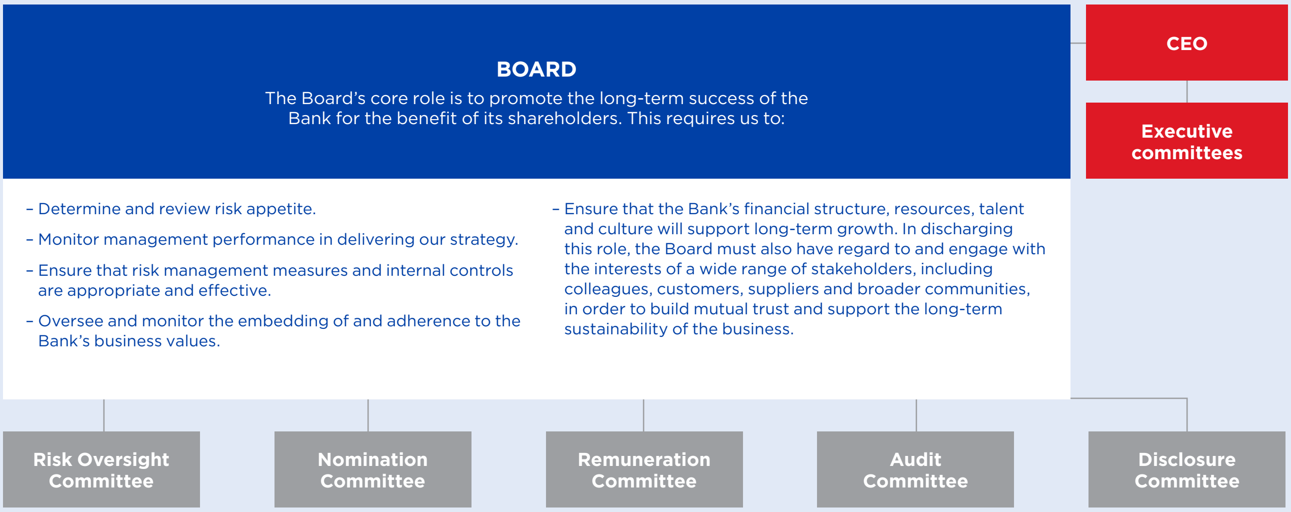
**Sally Clark**
Independent Non-Executive Director
23 March 2022

| 2021 | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| **Colleague contact** | – Attended virtual store tours of St Albans and Earls Court<br>– Attended February RateSetter Town Hall to give an oversight of the DNED role | – Attended Finance Function Team call<br>– Attended Colleague network event with MPride<br>– Hosted 'Get Chatty with Sally' Teams event | – Met with MParents Champion | – "Get Chatty with Sally" Teams event<br>– Met with Director of Reward and Performance to consider feedback from remuneration focus groups<br>– Attended Colleague network chairs meeting with Director of Customer Experience and Inclusion |
| **Colleague insight** | – Reviewed Colleague feedback and comments on Yammer | – Voice of the Colleague Survey<br>– Reviewed Colleague feedback and comments on Yammer | – Reviewed Colleague feedback and comments on Yammer | – Voice of the Colleague Survey<br>– Remuneration focus groups<br>– Reviewed Colleague feedback and comments on Yammer |
| **Formal/ informal reporting** | – DNED letter published in Annual Report | – Update to Board<br>– Informal feedback from "Get Chatty with Sally" shared with leadership | | – Update to Board |

# Board leadership and company purpose

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

### Governance framework




## Board Leadership and Company Purpose

**The role of the Board**

The Board is responsible to our shareholders and sets our strategy for achieving long-term success. It is also ultimately responsible for the management, governance, controls, risk management, direction and performance of the Bank. The importance we place on the interests of our wider stakeholders, and having the customer at the heart of everything we do, is always at the forefront of the Board's agenda.

**The composition of the Board**

As at the date of this report, the Board consists of the independent Non-Executive Chair, the CEO, and eight independent Non-Executive Directors. 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 94-95 and information on the responsibilities of the Board can be found on page 106.

**Matters reserved for the Board**

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

## Board Committees

The Board has delegated specific responsibilities to each of the Audit, Risk Oversight, Nomination, and Remuneration Committees, and reports for each are set out on pages 110 to 147. Each Committee has a Terms of Reference setting out its duties, authority and reporting responsibilities. Copies of all the Committee Terms of Reference are available on our website: metrobankonline.co.uk.

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

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

## Effectiveness

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

### Board skills

As part of how the Board plans for succession, it reviews and maintains a clear record of the skillset that each Director provides. The Directors' skills and experience span a wide range of sectors and specialisms. The experience and knowledge of each of the Directors gives them the ability to constructively challenge strategy and to scrutinise performance.

### Independence of Directors

The Board is satisfied that, as at 31 December 2021, all Non-Executive Directors and the Chair of the Board were independent.

## Development

The Company Secretary ensures that all Directors are kept abreast of changes in relevant legislation and regulations. In 2021, the Board received internal training sessions on climate related risk and directors' duties. Non-Executive Directors attend seminars and briefings in areas considered to be appropriate for their own professional development, including governance and issues relevant to the Committees on which they sit.

## Induction of new Directors

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

## External appointments

In appropriate circumstances, the Board may authorise Executive Directors to take non-executive positions in other companies and organisations. Such appointments should broaden their experience, provided the time commitment does not conflict with their fiduciary duties to the Company. The appointment to such positions is subject to the prior approval of the Board. During the year ended 31 December 2021, none of the Bank's Executive Directors held directorships in any other quoted company.

# Board roles and responsibilities

| ROLE | NAME | RESPONSIBILITIES |
|---|---|---|
| Chair | Robert Sharpe | The Chair leads the Board and is responsible for its effectiveness and governance. He sets the tone for the Company, including overseeing the development of the Bank's business culture and standards in relation to the conduct of business and the behaviour of colleagues. He is responsible for ensuring that there are strong links between the Board and management and between the Board and shareholders. He sets the Board agenda and ensures that sufficient time is allocated to important matters, in particular those relating to our strategic direction. He reports to the Board and is responsible for the leadership and overall effectiveness of the Board, including responsibility for fostering a positive Board culture that reflects the values of the business. |
| CEO | Daniel Frumkin | The Chief Executive Officer (CEO) is responsible for the day-to-day management of our operations, for recommending our strategic direction to the Board and for implementing the strategic direction agreed by the Board. He is supported in decision-making by the ExCo. The CEO reports to the Chair and to the Board directly and is responsible for all executive management matters of the Bank. |
| CFO | The finance function is currently led by Marc Jenkins, Deputy CFO | The Chief Financial Officer (CFO) has responsibility for planning, implementing, managing and controlling all financial-related activities of the Company, both day-to-day and for the long-term. He is responsible for managing the Bank's financial position including allocation and maintenance of capital, funding and liquidity. The CFO also has oversight of the Treasury, Legal, Company Secretarial and Investor Relations functions, and is also responsible for producing and ensuring the integrity of the Bank's financial information and regulatory reporting. |
| Company Secretary | Melissa Conway | The Company Secretary is responsible for advising and supporting the Chair and the Board on good corporate governance and best boardroom practice. She leads the Bank's Company Secretarial function. |
| SID | Monique Melis | The Senior Independent Director's (SID) role is to act as a sounding board for the Chair and to serve as an intermediary for Directors when necessary.<br><br>The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels of Chair, CEO or CFO. The SID will attend meetings with, and listen to the views of, major shareholders to help to develop a balanced understanding of their issues and concerns, if contact with the Chair, CEO or CFO is inappropriate. The SID also acts as the conduit, as required, for the views of other Non-Executive Directors on the performance of the Chair and conducts the Chair's annual performance evaluation. |
| DNED for Colleague Engagement | Sally Clark | The DNED is responsible for:<br><br>– bringing the views and experiences of colleagues into the boardroom;<br>– as required, working with the Board, as a whole, and particularly the Executive Directors, to take reasonable steps to evaluate the impacts of Board proposals and developments on colleagues;<br>– engaging with the Executive Directors regarding Colleague engagement and steps taken to address Colleague concerns arising out of business-as-usual activities;<br>– providing feedback to colleagues on steps taken in response to their feedback; and<br>– reporting regularly to the Board on activities undertaken and feedback, as well as presenting the annual update for the inclusion in the Annual Report and Accounts. |
| INEDs | Catherine Brown<br>Sally Clark<br>Anne Grim<br>Ian Henderson<br>Paul Thandi<br>Michael Torpey<br>Nick Winsor | The role of the Independent Non-Executive Director (INED) is to constructively challenge proposals on strategic direction. Each INED brings specific experience and knowledge to the Board and its Committees. The INEDs as a whole have a broad and complementary set of technical skills, educational and professional experience, personalities, cultures and perspectives. A skills matrix for the Board can be found on page 95. Their contributions provide independent views on matters of strategy, performance, risk, conduct and culture. Each INED is appointed for an initial two-year term but is re-elected on an annual basis. |

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

# Board and Committee Evaluation

### 2021 Internal Board and Committee Evaluation

Following the external effectiveness evaluation that the Board carried out in 2020, this year Metro Bank conducted an internal evaluation, facilitated by the Company Secretary in consultation with the Board and Committee Chairs.

The feedback provided during the evaluation was consistent with feedback received by the Company Secretary at meetings with the Chairman, Non-Executive Directors, and the Senior Independent Director.

Overall, the collective view is that the Board is working productively; the Chair manages meetings effectively and seeks the views of every Board member and there is good debate on the key topics of importance, including strategy; and Board members feel they are able to effectively contribute to discussions at meetings.

The feedback from the evaluation reflects the progress made in embedding the new Board since the external evaluation in 2020 and the strong working rapport and practices the Bank has established as a Board, despite the challenges of working through the pandemic and government restrictions.

The findings from the internal evaluation are also in alignment with the overall feedback from the Governance Review undertaken by the PRA in 2021.

A summary of the progress made on the key actions identified during the 2020 external board evaluation:

| **BOARD** | |
|---|---|
| **Agreed actions** | **Progress** |
| Review the Board agenda and identify opportunities to reduce the length | Complete – the Company Secretary works closely with the Chair to ensure there is sufficient time for discussion. |
| Schedule informal sessions to encourage development of Director relationships | Complete – relationships continue to be developed and the Board met informally throughout 2021 at Board dinners and NED only meetings. |
| Review arrangements for holding meetings virtually | Complete – we have continued to hold remote meetings successfully and this has assisted the Board in continuing to work effectively during the pandemic. |
| Separate the CFO and Company Secretary roles | Complete – Melissa Conway was appointed as Company Secretary on 1 December 2020 following a thorough process conducted by the Chair and the Board. Please see page 106 for information on the Board's roles and responsibilities. |
| Agree schedule of strategy updates | Complete – the Board regularly receives updates on strategy and this year the Board held its first strategy away day over two days in Manchester. Please see page 97 for information on the strategy days held in September 2021. |
| Agree style and content of executive reports | Complete – the schedule of presentations from the Executive was agreed with the Chair and CEO. |
| Agree approach to ongoing monitoring of culture | Complete – the Board considered culture and culture monitoring during 2021 through a number of updates from the CPO and her team. Please see page 100 for information on colleague engagement. |
| **AUDIT COMMITTEE** | |
| Review the membership of the Audit Committee | Complete – The membership of the Audit Committee was reviewed by the Nomination Committee and the Board. It was agreed to reduce the membership by two members on 1 April 2021, with Anne Grim and Paul Thandi retiring from the Committee and joining the Remuneration Committee and Nomination Committee respectively. Please see page 110 for information on the Audit Committee membership. |
| **RISK OVERSIGHT COMMITTEE** | |
| Consider reducing the size of committee packs<br>Continue to refine agendas to ensure sufficient data on the most important issues | Complete – During the year the Company Secretarial team worked with Risk to refine the Committee packs and Forward Plan. Please see page 118 for information on the Risk Oversight Committee. |

# Board and Committee Evaluation continued

### 2021 Internal Evaluation Process:

**Step 1:**
- Questionnaires for the Board and Committees were developed by the Company Secretary in consultation with the Board and Committee Chairs. Questions were set whilst considering the recommendations and actions from the external Board evaluation in the prior year and also best practice and guidance from the UK Corporate Governance Code, as well as areas of specific interest to the work of each Committee.

**Step 2:**
- Questionnaires were issued to all Board and Committee members electronically.
- Responses were collated by the Company Secretary and her team and the findings analysed.
- Detailed feedback was discussed with the Board Chair and each Committee Chair.

**Step 3:**
- The Company Secretary and her team presented the findings to the Board and Committees in early 2022.
- Actions agreed with the Board and Committees as appropriate, and full findings made available to all Directors.

### 2021 Internal evaluation feedback and response/actions

| FEEDBACK | RESPONSE/ACTIONS |
|---|---|
| Board and Committee packs to be circulated earlier | Where possible, papers will be circulated to Directors earlier to allow longer time for review. |
| Review frequency of Board and Risk Oversight Committee (ROC) meetings | The 2022 forward plan has now been agreed. There are less ROC meetings than in 2021, however the Committee will still meet 8 times per year. This balances the workload of the Committee with ensuring there is effective oversight of risk management. The frequency of meetings will be kept under continuous review with the Chairman and Committee Chairs. |
| Training on specific areas as identified by the Board and Committees to be provided to Directors. | Training sessions on these topics have been added to 2022 forward plans for the board and committees as appropriate. |

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

Our approach to risk is further detailed on pages 52 to 91. The ROC reviews the effectiveness of the risk management process on the Board's behalf, and its approach to this can be found in the ROC report on pages 118 to 121. 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 Audit Committee for the review of the effectiveness of internal control systems. More detail can be found in the Audit Committee report on pages 110 to 117.

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

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

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

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

### Appointment and retirement of Directors
The Board may appoint Directors to the Board. Newly appointed Directors must stand for election by shareholders at the AGM following their appointment. In accordance with the provisions of the Code, all continuing Directors of the Company will offer themselves for annual re-election at the 2022 AGM. Under the Articles of Association, shareholders may remove a Director before the end of their term by passing an ordinary resolution at a general meeting.

### Employee engagement
For further information on how the Directors have engaged with colleagues, had regard to colleague interests, and what the effect of this has been, including on the principal decisions taken by the Company during the financial year, see pages 98 to 103.

### Other stakeholder engagement
For further information on how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and what the effect of this consideration has been, including on the principal decisions taken by the Company during the financial year, see pages 98 to 102.

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

Investor meetings are undertaken by the Chair, CEO and CFO, supported by the Director of Investor Relations. During 2021 most communication was virtual in response to the risks of COVID-19. Institutional investors have the opportunity to meet with the Chair, SID and/or other NEDs to discuss any areas of concern. In addition, the Committee Chairs seek engagement with shareholders on significant matters related to the areas of their responsibility.

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.

# Audit Committee report

**MICHAEL TORPEY**
AUDIT COMMITTEE CHAIR

### Committee attendance for 2021

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

1. Anne Grim was a member of the Committee until 31 March 2021.
2. Paul Thandi was a member of the Committee until 31 March 2021. He was unable to attend one meeting for personal reasons but was fully briefed on discussions at the meeting.

### Composition of the Audit Committee

- In addition to the Committee Chair, there are three members of the Audit Committee: Sally Clark; Ian Henderson; and Monique Melis. Each are independent Non-Executive Directors with a range of relevant business experience. Michael and Sally have recent and relevant financial experience and the Committee as a whole has competence in the banking sector. For further details of their skills and experience, please refer to their biographies on pages 94 to 95.
- Regular attendees at the Audit Committee include the CEO, CFO, CRO, Chief Internal Auditor, Deputy CFO, and representatives from the external auditor. The Company Secretary and her team act as Secretary to the Committee.

### 2021 Activities

- Oversight of the integration of RateSetter from a financial reporting perspective.
- Oversight and review of key regulatory changes, including CRR2/CRD5.
- Oversight of the improvements to the risk controls self-assessment framework.
- Assessment of going concern and viability.
- Reviewed key accounting judgements in respect of legal and regulatory matters, impairments of non-current assets and the RateSetter back book purchase.
- Challenged management's accounting judgements particularly in respect of measurement of expected credit losses.
- Reviewed the Modern Slavery action plan, statement and policy, and recommended to the Board for approval.
- Reviewed the Annual Report on the systems and controls in place for whistleblowing.
- Reviewed Internal Audit reports and attestations and all of the Bank's financial reporting.

### 2022 Priorities

- Oversight of the implementation of regulatory changes including CRR2/CRD5.
- Continued focus on management's approach to key accounting estimates and judgements.
- Enhancements to the Group's risk and control framework.
- Implementation of the new regulatory reporting system.

## Dear shareholders

I am pleased to present the Audit Committee (the 'Committee') report for the year ended 31 December 2021. This report aims to provide a comprehensive picture of the work we have undertaken as a Committee during the year.

Further to a review of all Board committee memberships early in 2021, Anne Grim and Paul Thandi stepped down from the Committee. I would like to thank them for their valued contributions during their tenure.

During the year, the Committee's core duty remained unchanged; reviewing the integrity and quality of the Group's published financial information; supporting the Bank's governance framework; and maintaining focus on evaluating the effectiveness of the Bank'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. One of the Committee's main responsibilities is to inform the Board whether we believe the Annual Report and Accounts are fair, balanced, and understandable, and that they contain all of the information essential for shareholders to evaluate the Group's situation, performance, business model, and strategy. The Committee has been assisted in this assessment through the work undertaken by the Financial and Regulatory Assurance team which provided the Committee with details on the process undertaken to ensure that the appropriate disclosure has been included for both positive and negative developments in the year. We make sure that management's disclosures reflect the supporting facts, or we urge them to explain and justify their interpretation and, if required, re-present the data. The External Auditor, 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 152 to 161.

During the year, the Committee also increased its oversight of the areas of judgement and estimation in the Group's results. This included greater scrutiny of portfolio level credit impairments to ensure they were adequate given the ongoing effects of the pandemic. 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 reviewed the accounting for the purchase of the RateSetter back book as well as the continued integration of RateSetter into the business, including the transfer of activities from RateSetter to Metro Bank.

In addition, the Committee has continued to provide close oversight of the other areas of judgement and estimation within the Groups' reporting. Alongside this, the Committee has continued to provide close oversight on key regulatory reporting matters as the Group continues to prepare for the implementation of its new regulatory reporting system, the Capital Requirements Directive and Regulation (CRR2/CRD5) and, if approved, the advanced internal ratings based approach to calculating credit risk (AIRB) for residential mortgages.

We continue to ensure that the Committee's agenda is kept abreast of relevant developments and the Committee received a detailed briefing from the External Auditor on the BEIS consultation on 'restoring trust in audit and corporate governance'. We will be keeping a watching brief on this to ensure we are implementing any necessary or desirable changes into our audit and governance frameworks.

The Committee also received briefings during the year from subject matter experts in the Bank on the new Risk Control Self-Assessment platform and from the Internal Audit team on the risk assessments that take place to determine the Internal Audit plan. These were excellent opportunities to meet more of our colleagues as well as expand our understanding with deep dives on these topics.

The Committee is responsible for oversight of the adequacy and effectiveness of the Bank's Compliance function. During the year, the Committee enhanced its oversight in this area through the review of a self-assessment review completed by the Compliance function. Going forward, this self-assessment will be carried out each year and reported up to the Committee. This process will be further reviewed by Internal Audit every two years with any issues reported to the Committee.

I was pleased to note a letter received from the Financial Reporting Council (FRC) in relation to the review of our Annual Report and Accounts for the year ended 31 December 2020 which set out that there were no questions or queries to be raised with the Chair of the Board. The suggested matters for review, where the FRC believe that users of the accounts would benefit from improvements to our disclosures, have been considered and where appropriate we have enhanced disclosures made across the report.

**Michael Torpey**
Audit Committee Chair
23 March 2022

# Audit Committee report continued

## Key areas discussed at Audit Committee meetings in 2021

| AREA | KEY TOPICS |
|---|---|
| **Policy** | – Annual report on the systems and controls in place for whistleblowing as well as reports on whistleblowing claims as required.<br>– Non-audit services policy. |
| **Financial reporting** | – Review quarterly trading updates ahead of release to the market.<br>– 2021 half-year results, including an update of critical accounting judgements and estimates, going concern and viability.<br>– 2020 full-year results, Annual Report and Accounts, including assessment of the critical accounting judgements and estimates, going concern and viability report.<br>– Review of the IFRS 9 disclosure recommendations made by the Bank of England.<br>– Review of the FRC Update on Interim Reporting.<br>– Review of the PRA Dear CEO letter regarding the reliability of regulatory reporting.<br>– Tax strategy and Senior Accounting Officer Review.<br>– Review of significant accounting matters, including the acquisition of the RateSetter back book, recognition of provisions in respect of regulatory matters and impairment and write-off assessment.<br>– Update on the Bank's approach to climate related financial disclosures.<br>– Adequacy of full-year and half-year credit risk impairments. |
| **Internal audit** | – Review of the 2021 Chief Internal Auditor reports, and any remedial action plans.<br>– Review and recommendation to Board for approval of the 2022 Internal Audit Plan.<br>– Evaluation of the effectiveness of the Internal Audit function. |
| **External audit** | – 2021 External Audit Plan, engagement terms and fees.<br>– Terms of engagement for the half-year review.<br>– External Auditors' half-year review findings.<br>– 2020 full-year External Auditors' report and findings. |
| **Financial and regulatory assurance** | – Oversight of the preparation for the implementation of the new regulatory reporting system.<br>– Oversight of the preparation for the implementation of the Capital Requirements Directive and Regulation (CRR2/CRD5).<br>– Monitored progression of the AIRB application for residential mortgages. |
| **Governance** | – Modern Slavery Statement and annual report on the operation and effectiveness of the systems and controls in place for the Modern Slavery Policy, as well as regular updates from the General Counsel including an action plan.<br>– Briefing from PwC on the reform of the corporate governance, reporting and audit system in the UK.<br>– Self-assessment of the Committee's duties under its Terms of Reference.<br>– Supplier payment practice reporting.<br>– Committee performance evaluation.<br>– Annual self-assessment of the Compliance function. |

## The Audit Committee in brief

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

### External audit

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

### Internal Audit

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

### Financial and narrative reporting

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

### Internal controls and risk management

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

To create a cohesive governance structure and the right level of oversight of the RateSetter business, our Chief Internal Auditor was invited to the RateSetter Board Audit Committee meetings as a guest, reporting back to the Bank's Audit Committee as appropriate. As part of the transfer of activities from RateSetter to the Bank, all Internal Audit activities of the consumer finance business have now been integrated into the Internal Audit function.

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

## Committee evaluation

Throughout the year the Committee has continually evaluated its effectiveness and this included a full review of the Terms of Reference and an in-depth self-assessment to determine how it met its responsibilities during the year. The Committee was satisfied that it had addressed all its duties during 2021 and was well placed to deliver on the same in 2022. There is a continued close collaboration with ROC, and both Terms of References were reviewed to ensure that each Committee's distinct responsibilities, and where the Committees collaborate, is clearly articulated.

### Committee Evaluation Actions

| Key theme | Action/approach |
|---|---|
| **Timing of papers** | The Company Secretarial team will continue to work with colleagues to ensure the Committee is provided the maximum time for review. This will be balanced against ensuring the Committee is provided with the most up-to-date information available for consideration. |
| **Reports from the first line of defence** | Audit Committee members will be invited to attend first line of defence updates presented to the Risk Oversight Committee. A specific update on the effectiveness of financial controls, including treasury reporting and regulatory reporting controls from the first line of defence is scheduled for the Audit Committee in 2022. |
| **Training** | Additional training sessions on specific areas of interest are to be organised in 2022. |

## Regulatory reporting framework

The Committee has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Group. This focused on providing oversight of the new regulatory reporting system which will go live in 2022; the preparedness for the introduction of the new Capital Requirements Directive and Regulation; as well as overseeing the Group's AIRB application for residential mortgages.

The Committee also considered a report from management to assess the Group's position in respect of the PRA's expectations, as outlined in their Dear CEO letter in September, for firms to apply the same levels of governance and control to regulatory reporting as they do to financial reporting.

In addition the Committee continued to review the status of the ongoing regulatory investigations during the year, including the need for any provisions. Following the agreed settlement with the PRA in 2021, the Committee continues to monitor the status of the other ongoing investigations.

## Fair, balanced and understandable

In line with the Code, the Committee considered whether the 2021 Annual Report is 'fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy'. The Committee is satisfied that the 2021 Annual Report and Accounts meet this requirement and, in particular, that appropriate disclosure has been included for both positive and negative developments in the year. The process supporting this goal included:

- The compilation of the 2021 Annual Report and Accounts which 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.
- Formal review and challenge by the Committee of the draft 2021 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 2025.

## Internal Audit

Internal Audit is a critical component of the Group's governance, risk management, and control functions, offering independent assessment and questioning governance, risk management, and controls. The Committee approved the Internal Audit Plan and discussed the findings of the Chief Internal Auditor's reports. It also:

- Monitored the objectivity and competence of the Internal Audit function, and the adequacy of Internal Audit resources and skills.
- Assessed the effectiveness of the Internal Audit function.
- Monitored the delivery of the 2021 Internal Audit Plan.
- Recommended the 2022 Internal Audit Plan to the Board for approval.
- Reviewed the outcome of the externally facilitated review of the Internal Audit Function.

The Committee was satisfied that Internal Audit had adequate resources available during the year.

We included those areas in the Internal Audit Plan for 2022 that provide the greatest risk to the Bank, those that are most impacted by further growth, and regulatory emphasis areas. We monitor the resources available to the Internal Audit team to make sure they have enough to do their jobs. Following debate at the Committee, the Board adopted the 2022 Internal Audit Plan in February 2022, as well as the level of risk assurance contained within the Plan.

### Internal Audit Evaluation

In line with best practice and further to an external quality assurance review in 2021, an internal review of the effectiveness of Internal Audit function during 2021 will be carried out in early 2022.

## Systems of internal control and risk management

Details of the Bank's risk management framework are provided on pages 52 to 91. In considering the effectiveness of internal controls, the Committee received and discussed reports from Internal Audit and the External Auditor. In addition, executive management was invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Committee. The Committee also challenges management where appropriate on the timeframe of the delivery of the actions.

Financial risk management processes and controls are in place and there is assessment of the effectiveness of our internal controls on an ongoing basis. The internal controls framework encompasses all controls, including those relating to: financial reporting processes; preparation of consolidated Group accounts; and risk management processes, including formulation of the Group's strategic plans, budgets and forecasts, and its accounting policies and levels of delegated authority. The Committee is satisfied that Finance operates a strong set of internal controls and that these have been in place for the year under review.

Assurance work within Finance is carried out by the Financial and Regulatory Assurance team. This team was created in March 2020 with a remit of ensuring 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.

Since creation, the work of the function has been continuously improving, with the remit evolving over 2020 and 2021 to ensure a strong focus on risk, control and quality of reporting, and to drive accountability across the Finance and Regulatory Reporting teams. In Q1 2021, the remit of the team was widened, with the Finance Risk and Control team moving under the umbrella of assurance. This has enabled us to focus more deeply on tests of controls and to provide a more fulsome assessment of risk, control and assurance across Finance and Regulatory Reporting.

Assurance provided during 2021 has 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 provided regular written updates to the Audit Committee throughout 2021.

The Finance function adopts a continuous improvement approach to internal controls. During the year, a project was launched to undertake an end-to-end review of the risk, control and processes universe within Finance. This includes ensuring the Group is also prepared for any changes resulting from the proposed BEIS reforms in relation to corporate governance. There were a number of deliverables and alongside the project, a cloud based portal had been created as an efficient way to monitor the controls environment during the year.

The Group initiated its new Moody's system for regulatory reporting with implementation being undertaken in a phased approach. Initial reporting will be under the standardised approach only, with AIRB data being reported through Moody's from the point of PRA approval.

## 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 2021, 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 the review of the adequacy and security of whistleblowing arrangements. 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 policy outlines the Bank's whistleblowing process which enables colleagues of the Bank to raise concerns about possible improprieties in financial reporting, other operational matters or inappropriate personal behaviours in the workplace. The Committee and the Board review whistleblowing reports throughout the year and an annual report is presented to the Board on the operation and effectiveness of the systems and controls in place for whistleblowing.

# Audit Committee report continued

## 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. To satisfy ourselves of the effectiveness of the External Audit, during the year we:

- reviewed the proposed Audit Plan in advance of the annual audit;
- reviewed and approved the audit engagement terms and proposed audit fee;
- considered the continued independence and objectivity of the External Auditor; and
- reviewed and discussed the reports provided by the External Auditor.

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

The Audit Committee are satisfied that the 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 contributed to the financial assessment of the business throughout the year and their contributions have been appropriately investigative and valuable, and their expertise welcomed. We invite comment from our audit partner throughout the Committee meetings as well as regularly taking the opportunity to hold meetings without management present to maintain integrity and objectivity.

The Audit Committee confirms that PwC continues to be effective.

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

### Independence

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 each of the reports PwC presents 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 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 2020, the Board approved the Committee's recommendation to put a resolution to shareholders at the 2021 Annual General Meeting to reappoint PwC, which shareholders subsequently approved.

In line with the FRC's Revised Ethical Standard 2019, the lead audit partner for the Bank rotates every five years. In line with this rotation, Darren Meek stood down after the financial year ended 31 December 2020 and Jon Holloway now leads the Bank's audit. The Committee have been building rapport with Jon and the PwC team throughout 2021 and will be recommending the reappointment of PwC at the forthcoming AGM.

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

- Reporting required to a competent authority or regulator under UK law or regulation, such as reporting to a regulator on client assets.
- Reporting on the iXBRL tagging of financial statements.
- Reports required by regulators where the regulator has specified the auditor provide the service or has indicated that the auditor would be an appropriate choice.
- Reviews of interim financial information, and providing verification of interim profits.
- Additional assurance work or agreed upon procedures performed on material included within or referenced from the Annual Report and Accounts.
- Reporting on government grants.
- Reporting on covenant or loan agreements which require independent verification.
- Certain non-audit services are prohibited including:
  - services involving contingent fee arrangements;
  - internal audit services which play any part in management's decision making;
  - secondments/loan staff arrangements; and
  - tax, consulting, valuation or corporate finance services (other than reporting accountant engagements).

Under the ethical standard, there is a 70% cap on non-audit fees for services provided by the External Auditor. The cap is based on comparing the average of three consecutive years of statutory audit fees to the non-audit fees for services in the fourth year. Therefore, non-audit fees for 2021 should be compared to the average of audit fees for 2018, 2019 and 2020. The cap does not apply to non-audit fees for certain services required by law or regulation.

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

The Committee carefully monitors the level of non-audit services provided by PwC. During 2021, in instances where PwC were engaged for non-audit services they were chosen due to their unique position and knowledge of areas within the Bank and the services were in respect of audit or assurance-related matters consistent with the principles of independent assurance provision. Details of services provided and the fees paid to the External Auditor during the year can be found in note 8 to the financial statements on page 172.

The Committee concludes that the Bank's policy on Approval of Non-Audit Services by the External Auditor is aligned to the Revised Ethical Standard concerning auditor independence, and the Bank has complied with its policy during 2021.

## Significant financial reporting areas considered by the Audit Committee

In respect of financial reporting, the Committee considered a number of key areas which are set out below. In all instances, following review and challenge to management, the Committee is satisfied that the approach applied by management is reasonable.

### Measurement of the expected credit loss allowance

The Committee regularly reviewed management's assessment of the adequacy of the allowance for expected credit losses. The review included governance arrangements over provisioning and models, the use of post-model adjustment and overlays, a benchmark of the Group's expected credit losses against its peers as well as reviewing the components of the calculation (including significant increase in credit risk, definition of default, macroeconomic scenarios and scenario weightings).

The Committee agrees with management's assessment that the measurement of the expected credit loss allowance remain both a critical accounting estimate and judgement. Further details are set out on pages 198 to 212.

### Recognition of provisions

The Group continues to be subject to regulatory investigations and the Committee continued to assess whether a provision for any of these matters should be recognised in the accounts. As at 31 December 2021 the Group made a provision in respect of the FCA investigation into announcements relating to both RWAs and AIRB accreditation. The Committee reviewed the basis of management's calculation and concluded it to be reasonable. In addition, the Committee discussed and reviewed the associated disclosures.

The Committee agrees with management's assessment that the recognition of provisions remain a critical accounting judgement. Further details are set out on pages 192 to 193.

### Impairment and write-off testing

During the year impairment indicators were identified in relation to the Group's property, plant, equipment and intangible assets. Management ran an impairment assessment as required by IAS 36 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.

The Committee also reviewed the impairments recognised in relation to RateSetter (an impairment of the peer-to-peer element of the lending platform) and to Metro Bank's investment in subsidiaries. The Committee found the impairment recognised to be appropriate and reasonable.

### 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 224 to 226.

### 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, with a particular emphasis on the latter.

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 90 and 91.

# Risk Oversight Committee report

**IAN HENDERSON**
RISK OVERSIGHT COMMITTEE CHAIR

### Committee attendance for 2021

| Members | Meetings attended | Meetings held during Director's tenure |
|---|---|---|
| Ian Henderson (Chair) | 10 | 10 |
| Catherine Brown | 10 | 10 |
| Michael Torpey | 10 | 10 |
| Nicholas Winsor | 10 | 10 |

The Committee also had additional shorter meetings and briefing sessions to discuss topics such as the ongoing application for AIRB accreditation, the ILAAP, ICAAP and Recovery Plan.

### Composition of the Risk Oversight Committee

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

Other Directors and colleagues attend as guests by invitation of the Chair to present and report on relevant topics.

The Company Secretary and her team act as Secretary to the Committee.

### 2021 Activities

- Oversight of the Bank's Enterprise Risk Management Framework.
- Oversight of the Bank's risk appetite.
- Reviewed and approved the Bank's Pillar 3 disclosure.
- Reviewed and approved or recommended policies to the Board for approval.
- Oversight of the Bank's capital and funding positions.
- Provided oversight of the preparation of the Bank's Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan.
- Held 'Deep Dive' review sessions on operational resilience, data protection, commercial banking, financial crime, information security and IT resilience, suppliers, fraud, people and culture, regulatory reporting, arrears management, climate risk and vulnerable customers.
- Reviewed the Bank's risk profile and ongoing response to the COVID-19 pandemic.
- Oversight of the financial crime control framework.
- Oversight of the RateSetter integration.
- Reviewed and approved the Risk sections of the 2020 Annual Report and Accounts.
- Oversight of the embedding and enhancement of the Bank's Enterprise Risk Management Framework.
- Oversight alongside the Board of the submissions made in relation to the Bank's AIRB application.
- Reviewed the Risk Acceptances held by the Bank.
- Oversight of operational risk and regular updates from the first line of defence.

### 2022 Priorities

- Capital and ongoing work toward AIRB accreditation
- Financial crime
- Liquidity
- Cyber
- Customer Outcomes
- Climate Risk

## Dear shareholders

### Overview

My first full year as Chair of ROC has been a busy one for the Bank but I am pleased with what we have achieved as a Committee and a Bank in that time. The Committee had oversight of a number of significant projects throughout the year and received a number of deep dive sessions in important areas. The Committee value this insight from the three lines of defence and will continue to have tailored sessions in line with the Bank's priorities and key risks in 2022.

Last year the Bank supported customers with a number of measures throughout the pandemic, including government-backed loan schemes, and this year ROC has had oversight of the management of these measures. As ever, we will continue to support our communities as the pandemic evolves.

A focus for the ROC this year, alongside the Board, has been the oversight of the Bank's AIRB application. Preparation for submissions has included a number of deep-dive sessions and the Committee was satisfied with the quality of the progress made to date.

Above and beyond our monthly oversight of financial crime, ROC also had a number of deep dive sessions from colleagues in the first line of defence. ROC also reviewed the Money Laundering Reporting Officer's report and continued to have oversight of the key milestones of the Financial Crime Improvements Programme. We continued our review of our sanctions compliance framework with the support of external advisers, following our notifications to regulators on the sanctions matters discovered in 2017 and 2019. Metro Bank continues to fully cooperate with its regulators in relation to any enquiries in this regard.

This year ROC has also focused on change and execution risk relating to our strategy and transformation agendas. Our customers have benefited from several new products launched this year as well as ongoing enhancements to the services we provide. ROC has also had oversight of the changes to the risk profile as a result of cost control in line with the Bank's strategic priorities. ROC will continue to have oversight of this as the Bank continues to deliver on its strategic priorities in 2022.

ROC continues to focus on capital and liquidity and during the year took part in tailored deep-dive sessions before endorsing the ICAAP, ILAAP and Recovery Plan to the Board for approval. As in previous years, regulatory capital management has been a constraint for the Bank and this has been kept under close review.

This year ROC was presented with the Bank's proposed approach to the management of climate-related risk. As the Bank continued the activity of embedding climate risk into the Risk Management Framework, the Committee received updates and has overseen the work to understand how to define, monitor, manage and report the impact of climate change on the Bank's strategy. The risks associated with climate change will continue to be a focus in 2022 with tailored training planned for the second half of the year.

The Committee had oversight of the final improvements made to the reporting processes and controls following the identification of RWA reporting errors in 2019. Embedding and enhancing of the Bank's Enterprise Risk Management Framework has been a focus for the Committee in 2021 and the Committee was pleased to approve the updated Enterprise Risk Management Framework.

Following a scheduled external evaluation in 2020, the Committee conducted an internal evaluation in 2021. The results of the evaluation showed that the Committee was working well. In 2022 there will continue to be a focus on reducing the size of the Committee's packs, having tailored updates from the first line of defence on emerging risks, and extra training sessions on relevant topics.

### Outlook for 2022

As we continue to recover from the COVID-19 pandemic, the Committee will continue to focus on the areas within its remit to ensure we can support our FANS and communities in a safe and sustainable way. The Committee will also continue to focus on supporting the Bank to achieve its strategic objectives through ongoing support with the AIRB application, oversight of capital management, forward looking planning for climate change risk and, as always, a focus on our customers and ensuring the Bank delivers fair outcomes and the best banking experience possible.

The following sections explain the role and activities of the ROC, and how it has discharged these responsibilities, as well as setting out several key areas of activity during 2021.

**Ian Henderson**
Risk Oversight Committee Chair
23 March 2022

# Risk Oversight Committee report continued

## Risk Oversight Committee in brief

**The 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 risk strategy.**

Accountable to the Board, the ROC provides leadership, oversight and direction regarding the Bank's risk governance and management. It is charged with helping the Board to create an appropriate 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, Recovery Plan and major risk policies. The ROC oversees risk management procedures and reviews risk reports on key business areas.

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

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

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

Over the past year, further enhancements have been made to the Risk Management Framework, reporting of performance against risk appetite and policy setting. This has further embedded the principles, tools and techniques of the Risk Management Framework.

The key areas of risk considered by the Committee include:

- credit risk;
- treasury (including capital and liquidity risk) and prudential risk;
- operational risk;
- compliance and conduct risk (including regulatory risk);
- financial crime risk; and
- model risk.

## Standing items at each ROC meeting

### 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, summary of issues under management, performance against risk appetite, regulatory engagement update, operational incidents overview and credit portfolio insights.

During the year there was a noticeable focus on capital metrics given this continues to be the largest constraint the Bank faces.

### TREASURY AND PRUDENTIAL RISK

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

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

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

| CREDIT RISK | OPERATIONAL 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 particular customer or loan has deteriorated. This ensures that lending remains within risk appetite and policy exceptions are monitored. The Committee regularly reviewed the performance of the loan portfolio including assessing immediate and ongoing COVID-19 impacts across all products. The Committee also oversaw the performance of the suite of government financial support measures. | The Committee receives reports concerning risk appetite and risk assessment for a number of key operational risks including: information security and systems availability, operational resilience, and the execution risk of change. Incidents and root cause analysis as a result of any material incidents were presented in 2021 to demonstrate how the Bank captures learnings and takes action to prevent or mitigate any potential recurrences. The view of the Committee is that the management of these incidents and the actions taken in response were proportionate and appropriate to the size and scale of the incidents.<br><br>During 2021 the Committee has also received reports from management on emerging non-financial risks and how these risks are mitigated. |
| **COMPLIANCE AND CONDUCT RISK** | **FINANCIAL CRIME RISK** |
| The Committee is updated regularly on regulatory developments and changes that could impact the Bank. The Committee receives updates on compliance and conduct risk in the areas of culture and governance, product governance, customer treatment and feedback from 'Voice of the Customer' surveys. The Committee is also updated on how the Bank manages expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line of defence. | 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. |
| **DEEP DIVES AND IN-DEPTH REVIEWS** | **EXECUTIVE COMMITTEE MINUTES** |
| The Committee receives in-depth reviews on areas of emerging risk and regulatory interest throughout the year and the areas looked at in 2021 are noted above. | The Committee reviews and formally notes the minutes of the Executive Risk Committee and the Asset and Liability Committee. |

## Key policies considered by the Risk Oversight Committee in 2021

### Policy

**Policies approved by the ROC:**
- Market Risk Policy
- Dealing Policy
- Permanent Partial Use Policy
- Data Policy
- Recruitment and Selection Policy
- Pillar 3 Disclosure Policy
- Arrears Management
- Retail Unsecured
- Operational Risk Framework
- Enterprise Risk Management Framework

**Policies reviewed and recommended to the Board:**
- Capital Management Policy
- Liquidity Policy
- Sanctions Policy
- Anti-Money Laundering and Combating Terrorist Financing Policy

# Nomination Committee report

**ROBERT SHARPE**
NOMINATION COMMITTEE CHAIR

### Committee attendance for 2021

| Members | Meetings attended | Meetings held during Director's tenure |
|---|---|---|
| Robert Sharpe (Chair) | 3 | 3 |
| Catherine Brown | 3 | 3 |
| Monique Melis | 3 | 3 |
| Sir Michael Snyder | 3 | 3 |
| Paul Thandi* | 2 | 2 |

* Paul Thandi was appointed to the Committee on 1 April 2021

### Composition of the Committee

In addition to the Committee Chair, Robert Sharpe, the Committee consists of three other members, Catherine Brown, Monique Melis and Paul Thandi. The CEO and the Chief People Officer (CPO) attend meetings by invitation. The CPO provides support to the Committee Chair and Committee as needed and the Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers, as well as papers that are to be considered by the Board such as the Board Diversity Policy and succession plans.

### 2021 Activities

- The Committee reviewed the appointment of Monique Melis as our new Senior Independent Director and recommended this appointment to the Board.
- Changes to Committee memberships were reviewed and recommended to the Board following the 2020 external Board evaluation.
- Non-executive succession planning was discussed to ensure the Board has the appropriate mix of skills, experience, independence and diversity.
- Consideration of Senior Managers and Certification Regime and how the Committee should work with the Remuneration Committee on senior manager appointments.
- Oversight of talent management and inclusion throughout the Bank.
- The Committee reviewed plans on executive succession and considered the development plans of individuals.
- Reviewed the progress against the Board Diversity Policy and assessed the objectives against the market to ensure they remain appropriate.

### 2022 Priorities

- The Committee will continue to review the long-term succession planning for the Board, noting that no appointments are expected in the short to medium term.
- The Committee will oversee the search for short-medium and a longer term replacement for the CFO.
- The Committee will continue to monitor the PRA/FCA consultation paper on Diversity within the Financial Services Sector, and will assess the impact on the Bank.
- The Committee will review the skills matrix to assess the way the Committee evaluates skills of Board members.

## The Nomination Committee in brief

The Nomination Committee leads the process for identifying and making recommendations to the Board for new Board appointments and Committee memberships. Its duties include:

- regularly reviewing the structure, size and composition (including skills, knowledge, experience, independence and diversity) of the Board as a whole and making recommendations to the Board as required;
- considering succession planning for members of the Board and Executive Directors, including the length of service of members and the need to regularly refresh Board membership, taking into account the Bank's strategic priorities and the main trends and factors affecting the long-term success and future viability of the Bank and the skills and expertise needed on the Board in the future;
- reviewing and assessing the Skills Matrix against the skills required by the Bank as part of its strategy;
- taking responsibility for identifying and nominating candidates to fill Board vacancies as and when they arise, for the approval of the Board;
- evaluating the balance of skills, knowledge and experience, diversity and length of service on the Board, and the range of critical skills of value to the Board relevant to the challenges and opportunities facing the Bank;
- reviewing the Board Diversity Policy and recommending any changes to the Board;
- considering Board candidates on merit and against objective criteria and with due regard for the benefits of diversity, taking care that appointees have time available to devote to the position; and
- reviewing the results of the Board performance evaluation process relating to Board composition.

The Nomination Committee Terms of Reference can be found on our website: metrobankonline.co.uk.

### Dear shareholders

I am pleased to present the Nomination Committee report, my first as Chair of the Committee. This has been a year of continued evolution for the Bank, and for further embedding our Board following the appointments made in 2020. In light of the departure of Sir Michael Snyder in October 2021, following six years of service, Monique Melis was appointed as Senior Independent Director effective 31 October 2021, subject to regulatory approval. Monique previously held this role on an interim basis whilst Sir Michael acted as interim Chairman, she was therefore well placed to take on the role on a permanent basis and I am very confident that she will be effective in this role.

In line with the ever evolving landscape in which we operate, the Committee has continued to focus on diversity at all levels of the Bank as well on our Board and committees. We are keeping a watching brief on the PRA/FCA consultation on Diversity in Financial Services and will consider how this impacts our organisation and any changes to our Board Diversity Policy we may need to make as a result. Following the results of our external Board Evaluation in 2020, the Committee further reviewed the membership and composition of our Committees to ensure they have the right mix of skills and experience. As a result, we made changes to the membership of the Audit Committee to continue to ensure we have the right balance of skills across our committees. Paul Thandi and Anne Grim therefore stepped down from the Audit Committee and were appointed to the Nomination Committee and Remuneration Committee respectively. Following her appointment as SID, the Committee reviewed the Chairmanship of the Committee and it was agreed that I would take over to ensure Monique has sufficient time to dedicate to her role as SID and as a member of the Audit Committee.

The Committee has discussed long term succession planning during the year. We have agreed that there will be no new NED appointments in the short to medium term, which reflects the strong and effective working relationship on the Board since we appointed a number of NEDs in 2020. As a Board our main priority is overseeing the Bank's return to profitability. The Committee and I consider the current makeup of the Board is well balanced and has the appropriate skills and experience to do this. We will continue to keep this under review as part of our long term succession planning, noting the importance of diversity in effective decision making.

Another important discussion we had during 2021 was on executive succession. The Committee enhanced its review of executive succession planning by looking in further detail at the pipeline for senior roles within the organisation assessing the development plans of these individuals. This was important for the Committee to understand how our talented colleagues are developing in their careers and where the Committee would need to look externally for any recruitment needs that the business may require in the future. As announced on 15 February 2022, David Arden, Chief Financial Officer, agreed with the

Board to step down from the Board with immediate effect and leave the business on 1st April 2022. On behalf of the Board, I would like to thank David for the important work that he has done to strengthen Metro Bank's financial controls over the past two years. He has played an instrumental role in helping to deliver the Bank's strategic priorities and turnaround plan and leaves with our best wishes for the future. The Nomination Committee will oversee the search for a short-medium and longer term replacement for the role.

I look forward to overseeing the work of the Committee in 2022 and in particular ensuring this supports the next steps of the Bank's turnaround plan.

**Robert Sharpe**
Nomination Committee Chair
23 March 2022

### Committee Performance Evaluation

The Committee conducted an internal evaluation this year, following the externally facilitated evaluation in 2020. The Committee members considered that the Committee is working effectively and the members understand the skills required of Board members to oversee the delivery of the Bank's strategic objectives.

### Board Composition

The Nomination Committee's role in the Bank's strategy is to ensure that the Directors appointed have the skills required by the Bank, to provide effective challenge and oversight of the delivery of the strategic objectives and to ensure there is a strong pipeline for Executive and Senior Management positions. The Committee assessed the composition of the Board in 2021 and concluded that the Board has the skills, leadership and time to provide the necessary oversight and proper challenge to the Executive team. The Committee is aware of the skills that it may need to be strengthened as the Bank progresses, as well as keeping the tenure of Directors under review, to ensure orderly succession. The Chairman also conducts individual appraisals with each Non-Executive Director on an annual basis.

The changes that were made to the committee memberships in 2021 were made to improve the effectiveness of our committees. The evaluations of each committee show that our committees are working effectively in carrying out their duties and a summary of each committee evaluation is included in each of the committees' reports. The Committee will continually review the memberships of our committees to ensure that the members appointed have the skills and experience required.

The process for appointments to the Board is contained within the Committee's Terms of Reference. The Committee recognises the importance of conducting a transparent and fair process for interviewing, assessing and appointing candidates to the Board. There is also a requirement for the list of candidates to be diverse and the Committee is fully committed to improving the diversity of the Board and its committees over the long term. The details of search firms used to assist the Committee in compiling a list of candidates will be disclosed in the Committee's report in the Annual Report and Accounts, as required. The Committee did not engage any search firms during 2021.

### Diversity

The Committee understands and recognises the importance of diversity in assisting decision-making and avoiding groupthink within our Board and its committees. These aspects are considered whenever the Committee discusses diversity. The Committee is also dedicated to using search firms that are committed to sourcing a diverse long list of candidates for consideration for the Bank's Board.

The gender balance on our Board, and of those in senior leadership and their direct reports, can be found on page 34.

### Board Diversity Policy

During 2021 we reviewed our Board Diversity Policy to ensure this was in line with best practice recommendations, meets the expectations of our stakeholders and to review progress against the objectives that were set in 2020. The objectives were benchmarked against our financial services peers to make sure we continue to meet the market standard.

Following the review, the Committee confirmed that the objectives that were set in 2020 remained the right objectives for the Company, and would continue to monitor progress against the same objectives.

A summary of the objectives of the Board Diversity Policy and the progress made against these is listed on page 125.

| OBJECTIVE | STATUS |
|---|---|
| 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. | The Board did not make any appointments during 2021, however the Board is fully committed to ensuring we consider diverse long lists for any possible Board appointments. |
| Ensuring the female representation on the Board meets and remains at a minimum of 33% as per the Hampton-Alexander objective. | As at the date of publication of this report, there were four female directors appointed to the Board, which correlates to 40% of the total Board membership. We are therefore meeting this objective. |
| Ensuring the Board's ethnic diversity meets and maintains a minimum of one Director of colour by 2024. | As at the date of publication of this report, we have one director from an ethnic minority background appointed to the Board. We are therefore meeting this objective. |
| Only engaging executive search firms who are committed to sourcing diverse candidates and who have signed up to the voluntary Code of Conduct on gender diversity and best practice. | We have not engaged any executive search firms in 2021, but we would require any firm we engage with to source a diverse long list of candidates and would seek to ensure they have signed up to the voluntary Code of Conduct where possible. |
| 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 34–36 in the ESG report. |
| Reporting annually on the outcome of the Board evaluation including the composition, structure and diversity of the Board. | We have included a disclosure on our internal evaluation that the Board carried out in 2021 on pages 107-109. |

# Remuneration Committee report

CATHERINE BROWN
REMUNERATION COMMITTEE CHAIR

### Remuneration Committee attendance for 2021

| Members | Meetings attended | Meetings held during Director's tenure |
|---|---|---|
| Catherine Brown (Chair) | 7 | 7 |
| Sally Clark | 7 | 7 |
| Paul Thandi | 7 | 7 |
| Anne Grim[1] | 2 | 3 |

1. Anne Grim was appointed to the Committee on 1 April 2021 and did not attend the 25 May 2021 meeting due to a prior engagement made before being appointed to the Committee.

### Composition of the Committee:

In addition to the Committee Chair, Catherine Brown, the Committee consists of three other members, Sally Clark, Anne Grim and Paul Thandi. The Chairman, CEO, the Chief People Officer and the Director of Reward & Performance attend meetings by invitation. The Chief People Officer provides support to the Committee Chair and Committee as needed and the Company Secretary acts as Secretary to the Committee. Following each meeting the Chair provides a verbal update to the Board. The Committee minutes are also included in future Board papers.

### Advisors to the Remuneration Committee

Following a comprehensive tendering process, the Remuneration Committee appointed Aon McLagan (Aon) to be its independent advisors on executive remuneration. The Committee requests Aon to attend meetings during the year and is satisfied that the advice it has received has been objective and independent. Aon provided support early in 2021 in relation to our review of remuneration structures. The fees paid for services provided to the Remuneration Committee in 2021 were £81,673 and were determined on a time and expenses basis. Aon also provided pay data for the Executive Committee. The Committee is satisfied that these additional services did not prejudice Aon's position as the Committee's independent advisor.

### 2021 Activities

- The Committee approved the new Remuneration Policy and this was also approved by our shareholders at the 2021 AGM.
- We engaged with our shareholders to gauge their views ahead of putting our new Remuneration Policy to a vote at the 2021 AGM.
- At the beginning of 2021, the Committee approved the new Bank-wide balanced scorecard measures to be used for variable reward outcomes across the colleague population.
- Changes to share plans were approved in 2021, which included introducing a new LTIP and moving to nominal value share awards instead of market value so that the share plans present a more motivating tool for the participants.
- We reviewed the remuneration outcomes for senior executives and Material Risk Takers (MRTs) and considered risk adjustments.
- Ex post and ex ante risks were taken into account when reviewing grants of awards and vesting of awards.
- The appointment of remuneration consultants was made in September 2021.
- The Gender Pay Gap and other colleague demographic analyses were reviewed by the Committee and the plans presented by Executives to address issues were discussed and challenged.
- The Committee reviewed and considered the operation of the Remuneration Policy in order to ensure compliance with relevant regulatory guidance, alignment with the Bank's risk principles and consistency with the Bank's strategy.
- We challenged and approved an amended list of MRTs and Certified Persons within the organisation.
- The Committee was presented with changes that had been proposed to the Bank's approach to performance management.
- We monitored progress against the Bank-wide balanced scorecard.
- We reviewed and considered remuneration outcomes across the colleague population, including internal relativities and proportion of spend.
- We reviewed and approved our approach to salary increases across the workforce, taking into account living wage and market positioning.

### 2022 Priorities

- The Committee will keep the effectiveness of the Remuneration Policy under review as the Bank delivers against its transformation plan, ensuring that it continues to allow us to attract and retain talent.
- Continue to improve the collaboration between the Committee and the Risk Oversight Committee.
- Review our market positioning and other factors to ensure we continue to retain our talented colleagues.

## A year of strong performance against our strategic priorities

### Dear shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee report and the Directors' Remuneration report (the report) for 2021. This report will detail the work of the Committee this year and how we have applied the new Remuneration Policy that was approved by shareholders at the 2021 AGM.

I should start by thanking our shareholders, colleagues and advisors for their assistance in formulating the new Remuneration Policy that was very well supported at the 2021 AGM. As we stated in last year's report, the new Remuneration Policy was important to align more effectively Executive reward with the interests of our shareholders and the Bank's strategic objectives. The Remuneration Policy also aligns with market practice, including the introduction of a Long Term Incentive Plan (LTIP) and greater use of deferral in awards of variable remuneration. I am pleased with how the new Policy is working, and further details are provided in this report.

I am pleased with the progress we have made as a Committee this year in providing effective oversight of performance against the balanced scorecard and further strengthening our assessment of remuneration outcomes for colleagues holding Senior Managers and Certification Regime (SMCR) responsibilities. In this regard, we have made good progress this year in ensuring risk outcomes are considered fully and reflected fairly in remuneration outcomes. The Chief People Officer and Chief Risk Officer have worked together to comprehensively embed SMCR across the business and the Committee is benefiting from updated governance processes with the Risk Oversight Committee that have improved the information flow between the committees.

We have continued to monitor our performance measures throughout the year to ensure the Executive Directors are properly incentivised to produce results that align with our strategic objectives and reduce risk for the Bank. As a Committee we have set challenging and stretching scorecard targets for the Executive Directors and executive team, while ensuring that our decisions are fair in the context of the strategy set by the Board and the external environment that the Bank finds itself in. At year end we applied downward discretion to the Bank-wide balanced scorecard outcome, recognising the hard work of colleagues during the year and the significant progress that had been made towards delivering the strategic plan, balanced against our loss-making position. We have taken the decision not to pay cash bonuses to the Executive Directors for a second year in a row.

During the year we have continued to ensure that the Bank's unique culture remains at the forefront of remuneration considerations. The Committee recognises that our colleagues and culture underpin the performance of the business, and considering the contribution they make has been integral to remuneration decisions.

We have appointed Aon as our independent remuneration advisors on a formal basis this year. Having previously advised us on the formation of our Remuneration Policy, they are now providing us with independent remuneration advice including market trends and regulatory considerations. The external perspective that Aon provides is well received by the Committee and provides valuable additional context when the Committee is making decisions. We conducted a tender process ahead of Aon's appointment. Aon does not have any other connection with the Bank so the advice that they provide to the Committee is fully independent.

### Committee Performance Evaluation

The Committee conducted an internal evaluation this year, following the externally facilitated evaluation in 2020. The feedback from Committee members was very positive and reflects the effective way that the Committee has functioned throughout the year. Based on feedback provided by Committee members, during 2022 the Committee will expand its training programme, which will be reflected in the forward plan, and extend consideration given to Internal Audit findings in remuneration decisions, to complement the enhanced information now being provided for risk outcomes.

I am looking forward to working with my Committee colleagues and the Executive team in 2022 as we continue to strengthen the alignment of remuneration, culture, financial performance and risk across the business.

### Our approach to Executive Directors' and Executive Committee members' remuneration

Our new Remuneration Policy was approved at the 2021 AGM. The changes address the Committee's preference to bring greater alignment between longer term performance and incentives, acknowledging external feedback received in 2020. The changes reflect best practice and ensure the Bank's remuneration structure is compliant with the regulatory requirements we are required to observe as a CRD V proportionality level 2 firm.

Some aspects of the Remuneration Policy were adopted for members of the Executive Committee, including the annual bonus and LTIP arrangements, to align their pay for performance with Executive Directors.

Full details of our Remuneration Policy can be found on our website at https://www.metrobankonline.co.uk/globalassets/documents/investor_documents/remuneration-policy.pdf.

### Our approach to Remuneration across the Bank

We believe oversight of the remuneration and benefits across the Bank for all colleagues, not just executives is an important part of our role.

Executive Committee (including Executive Directors) remuneration will comprise a salary, reasonable benefits and pension provisions and variable reward which is delivered through an annual bonus with deferral and LTIP.

For the wider colleague population, the Committee aims to have a remuneration structure that is simple, delivers variable reward that is valued by colleagues, and is aligned to market practice. Colleagues' remuneration below the Executive Committee comprises a salary, benefits, pension provisions and variable reward award that is delivered in cash. Due to the nature of their roles and alignment with risk, colleagues who are deemed to be Material Risk Takers (MRTs) will have their variable remuneration delivered in line with regulatory requirements.

Colleagues across the Bank can participate in our ShareBuy scheme: a share incentive plan (SIP) that is recognised by HMRC and allows colleagues to buy Metro Bank shares in a simple, tax efficient way. During 2022, we plan to extend our ShareBuy offering which will encourage share ownership in the Bank. This aligns all colleagues with both investors and other stakeholders in line with our customer-focused model and long term vision.

All variable awards are subject to malus and clawback of at least three years, extending up to ten years where required.

## Looking back on 2021

2021 has been another challenging year for colleagues and the Bank and once again our colleagues have shown us why Metro Bank is such a special place to work, coming together to support each other, our customers and our communities.

We have not used the government furlough scheme, and have ensured continuity of service to our customers throughout the pandemic and I am very proud to be part of a business where all of our colleagues have risen to the challenge in a variety of ways. Store-based colleagues have remained focused on creating FANS; their dedication to excellent customer service has enabled us to keep stores open throughout the pandemic. Similarly, our AMAZE Direct colleagues have been on the end of the phone throughout the pandemic, supporting those customers who were not able to get to a store. Management has also led by example, making sound decisions to support colleagues and ensuring the business has remained resilient whilst delivering against our strategic plan.

Like many organisations, the Committee has been required to apply its discretion in deciding the remuneration outcomes for the year. Not only has the Committee had to consider the impact of COVID-19 on business performance and shareholders, it has been conscious of all the challenges our extraordinary colleagues have faced during the year. Notwithstanding these challenges, the Committee recognises that substantial progress has been made in delivering the Bank's ambitious strategic transformation programme, which remains on time and on budget.

With this in mind and considering the exceptional circumstances we find ourselves in, I believe that the decisions relating to remuneration for the year are appropriate, ensuring we retain and incentivise our colleagues appropriately whilst recognising the significant impact of COVID-19 on business performance.

**Variable reward**

Executive Directors' variable reward outcomes are based on key financial, risk, customer and colleague objectives, balanced with personal behaviours and delivery of the individual. This approach is consistent with the standards we apply to every colleague.

in January 2019 we announced that we had adjusted the risk-weighting of certain commercial loans secured on commercial property and certain specialist buy-to-let loans that had the combined effect of increasing our risk-weighted assets by £900 million. The Committee decided to freeze vesting of share options and awards for Executive Directors and the Executive Committee, including share options granted for 2019 performance, pending further internal analysis and any external investigations into the RWA adjustment. The PRA concluded their investigation in December 2021 which resulted in a fine of £5.4 million. In the time since the RWA errors were identified, we have made significant improvements to, and substantial investment in, our regulatory reporting processes and controls. We have also strengthened our broader risk management and governance and remain absolutely committed to accurate regulatory reporting. Awards for 2018 and 2019 will remain frozen until the FCA investigation has also completed; this approach has been applied to any colleague deemed to be proximate to the issue. The Committee formally reviews all outstanding frozen awards every year.

To meet our plans to return the business to profitability we set stretching targets for 2021. Despite facing significant headwinds, underlying business performance has been strong against all scorecard measures (financial, risk, customer and colleague), which resulted in a formulaic balanced scorecard outcome of 102.10%. The balanced scorecard outcome can range from 0% to 120% with 100% being target performance and anything below threshold performance resulting in a zero outcome. The Committee considered the outcome and exercised its discretion to reduce the scorecard outcome down to 85% after taking into consideration the impact of COVID-19 on the macro business environment, and also the shareholder experience during the last 12 months.

Daniel Frumkin was awarded a bonus outcome of 85% of salary, taking into account individual and bank-wide performance. The Committee used its discretion to reduce the individual performance adjustment factor to reflect the overall performance of the Bank.

David Arden stepped down as CFO on 15 February 2022 and will leave the business on 1 April 2022. In relation to the 2021 performance year, and in light of his pending departure, the Committee awarded variable remuneration to David but based on a 25 percent reduction in his potential entitlement and on the basis that no 2022 LTIP award will be made.

Daniel volunteered to forgo any cash bonus for 2021 performance and David's annual variable reward will be treated in the same way. Their annual variable awards will be delivered in retained shares and deferred shares under the Deferred Variable Reward Plan. The retained shares will vest immediately and be subject to a one year retention period and the deferred share awards vest between years three to seven subject to ongoing service. Each vest is subject to a mandatory one year retention period.

A LTIP award of 100% of salary will be awarded to Daniel in March 2022. This award will have a 3 year performance period and an additional vesting and retention period.

The Committee considers that both Daniel's and David's share awards reflect their performance during the year including the development and implementation of the strategic plan.

Pages 138 to 141 detail the scorecard measures, targets and outcomes relating to 2021 as well as any share-based awards made to Executive Directors.

## Looking forward to 2022

**Resignation of the CFO, David Arden**

David Arden stepped down as CFO on 15 February 2022 and will leave the business on 1 April 2022. In relation to the 2021 performance year, and in light of his pending departure, the Committee awarded variable remuneration to David but based on a 25 percent reduction in his potential entitlement and on the basis that no LTIP award will be made. This will be delivered as retained shares and deferred shares under the Deferred Variable Reward Plan. The share awards granted to David in 2018, 2019 and 2020 will lapse in full. The award granted to David in 2021 under the LTIP will also lapse in full. The Committee has determined that David will be treated as a good leaver for the purposes of the deferred share award granted to him in 2021 and any deferred share award granted to him in 2022.

**Salaries from 1 April 2022**

The increase in our budget for salaries this year has been used to continue our fair pay approach across the Bank. We have committed to pay the London Living Wage and UK Living Wage to our cashiers, customer service representatives and AMAZE Direct representatives.

The average pay rise across our colleague population is 5.0%, compared to 2.5% last year.

We are proposing to increase the CEO's salary by 4.0% which is below the average salary increase across our workforce. This would result in the Daniel Frumkin's salary increasing from £740,000 to £769,600. Progress against our strategic priorities, growth in role, and the criticality of the CEO to deliver our strategic plan have provided the Committee with strong rationale to give a salary increase to Daniel this year.

**Chair and Non-Executive Director fees**

Robert Sharpe was appointed Chair on 1 November 2020 with a fee of £350,000 per annum. The annual fee for the Chair will remain unchanged. Board member fees for our Non-Executive Directors will change to £65,000 and will take effect from 1 April 2022.

**Variable reward for 2022**

The Committee has agreed an appropriate bank-wide balanced scorecard to inform the Company variable reward adjustment factor for 2022, based on financial, risk, customer and people objectives. We will disclose targets and measures in the Directors' Remuneration Report of next year's Annual Report.

Variable reward for Executive Directors will be awarded through annual bonus (consisting of cash bonus, retained shares and deferred shares under the Deferred Variable Reward Plan) and the LTIP.

Our simplified approach to variable reward, applied across the organisation, focuses all colleagues on growth and the long-term, sustainable success of the business.

## Appropriateness of Executive Remuneration

We believe that the approach to variable reward set out above is appropriate and aligns with our ambitious strategy. The Remuneration Policy reflects best practice and investor expectations, brings greater alignment between longer term performance and incentives and ensures continued compliance with the regulatory requirements the Bank is required to observe as a CRDV proportionality level 2 firm. In addition, the interests of the Executive Directors, broader Executive Committee and shareholders are closely aligned. The Remuneration Policy operated as intended during the year.

The Remuneration Committee has complete discretion to challenge the formulaic variable reward outcome where it believes it is not appropriate.

We engage with relevant organisations concerning our approach to remuneration and welcome feedback from investors and stakeholders.

I very much hope that you will support the resolutions to approve the Remuneration Report at the forthcoming AGM. On behalf of the Committee, thank you for your support.

**Catherine Brown**
Remuneration Committee Chair
23 March 2022

# Remuneration at a glance

## EXECUTIVE DIRECTOR PAY AT METRO BANK

The remuneration of Executive Directors at Metro Bank consists of the following elements.

### Fixed

**Salary**
Reflects the value of the individual's skills, expertise and experience and ability to grow with the role and organisation.

**+ Benefits**
Supports the health, wellbeing and security of our Executive Directors. Offering is aligned with all colleagues.

**+ Pension**
Supports Executive Directors in building long term savings for their retirement. Offering is aligned with all colleagues.

### Variable

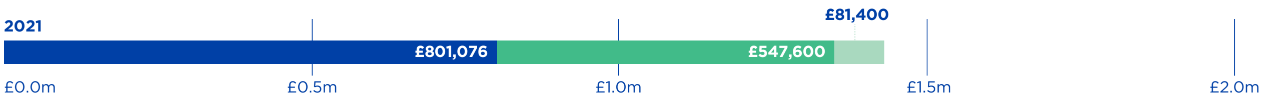
**+ Annual bonus**
Incentivises the delivery of the annual financial and strategic objectives which contribute towards the delivery of longer term strategy. Aligns interests with shareholders by delivering a portion in shares.

**+ LTIP**
Motivates key individuals and rewards the creation of long term shareholder value thereby creating shareholder alignment.

**= Total remuneration**
Sum of the fixed and variable elements of remuneration.

## 2021 REMUNERATION OUTCOMES FOR EXECUTIVE DIRECTORS

**Daniel Frumkin** Chief Executive Officer
(£'000)




**David Arden** Chief Financial Officer
(£'000)


● Total fixed remuneration ● Retained Share Award ● Deferred Share Award

No cash bonuses were awarded for performance year 2021. There were no vestings under the LTIP.

## PAY FOR PERFORMANCE AT A GLANCE

The following table shows the outcomes of the 2021 balanced scorecard which is used to determine annual variable reward outcomes.

| | | THRESHOLD – TARGET – MAXIMUM | 2021 WEIGHTED PERFORMANCE OUTCOME |
|---|---|---|---|
| **Financial** | Underlying loss before tax (£'million) | | 60% |
| | Statutory cost: income ratio (%) | | 0% |
| | Loan to Deposit Ratio (%) | | 0% |
| **Risk & Regulatory** | Key measures relating to Internal Audit, credit quality – arrears and compliance training | | 20% |
| **Customer** | Net Promoter Scores, and expressions of dissatisfaction | | 11.50% |
| **People** | Diversity and being a 'good place to work' | | 10.60% |

● Actual performance ● Range from threshold to maximum

# Remuneration Committee governance

### The Directors' Remuneration Policy

The following table summarises how the Remuneration Policy fulfils the factors set out in provision 40 of the 2018 UK Corporate Governance Code. Minor amendments were made to the policy during 2021 to ensure it is gender neutral and to explicitly confirm that we do not operate any discretionary pension benefits.

| | |
|---|---|
| *Clarity*<br>Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce. | The Committee is committed to providing open and transparent disclosures to shareholders and colleagues with regard to Executive Director remuneration arrangements.<br><br>Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our Designated Non-Executive Director for Colleague Engagement. |
| *Simplicity*<br>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*<br>Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated. | In line with regulatory requirements, our remuneration practices promote sound and effective risk management whilst supporting our business objectives.<br><br>For 2022, 20% of our balanced scorecard which informs variable reward will be based on risk and regulatory measures, and variable reward is also subject to a risk adjustment process and input from the Chief Risk Officer and the Chief People Officer.<br><br>The deferred portion of any bonus awards granted to Executive Directors vest between years three and seven, during which our malus policy can be applied.<br><br>Awards made under the separate LTIP also vest over a seven year period, assuming performance conditions (of which one is a risk-based measure) have been met. Our malus policy can be applied to the LTIP throughout the vesting.<br><br>All variable pay awards that have vested are subject to our clawback policy for a period of up to seven years from the award date (extending to 10 years where an investigation is ongoing). |
| *Predictability*<br>The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy. | Variable reward is delivered primarily through share based awards. The value of awards are therefore closely aligned to share price movements and the shareholder experience.<br><br>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*<br>The link between individual awards, the delivery of strategy and the long term performance of the company should be clear. Outcomes should not reward poor performance. | Variable reward payments require robust performance against challenging 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.<br><br>The Committee has discretion to override formulaic scorecard outcomes to ensure that they are appropriate and reflective of overall performance. |
| *Alignment to culture*<br>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.<br><br>The variable reward pool for any year is based on the overall performance of the Bank in terms of culture and delivery in line with the balanced scorecard.<br><br>All colleagues are able to participate in our HMRC approved SIP scheme, which supports our ethos of colleague buy-in and ownership. |

# Remuneration Committee governance continued

### The Directors' Remuneration Policy – summary

This section of the report summarises the remuneration policy for the Company's Directors, how it was implemented in 2021 and how it is intended to operate in 2022. The policy was approved by shareholders at the AGM on 18 May 2021 and took effect from that date, in accordance with section 439A of the Companies Act 2006. It is intended that approval of the Remuneration Policy will be sought at three-year intervals, unless amendments to the policy are required, in which case further shareholder approval will be sought; no changes are proposed for 2022. The approved Remuneration Policy can be found in the Governance section on the company's website a https://www.metrobankonline.co.uk/globalassets/documents/investor_documents/remuneration-policy.pdf.

| Key elements of remuneration | Key features of the Policy | Implementation for 2021 | Planned for 2022 |
|---|---|---|---|
| **Salary** | – Reviewed annually and increases will normally be in line with increases awarded to other colleagues<br>– There may be instances where a higher amount is agreed at the discretion of the Remuneration Committee, for example where the size and scope of a particular role is increasing as the organisation grows | – Daniel Frumkin (CEO): £740,000<br>– David Arden (CFO): £405,000 | – 4.0% salary increase for the CEO which is below the average salary increase for the wider workforce<br>– N/A for the CFO |
| **Benefits** | Core benefits include:<br>– Life assurance of 4x salary<br>– Private medical insurance for the Executive Director, their partner and children<br>– Additional benefits may be provided in certain circumstances such as on relocation | – Benefits are provided in line with the approved Policy | – Core benefits will be unchanged from previous year |
| **Pension** | – Executive Directors are automatically enrolled into our Group Personal Pension Plan when they join the Bank. If they have exceeded the lifetime allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit<br>– We do not operate any discretionary pensions | Company contributions:<br>– Daniel Frumkin (CEO): 8% of salary<br>– David Arden (CFO): 10% of salary | – Unchanged for the CEO<br>– N/A for the CFO<br>– The median employer pension contribution rate available to the wider workforce is 8% |
| **Annual Bonus** | – Variable reward will be limited to 200% of salary for a financial year. Within this overall limit, annual bonus to be limited to 100% of salary for a financial year<br>– Deferral of all variable reward (annual bonus and LTIP) will be in line with regulatory requirements.<br>– Subject to malus and clawback.<br>– Executive Directors must undertake not to use personal hedging strategies or take out contracts of insurance to undermine the risk alignment embedded in their remuneration | – Scorecard had a CET1 gateway requirement<br>– 60% Financial (PBT, Cost: Income ratio, Loan to Deposit ratio)<br>– 20% Risk & Regulatory<br>– 10% Customer (net promoter score, expressions of dissatisfaction)<br>– 10% Colleague (Engagement, Diversity)<br>Balanced scorecard outcome of 102.1% with discretion applied by the Remuneration Committee to reduce the outcome to 85% | – Bank-wide balanced scorecard will be similar to the previous year, except that the Loan to Deposit ratio will change to a capital measure<br>– Performance ranges will be disclosed in next year's Annual Report |

| Key elements of remuneration | Key features of the Policy | Implementation for 2021 | Planned for 2022 |
|---|---|---|---|
| **Long Term Incentive Plan (LTIP)** | – Variable remuneration will be limited to 200% of salary for a financial year. Within this overall limit LTIP to be limited to 100% of salary for a financial year<br>– Performance to be measured ordinarily over a three-year period, with vesting between years 3 to 7. LTIP shares will be subject to a post-vesting retention period<br>– The performance conditions have been aligned to the Strategic Plan and the performance range for these measures will be set to be stretching<br>– Subject to malus and clawback<br>– Executive Directors must not undertake to use personal hedging strategies or take out contracts of insurance to undermine the risk alignment embedded in their remuneration | – The first grant of LTIP in 2021 had a four year performance period 2021-2024 to align with the strategic plan<br>– Daniel Frumkin (CEO): 100% of salary<br>– David Arden (CFO): 100% of salary<br>– See table on page 146 for details of the performance conditions | – LTIP grant for the CEO of 100% salary and 0% salary for the CFO<br>– Future LTIP grants will have a 3 year performance period.<br>– Different performance measures and weighting may be set for future awards to ensure that the LTIP remains aligned to the Company's strategy |
| **All employee Share Incentive Plan** | – Tax-efficient all employee plan to encourage broader employee share ownership<br>– Executive Directors are eligible to participate in the all-employee Share Incentive Plan | – The lower of £1,800 or 10% of salary per tax-year can be used to purchase Metro Bank shares | – All-employee SIP to be extended to include Matching Shares |
| **Shareholding guidelines** | – Executive Directors are subject to a minimum shareholding requirement equivalent to 200% of salary.<br>– Executive Directors are expected to retain all shares vesting under the Deferred Plan and the LTIP (net of tax) until such time as this shareholding requirement has been met. Build up is expected over a period of five years commencing with the later of this policy commencement date or the date the Executive Director joins the Company.<br>– Executive Directors are expected to maintain the shareholding requirement (or their actual shareholding at date of leaving, if lower) for at least two years post-employment. For awards granted from the commencement of this policy, the Company will enforce this by way of a contractual requirement | – Daniel Frumkin (CEO): current shareholding of 2,350,000 shares (£2,258,350 based on share price on 31 December 2021 of 96.10p)<br>– David Arden (CFO): current shareholding of 18,400 shares (£17,682 based on share price on 31 December 2021 of 96.10p) | – The CEO has met his shareholding requirement<br>– The CFO will continue to hold his shareholding for two years post-employment and will be required to retain any shares exercised on a net-of-tax basis for two years until he has reached the minimum requirement |
| **Non-Executive Directors** | – All Non-Executive Directors receive a basic annual fee for fulfilling their duties as a Board member<br>– Additional fees are paid for added responsibilities such as chairship and membership of Committees, or acting as the Senior Independent Director<br>– The basic and additional fees are reviewed periodically, drawing on external market information for comparable financial services groups and companies | – Our Non-Executive Directors are paid in line with the approved Policy<br>– The basic annual fee paid to all Non-Executive Directors remained unchanged at £52,500<br>– The annual fee for the Chair remained unchanged at £350,000 | – The basic annual fee paid to all Non-Executive Directors will change to £65,000, with a reduction in fees for additional responsibilities<br>– The annual fee for the Chair remains unchanged at £350,000 |

## Remuneration for colleagues below Board level

Metro Bank is committed to ensuring our 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 Remuneration 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 Executive Committee level is similar for all colleagues. Whilst remuneration for the Executive Committee is structured differently to that of the wider colleague population, it is consistent across this small cadre of colleagues. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business whilst discouraging unnecessary risk taking.

# Remuneration Committee governance continued

### Summary of the Remuneration Structure for colleagues below board level

| Salary | Benefits | Pension | Variable remuneration |
|---|---|---|---|
| – We have a salary increase budget usually in the range of 2.5% of salary cost. For this year only, to recognise the internal and external environment in which we operate, the average salary increase for colleagues was 5.0%<br>– The quantum of salary increases are primarily driven by individual behaviours and capability<br>– 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<br>– All colleagues, including the Executive Committee, receive Life Assurance cover of four times their base annual salary | – All colleagues can participate in our Group Personal Pension Plan when they join the Bank. If they have exceeded the lifetime allowance or the annual pension tax-free contribution limit, they may elect to take cash in lieu of pension for all or some of the benefit<br>– Employer pension contributions payable by Metro Bank is dependent on the colleague's level and ranges from 6% – 10%. | – We apply the same Company performance adjustment factor to all colleagues<br>– For all colleagues whose personal behaviours and delivery are as expected or better, we apply an adjustment factor up to a maximum of 200%<br>– Where appropriate and required by regulations, variable remuneration is deferred and delivered in shares. |

### Consideration of employment conditions elsewhere in the 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 approach to remuneration is consistent for all colleagues including our Executive Directors. The focus is on simplicity, rewarding the right behaviours and outcomes for customers and the business, focusing on long term growth and discouraging unnecessary risk-taking.

During the year, the Remuneration Committee received updates on overall pay and conditions for colleagues across the Bank and this was taken into account when setting pay for Directors. In particular, the base salary for Executive Directors is limited by reference to colleague pay, and ahead of our annual reward review process, the Remuneration Committee opines on the quantum to be made available for salary increases, annual bonus awards, awards under the Deferred Variable Reward Plan and the Long Term Incentive Plan.

Colleagues are able to express their views on pay through regular surveys and feedback, as well as through our Designated Non-Executive Director for Colleague Engagement.

### Workforce engagement

Metro Bank runs annual employee engagement surveys, as well as more regular 'pulse' surveys which enables colleagues 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 Remuneration Committee. Sally Clark was appointed as the Designated Non-Executive Director to lead colleague engagement on behalf of the Board on 19 May 2020 and throughout the year has met with a range of colleagues across all levels and regions to hear their views on the Company, culture and working environment. A number of Non-Executive Directors also met with employees around the UK to broaden the reach of colleague engagement activities. As part of this engagement, Sally has taken the opportunity to explain to colleagues the role of the Board and its delegated Committees, including the role of the Remuneration Committee in setting executive pay.

### Approach to recruitment remuneration

The Remuneration Committee's overarching principle for recruitment remuneration is to pay reasonably to attract an Executive Director of the calibre required to shape and deliver the business strategy, from a diverse talent pool. The Committee will seek to align any remuneration package with our remuneration policy as laid out above but retains the discretion to offer a remuneration package which is necessary to meet the individual circumstances of the recruited Executive Director and to enable the hiring of an individual with the necessary skills and expertise. People diversity in all its forms is a core element of our talent strategy and succession planning.

## Loss of office policy

For each component of pay, the amount paid to an Executive Director on termination will be determined as follows:

| Component of pay | Determination |
|---|---|
| **Salary/fees and benefits** | The Executive Director is entitled to be given notice of termination of the relevant length and receive their normal base salary and benefits in that time. The Bank has discretion to make a payment in lieu of base salary in respect of any unexpired notice period and may decide to pay this in instalments, subject to reduction if the Executive Director finds alternative employment. Benefits will continue until the last day of contractual employment and the accrued but unused holiday will be paid out.<br><br>Appropriate outplacement and legal support will be provided where required. |
| **Variable remuneration** | Variable remuneration may accrue during a notice period, however (unless decided otherwise by the Remuneration Committee at its discretion) the Executive Director usually has to be employed at the date that any variable remuneration is awarded in order to be eligible to receive it. No variable remuneration is payable after termination and previous unvested variable reward deferred into share awards will usually lapse.<br><br>However, if the Executive Director leaves for the reasons detailed in the Deferred Variable Reward Plan and Long Term Incentive Plan Rules (e.g. ill health, retirement with the agreement of the employer, sale of the employing company out of the group, redundancy or death) or in other circumstances at the discretion of the Remuneration Committee, their award under that plan will usually continue on the same terms (subject to reduction and clawback as described in the policy) and usually vest at the normal time provided any performance conditions are met with a time pro rata reduction of LTIP awards.<br><br>The Committee may, at its discretion, determine that awards may vest, subject to performance, before the normal vesting date. If a participant dies, awards will ordinarily vest, subject to performance, on the date of death unless the Committee decides they should vest on the normal vesting date. |
| **Pension** | Pension contributions continue to be made during the notice period. No further payment in lieu of pension or pension contributions can be made after termination. Any benefits will become payable in the normal course in accordance with the rules of the scheme. There is no right to early payment of pension benefits unless this can be done without additional contribution from the Bank. |
| **Post-cessation shareholding requirements** | Executive Directors will be required to maintain the lower of the in-employment shareholding requirement of 200% of salary or the level achieved at the cessation date for a period of two years post-cessation. |

The Bank's policy is that Executive Directors' contracts can be terminated by either party on giving no more than 12 months' notice.

Additional payments can be made by way of damages for breach of any legal obligation or by way of settlement or compromise of any claim raised by the Executive Director.

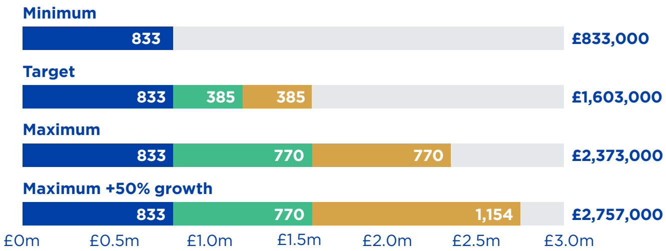
The Executive Directors' service contracts and letters of appointment are available for inspection on request at the Company's registered office.

# Remuneration Committee governance continued

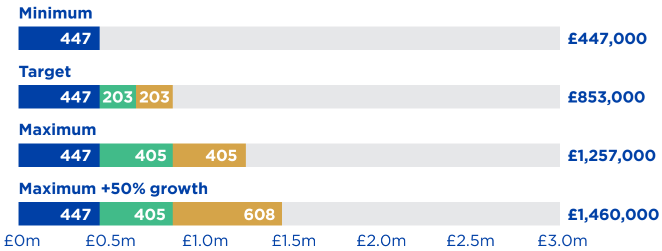
## Projected total remuneration scenarios[1]

The graphs below illustrate scenarios for the projected total remuneration of Executive Directors at four different levels of performance: minimum, target, maximum, and maximum including assumed share price appreciation of 50% (in accordance with the Corporate Governance Code). The impact of potential share price movements is excluded from the other three scenarios. These charts reflect projected remuneration for the financial year ending 31 December 2022.

**Daniel Frumkin** Chief Executive Officer
(£'000)




**David Arden** Chief Financial Officer[2]
(£'000)




● Fixed pay ● Annual bonus ● Long-term incentives

Note
1. These illustrations are based on salaries as at 1 April 2022 and consider the cash amount of annual variable remuneration before conversion into share awards. No account is taken of the effect of share price changes or dividends on the value received from share awards or shares received under them
2. David Arden's projected remuneration has been shown for illustration purposes.

# Annual report on remuneration

## Annual report on remuneration

This section sets out how the Remuneration Policy for our Executive and Non-Executive Directors was implemented during the financial year ending 31 December 2021. This section will, together with the annual statement by the Chair of the Remuneration Committee on pages 126–129, be put to shareholders for an advisory vote at the 2022 AGM.

## Single total figure of Remuneration – Executive Directors (audited)

**Annual remuneration (£)**

The following sets out the remuneration for the individuals who served as Executive Directors in the year.

| | Daniel Frumkin | | David Arden | |
|---|---|---|---|---|
| Audited | 2021 | 2020 | 2021 | 2020 |
| Salary [1] | £740,000 | £714,833 | 405,000 | £394,875 |
| Taxable benefits [2] | £1,001 | £1,001 | £400 | £400 |
| Pension benefits [1, 3] | £59,200 | £57,253 | £40,500 | £39,488 |
| Other [4] | £875 | £875 | £787 | £768 |
| Total fixed remuneration | £801,076 | £773,962 | £446,687 | £435,531 |
| Annual variable pay awarded in retained shares [5] | £547,600 | £0 | £103,275 | £0 |
| Annual variable pay awarded in deferred shares [6] | £81,400 | £523,214 | £154,913 | £288,968 |
| Total variable remuneration [7,8] | £629,000 | £523,214 | £258,188 | £288,968 |
| Total remuneration | 1,430,076 | £1,297,176 | £704,875 | £724,499 |

Notes:
1. Both Daniel Frumkin and David Arden volunteered salary reductions in May, June and July 2020 in light of the COVID-19 pandemic. This also impacted their pension contributions. Salaries were reduced by 10% with a further 10% deferment for a period of three months. In respect of Daniel Frumkin, his salary also reflects his time as Interim CEO between 1 January and 18 February 2020.
2. Taxable benefits include private medical insurance.
3. Pension contributions for the Executive Directors may be paid into the Group Personal Pension Plan or paid as a cash in lieu of pension allowance. Daniel Frumkin personally contributes to the pension scheme up to legislative limits and receives a cash allowance of 8% of salary in lieu of company pension contributions. David Arden has opted out of the pension scheme as he has reached the lifetime allowance and receives a cash allowance of 10% of salary.
4. This is made up of non-taxable benefits provided to the Executive Directors and includes life assurance, Group income protection and an annual health check.
5. Delivered in retained shares that vest immediately and are subject to a 12 month retention period.
6. Delivered in line with the Deferred Variable Reward Plan (DVRP) as deferred shares, subject to continued service.
7. No cash bonus has been awarded for performance year 2021. Daniel and David's 2020 awards have been calculated using their annual salaries as opposed to adjusted salaries in respect of COVID-19. The voluntary waiver was made in respect of salary payments; the base salary used for calculating variable reward was unchanged by this voluntary waiver.
8. David Arden's total variable reward has been reduced by 25% in line with his termination agreement on resignation.

## Details of the single figure salary (audited)

| | Salary as at 1 January 2021 | Salary as at 1 April 2021 | Total salary paid in 2021 |
|---|---|---|---|
| Daniel Frumkin | £740,000 | £740,000 | £740,000 |
| David Arden | £405,000 | £405,000 | £405,000 |

## 2021 variable reward outcomes (audited)

Variable reward outcomes across all colleagues is determined as follows:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Salary | x | On target variable remuneration | x | Bank-wide balanced scorecard outcome "Company performance adjustment factor" (0%–120%) | x | Individual AMAZEING Review rating multiplier "Individual adjustment factor" (0%–200%) | = | Proposed variable remuneration |

All colleagues', including Executive Directors', annual bonus in relation to performance during 2021 was based on a balanced scorecard of performance measures and objectives, weighted between financial (60%), risk & regulatory (20%), customer (10%) and people (10%). The on target variable remuneration for Executive Directors is 100% of salary.

At the January 2022 Remuneration Committee meeting, the Committee approved a balanced scorecard outcome of 85% versus an actual outcome of 102.1%. The Committee decided to use its discretion to lower the outcome, taking into account following considerations:

- Shareholder experience – we are disciplined in our approach to remuneration, and this is particularly true until there is sustained improvement to the share price.
- Underlying performance of the Bank and progress against strategic priorities – we are delivering ahead of our turnaround plan.
- Hard work and dedication of our colleagues – colleagues and the management team have continued to work incredibly hard during the pandemic. We are mindful of the need to maintain the wellbeing and motivation of our colleagues.
- Affordability and our current loss-making position.

# Annual report on remuneration continued

The Committee wanted to strike the right balance between the interests of our shareholders, and rewarding our colleagues for the progress made while encouraging them to maintain the momentum in the results. A result of 85% was felt to be the right compromise between these interests.

The Committee felt it appropriate to offer variable reward to colleagues. However, there will be no cash bonus awards made to the Executive Directors for 2021.

The tables below illustrate 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 Company performance adjustment factor can range from 0% to 120%.

Amounts shown reflect the total annual bonus paid in 2022, based on performance in the financial year ending 31 December 2021, including the value of any retained shares and deferred shares under the Deferred Variable Reward Plan (DVRP).

## Financial Performance

| Performance measure | Weighting | Threshold performance | Target performance | Maximum performance | Actual performance outcome | Weighted performance outcome |
|---|---|---|---|---|---|---|
| Underlying loss before tax (£'million)[1] | 50% | 238,040 | 216,400 | 194,760 | 171,300 | 60% |
| Loan to Deposit Ratio (%)[2] | 5% | 96.36% | 87.60% | 78.84% | 75.75% | 0% |
| Statutory cost: income ratio (%) | 5% | 149.38% | 135.80% | 122.22% | 153.0% | 0% |
| **Total for financial measures** | **60%** | | | | | **60%** |

1. For underlying loss before tax and statutory cost: income ratio, 80% of 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).
2. For the Loan to Deposit Ratio, 80% of weighting is applied for threshold and maximum performance. With the maximum of 120% adjustment factor applied for target performance. 0% is payable where performance is above maximum.

## Non-Financial Performance

| | Objectives | Key achievements in 2021 | Weighting | Weighted performance outcome |
|---|---|---|---|---|
| **Risk & Regulatory** | Key measures relating to Internal Audit, credit quality – arrears and compliance training | Risk has remained stable during 2021 with risk impairment showing a favourable variance to budget throughout the year. The relationship with the regulators has been collaborative throughout the year and progress was made in addressing regulatory concerns including: governance, risk management capability and assurance/oversight. | 20% | 20% |
| **Customer** | Key measures relating to Net Promoter Scores, and expressions of dissatisfaction | – Account openings received high performing scores consistently throughout the whole year.<br>– Relationships had higher performance scores in the first half of 2021 than the second half.<br>– Expressions of Dissatisfaction were within target range and declined throughout the year. | 10% | 11.5% |
| **People** | Key measures relating to diversity and being a 'good place to work' | – Colleague engagement scores were well above threshold with notable achievements compared to the global benchmarks and in the number of colleague comments.<br>– On diversity, the Bank ended the year above target for female representation in the senior leadership population. The Bank also showed progress on the number of Black, Asian and Minority Ethnic individuals in the senior leadership population, with increased representation from the start of the year. | 10% | 10.6% |

Note: 80% of 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).

### Overall Balanced Scorecard Outcome prior to the exercise of Committee discretion

| | Weighting | Weighted performance outcome |
|---|---|---|
| A Financial | 60% | 60% |
| B Risk & Regulatory | 20% | 20% |
| C Customer | 10% | 11.5% |
| D People | 10% | 10.6% |
| **Total** | **100%** | **102.1%** |

Based on the assessment of performance against the balanced scorecard outcomes outlined above, and a number of other factors, the Committee applied downward discretion resulting in a 85% company performance adjustment factor for performance year 2021.

## Individual Behaviours and Performance Adjustment Factor

A discretionary adjustment factor was applied to variable reward for all eligible colleagues, by reference to each colleague's individual behaviours and performance for the year. Below we set out details of the individual adjustment factor in respect of our Executive Directors for 2021 which was determined by the Remuneration Committee.

| Key objectives in 2021 | Key achievements in 2021 | Individual behaviours and performance adjustment factor |
|---|---|---|
| **Daniel Frumkin** | | |
| – Financial<br>– Customer<br>– People<br>– Risk & Regulatory | Daniel has continued to perform strongly during 2021. Under his leadership the Bank has delivered demonstrable progress against its strategic objectives, moving closer towards a return to profitability. Despite a difficult 12 months for the economy and SME's, the Bank has maintained its unrelenting focus on customers as demonstrated by the most recent CMA results, reduced expected credit loss expense significantly, produced strong results across our new unsecured lending proposition, and maintained excellent levels of colleague engagement. Daniel has demonstrated his leadership skills to motivate and drive performance across all areas of he Bank. A summary of his performance is set out below:<br>**Financial**<br>– Underlying loss before tax was £41m favourable to budget and £97m better than last year. The shift in lending mix lays the foundation for the path back to profitability.<br>– Demonstrably improved focus on cost efficiency and discipline.<br>**Customer**<br>– Maintained our number one ranking for customer service in the recent CMA results, which provides evidence the Bank's customer focused culture has remained strong.<br>– Successful integration of RateSetter and the launch of Metro Bank's Consumer Finance division, driving strong financial performance.<br>– Management of the Bank's continued response to COVID-19 ensuring customers were fully supported by keeping our stores and Amaze Direct sites open.<br>– Improved operational resilience, improved lending processes in stores, enhanced digital offering, new online journeys for business account opening introduced.<br>– Maintained a positive relationship with our equity and debt holders.<br>**People**<br>– Strong colleague engagement scores from the Voice of the Colleague survey which are aligned with the external global benchmark. While there is work to do to address the feedback identified, the strong scores during a pandemic are a testament to the pervasive culture at the Bank.<br>– Successfully introduced hybrid working.<br>**Risk & regulatory**<br>– Continued improvement in the Bank's risk and control environment creating a stronger foundation to build upon. Whilst there is still more to do, tangible progress has been made over the last 12 months.<br>– Enhanced the rigour, challenge and oversight of a number of key issues including conduct, collections, complaints and vulnerable customers.<br>– Delivered operational improvements across financial crime and regulatory reporting.<br>– Increased investment in cyber crime, fraud tooling and an enhanced IT infrastructure.<br>– Relationships with our Regulators remained strong; including submission of high quality AIRB submissions. | 150% |
| **David Arden** | | |
| – Financial<br>– Customer<br>– People<br>– Risk & Regulatory | 2021 has been a strong year for David and he continued to make progress against the turnaround plan. A summary of his performance is set out below:<br>**Financial**<br>– Driven financial forecasts to enable various corporate transaction discussions to occur.<br>**Customer**<br>– Collectively engaged in 120 investor meetings during the year.<br>**People**<br>– Continued to build capability and capacity in his team and to further enhance the control environment.<br>**Risk & Regulatory**<br>– Worked hard with the regulator to build credibility around capital contingency plans and with the Treasury team/Bankers to make sure the Bank is positioned to proceed if necessary.<br>– Played a meaningful role in ensuring that the AIRB modules were submitted to a high standard | 100% |

# Annual report on remuneration continued

## Calculation of Variable Pay for the Executive Directors

| Executive Director | Salary for variable reward | Company performance adjustment factor[1] | Individual behaviours and performance adjustment factor | Company and individual performance adjustment outcome | Remuneration Committee discretionary adjustment (Company) | Remuneration Committee discretionary adjustment (Individual) | Company and individual performance adjustment outcome after discretion | Maximum opportunity (as % of salary) | Annual variable reward |
|---|---|---|---|---|---|---|---|---|---|
| Daniel Frumkin | £740,000 | 102.1% | 150% | 153.15% | 85% | 100% | 85.00% | 100% | £629,000 |
| David Arden[2] | £405,000 | 102.1% | 100% | 102.10% | 85% | 75% | 63.75% | 100% | £258,188 |

1. The corporate adjustment factor of 102.1% was adjusted to 85% after the Remuneration Committee applied discretion and took into account 2021 financial performance, the external environment and the impact of COVID-19.
2. David Arden resigned effective 1 April, his termination agreement included a total annual variable reward of £258,188.

In recognition of the corporate balanced scorecard outcome and a holistic review of personal performance and contribution for 2021, the Remuneration Committee agreed an annual bonus outcome for the CEO of 85% of salary. In addition, as a result of 2021 performance, an LTIP award of 100% of salary has been granted to the CEO.

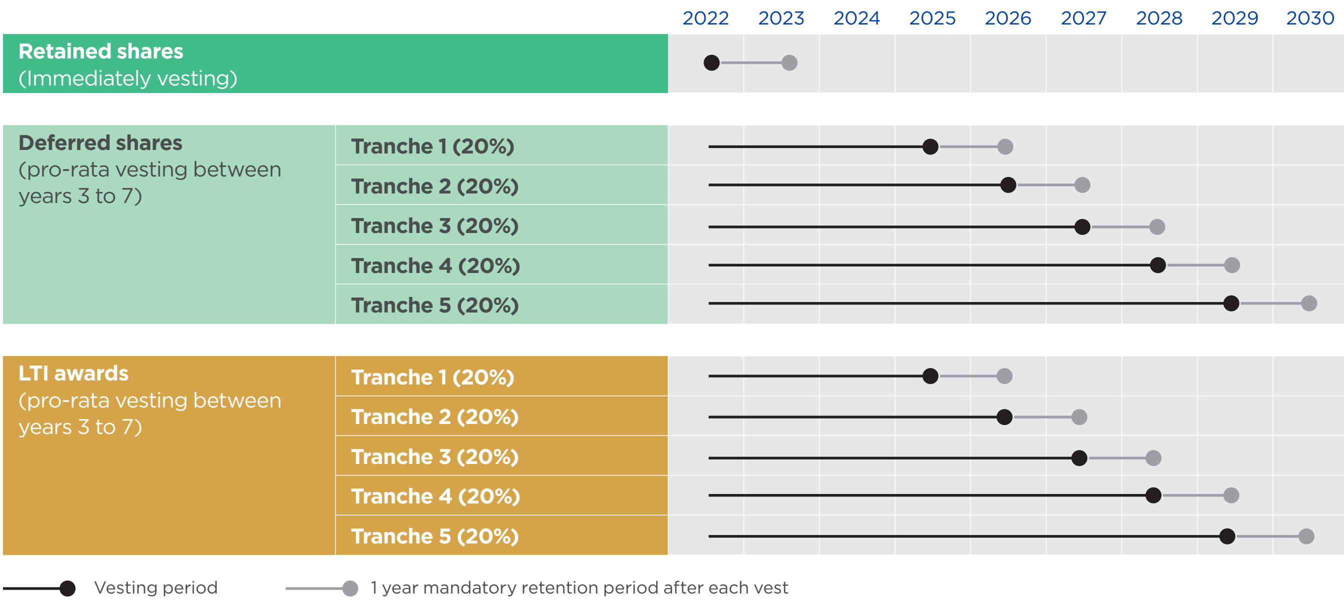
The award of the 2022 LTIP was made in March 2022 at a time following share price depreciation. The market share price was down on the prior year grant due to various external factors, which we believe were mostly not specific to Metro Bank. Under the LTIP, the Committee has full discretion to ensure 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.

David Arden stepped down as CFO on 15 February 2022 and will leave the business on 1 April 2022. In relation to the 2021 performance year, and in light of his pending departure, the Committee awarded variable remuneration to David but based on a 25 percent reduction in his potential entitlement and on the basis that no 2022 LTIP award will be made.

These awards contribute to the Executive Directors building up their Shareholding Requirement. All share awards are subject to malus and clawback provisions.

## How Variable Reward is paid

| Executive Director | Total 2021 variable reward | Element of variable reward | Value | Method of delivery |
|---|---|---|---|---|
| Daniel Frumkin | £1,369,000 | Cash | £0 | – Paid immediately in cash |
| | | Retained share award | £547,600 (40% of total variable reward) | – Shares that are granted immediately and subject to a mandatory 12 month retention period |
| | | Deferred share award | £81,400 (6% of total variable reward) | – Shares that vest over a 7 year period, pro-rata<br>– No vesting is permitted before the third anniversary with pro-rata vesting from year 3 to year 7. Vesting is subject to continued service.<br>– Each vest is subject to a mandatory 12 month retention period<br>– No performance conditions attached<br>– The sum of the Deferred share award and the LTI award equals 60% to satisfy regulatory requirements |
| | | LTI award | £740,000 (54% of total variable reward) | – Shares that are subject to the satisfaction of performance conditions over a 3 year performance period<br>– Pro-rata vesting from year 3 to year 7<br>– Each vest is subject to a mandatory 12 month retention period<br>– The sum of the Deferred share award and the LTI award equals 60% to satisfy regulatory requirements |
| David Arden | £258,188 | Cash | £0 | – Paid immediately in cash |
| | | Retained share award | £103,275 (40% of total variable reward) | – Shares that are granted immediately and subject to a mandatory 12 month retention period |
| | | Deferred share award | £154,913 (60% of total variable reward) | – Shares that vest over a 7 year period, pro-rata<br>– No vesting is permitted before the third anniversary with pro-rata vesting from year 3 to year 7. Vesting is subject to continued service.<br>– Each vest is subject to a mandatory 12 month retention period<br>– No performance conditions attached |
| | | LTI award | £0 | – Shares that are subject to the satisfaction of performance conditions over a 3 year performance period<br>– Pro-rata vesting from year 3 to year 7<br>– Each vest is subject to a mandatory 12 month retention period |




## Change in Directors' remuneration compared with colleagues

The table below sets out the percentage change in salary and variable reward between 2020 & 2021 and 2019 & 2020 for Directors compared with the wider colleague population.

Executive Committee (excluding Executive Directors) salaries increased at a lower rate than the wider colleague population year on year.

**Annual percentage change in remuneration**

| | Average change between 2020 and 2021 | | | Average change between 2019 and 2020 | | |
|---|---|---|---|---|---|---|
| | Salary/Fees | Taxable benefits | Variable reward | Salary/Fees | Taxable benefits | Variable reward |
| All colleagues | 5.6% | 4.4% | 23.8% | 4.7% | 23.9% | 41.1% |
| CEO[1] | 3.5% | 0.0% | 20.2% | (4.7%) | 12.5% | 100.0% |
| CFO[2] | 2.6% | 0.0% | (10.7%) | (2.2%) | 12.5% | 150.4% |
| Executive Committee | 3.8% | (11.5%) | 33.8% | 3.0% | 8.5% | 266.5% |
| Robert Sharpe[3] | 500.0% | 0.0% | n/a | n/a | 0.0% | n/a |
| Catherine Brown | 7.9% | 0.0% | n/a | 13.8% | 0.0% | n/a |
| Sally Clark | 16.9% | 0.0% | n/a | n/a | 0.0% | n/a |
| Anne Grim | 104.6% | 0.0% | n/a | n/a | 0.0% | n/a |
| Ian Henderson | 65.2% | 0.0% | n/a | n/a | 0.0% | n/a |
| Monique Melis[4] | (20.7%) | 0.0% | n/a | 40.6% | 0.0% | n/a |
| Sir Michael Snyder[5] | (68.3%) | 0.0% | n/a | 75.8% | 0.0% | n/a |
| Paul Thandi | 0.0% | 0.0% | n/a | 6.6% | 0.0% | n/a |
| Michael Torpey | 3.0% | 0.0% | n/a | 246.6% | 0.0% | n/a |
| Nicholas Winsor | 56.3% | 0.0% | n/a | n/a | 0.0% | 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. Executive Directors did not receive a salary increase in 2021.
2. David Arden volunteered salary reductions in May, June and July 2020 in light of the COVID-19 pandemic. David's termination agreement included a total annual variable reward of £258,188. Executive Directors did not receive a salary increase in 2021.
3. Robert Sharpe became Chair of the Board on 1 November 2020.
4. Monique Melis was interim Senior Independent Director in 2020.
5. Sir Michael Snyder undertook the role of interim Chair from 23 October 2019 to 31 October 2020. He stepped down from his role on 31 October 2021.

# Annual report on remuneration 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2021 | A | 55:1 | 40:1 | 22:1 | £740,000 | £22,700 | £30,100 | £62,200 | £1,430,100 | £26,000 | £36,000 | £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 |

Note:
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.

Payroll data from 1 January to 31 December 2021 was used to calculate the lower, median and upper-quartile colleagues. We used the 'single figure' approach (Option A) to calculating total remuneration for all colleagues employed on 31 December 2021. This methodology was chosen as it is the most straightforward approach.

Three colleagues were identified whose full-time equivalent total remuneration places them at the 25th, 50th and 75th percentiles. Colleague total remuneration includes salary, allowances, employer pension contributions, Company-funded health and risk benefits, referral bonuses as well as total variable reward awarded in 2022 in respect of the 2021 performance year. All elements were calculated on a full-time equivalent basis. We are confident that the colleagues identified at the lower, median and upper quartiles are remunerated in line with the Company's wider policies on colleague pay, reward and progression.

## Relative importance of spend on pay

The table below shows total remuneration of all colleagues for 2021 compared to 2020. This data is taken from the people costs in our financial statements and excludes social security and pension costs.

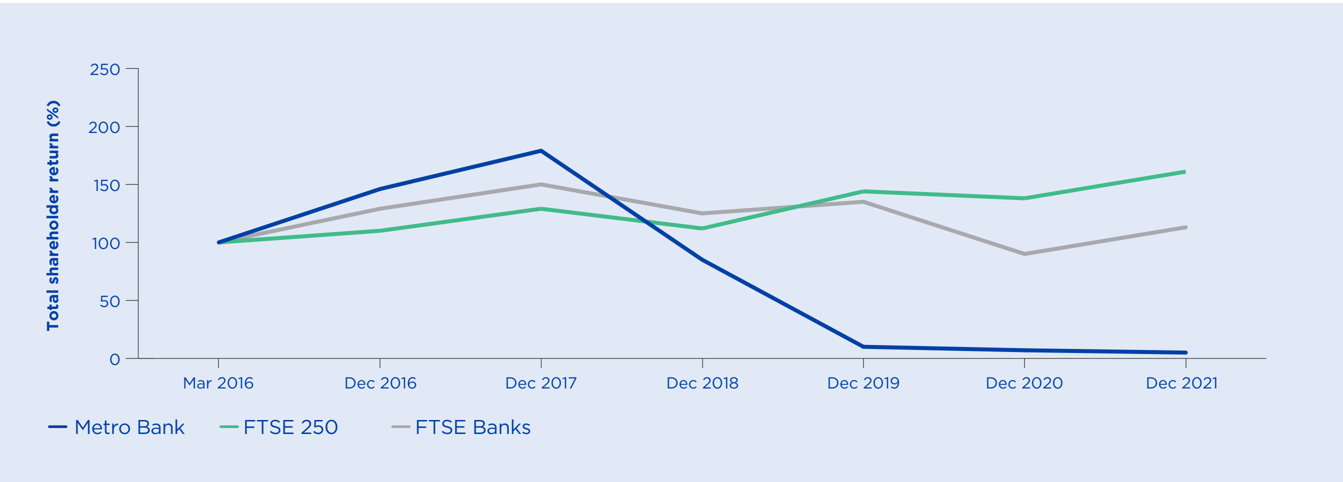
| | 2021 £'million | 2020 £'million | % change |
|---|---|---|---|
| Employee costs | 201.2 | 166.9 | 20.6 |

Employee costs have increased as a result of the average salary figure increasing across the Bank between 2020 and 2021. Colleague headcount has increased across the Bank, with the sharpest rise in specialist professional roles, supporting the delivery of strategic projects and strengthening regulatory controls.

We 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.

## Total Shareholder Return

The chart shows our total shareholder return (TSR) relative to the FTSE 250 and the FTSE 350 banks (which is the capitalisation-weighted index of all bank stocks in the FTSE 100 and FTSE 250) since our listing on the London Stock Exchange in March 2016. These indices have been chosen as they represent a cross-section of UK companies and banks.



## CEO historic remuneration

| CEO historic remuneration | Daniel Frumkin 2021 | Daniel Frumkin 2020 | Craig Donaldson 2019 | Craig Donaldson 2018 | Craig Donaldson 2017 | Craig Donaldson 2016 | Craig Donaldson 2015 |
|---|---|---|---|---|---|---|---|
| Total remuneration (including any Listing awards) | £1,430,076 | £1,297,176 | £828,565 | £800,944 | £1,518,893 | £1,304,919 | £2,661,474 |
| Variable reward outcome as a percentage of the maximum that could have been paid | 85% | 35.7% | 0% | 0% | 62% | 52% | n/a |

1. Daniel Frumkin took up the position of Interim CEO on 1 January 2020 and became permanent CEO on 19 February 2020.
2. Daniel Frumkin volunteered to forgo any cash bonus for 2020 and 2021 performance. Variable pay for 2020 was delivered in shares in the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service. Variable pay for 2021 was delivered in retained shares which vest immediately subject to a one year retention period and deferred shares under the Deferred Variable Reward Plan with vesting pro rata between years three and seven subject to continued service.
3. The figure for 2019 takes into account zero variable reward for Craig Donaldson in light of the Committee agreeing that Craig will not be awarded variable remuneration in respect of the 2019 performance year.
4. As disclosed in the Prospectus and 2016 Annual Report, Craig Donaldson received a higher variable reward for 2015 in the form of share awards, granted in March 2016, in recognition of his significant contribution to the successful private placement and admission of Metro Bank to the London Stock Exchange, as well as his performance in 2015. No other variable reward for the 2015 performance year was awarded. The Listing Share Award is subject to continued employment and no further performance conditions apply to vesting. The vesting of these share awards will be frozen pending further internal analysis and any external investigations into the RWA adjustment.
5. Under the current Remuneration Policy, approved by shareholders at the 2021 AGM, total variable reward is capped at 200% of salary.

## Non-Executive Directors' Remuneration

### Chair's fees

The fees for the Chair remain unchanged at £350,000.

### Non-Executive Directors' fees

The Non-Executive Directors are paid a basic fee, with further fees payable to reflect Board Committee memberships and chairships and/or additional responsibilities such as Senior Independent Director. Fees are reviewed annually. The fees are benchmarked against financial services and FTSE 250 companies.

The basic fee for Non-Executive Directors, which was last increased in April 2018, will be increased to £65,000 with effect from 1 April 2022. Additional fees were reduced following the increase in the basic fee. The 2021 fees are shown below:

| Role | Annual fee (£'000) |
|---|---|
| Non-Executive Director – basic fee | 52.5 |
| Senior Independent Director or Deputy Chair | 30.0 |
| Chair of Audit or Risk Committee or Designated NED for Colleague Engagement | 20.0 |
| Chair of Nomination or Remuneration Committee | 10.0 |
| Member of Audit, Risk or Remuneration Committee | 10.0 |
| Member of Nomination Committee | 5.0 |

### Non-Executive Directors' fees and taxable benefits (audited)

The table below shows the actual fees paid to our Chair and Non-Executive Directors in 2021 and 2020.

| | Robert Sharpe (Chair) | | Catherine Brown | | Sally Clark | | Anne Grim | | Ian Henderson | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Fees[1] | £350,000 | £58,333 | £87,500 | £81,118 | £92,500 | £79,106 | £82,500 | £49,293 | £92,500 | £55,998 |
| Taxable benefits[4] | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| **Total** | **£350,000** | **£58,333** | **£87,500** | **£81,118** | **£92,500** | **£79,106** | **£82,500** | **£49,293** | **£92,500** | **£55,998** |

| | Anna (Monique) Melis[2] | | Sir Michael Snyder[3] | | Paul Thandi | | Michael Torpey | | Nicholas Winsor | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| Fees[1] | £80,833 | £101,947 | £72,916 | £230,000 | £68,750 | £68,875 | £92,500 | £89,542 | £62,500 | £39,982 |
| Taxable benefits[4] | £0 | £0 | £0 | £0 | £0 | £0 | £0 | £1,673 | £0 | £0 |
| **Total** | **£80,833** | **£101,947** | **£72,916** | **£230,000** | **£68,750** | **£68,875** | **£92,500** | **£91,215** | **£62,500** | **£39,982** |

1. These figures include all fees paid to the Senior Independent Director and to Non-Executive Directors for Board Committee memberships and Committee chairmanships.
2. Interim Senior Independent Director in 2021
3. Undertook the role of interim Chair from 23 October 2019 to 31 October 2020.
4. Taxable benefit figures for our UK Non-Executive Directors reflect grossed-up expenses claimed. The 2020 figures reflect expenses claimed in the 2019-20 tax year.

# Annual report on remuneration continued

## Service Contracts and Letters of Appointment

Both Executive Directors have service contracts. Our Non-Executive Directors do not have service contracts but are bound by letters of appointment which are available for inspection on request at the Company's registered office.

Non-Executive Directors are appointed for fixed terms not exceeding two years, which may be renewed subject to their re-election by shareholders at AGMs.

The effective dates of the current Directors' appointments disclosed in their service contracts are shown in the table below.

| Executive Director | Notice period | Date of service contract |
|---|---|---|
| Daniel Frumkin | 12 months | 18 February 2020 |
| David Arden | 12 months | 19 March 2018 |

## Payments to past Directors (audited)

There were no payments made to past Directors in 2021.

## Payments for Loss Of Office (audited)

No loss of office payments were made during 2021.

## Dilution Limits

The rules of the Metro Bank 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 made after the 2021 AGM under the new policy, we will ensure the discretionary awards under the DVRP and the LTIP will not exceed 5% of the issued share capital in any rolling 10-year period, in line with guidance.

## Statement of Voting at the AGM

The table below shows the voting outcomes on the annual report on remuneration and the Directors' Remuneration Policy at the last AGM held on 18 May 2021.

| Item | For no. | For % | Against no. | Against % | Votes withheld |
|---|---|---|---|---|---|
| 2021 Remuneration Policy | 62,150,543 | 95.11 | 3,193,940 | 4.89 | 22,200 |
| 2020 Remuneration Report | 54,244,029 | 83.00 | 11,107,871 | 17.00 | 14,783 |

At the 2021 AGM, all resolutions were passed by a significant majority of shareholders.

## Shareholder engagement

The Committee greatly values the continued dialogue with our shareholders and regularly 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.

Since the AGM, we have engaged with shareholders on a range of matters including writing to shareholders setting out our approach to reward for performance year 2021.

## Shareholding (audited)

These are the total shareholdings as at 31 December 2021 for each of the Non-Executive Directors and Executive Directors and any related connected persons. Outstanding share awards, including share options, are summarised below.

| Director | No. of shares | Percentage of share capital |
|---|---|---|
| Robert Sharpe | 46,000 | 0.03 |
| Daniel Frumkin | 2,350,000 | 1.36 |
| David Arden | 18,400 | 0.01 |
| Catherine Brown | 100 | 0.00 |
| Sally Clark | 0 | 0.00 |
| Anne Grim | 22,500 | 0.01 |
| Ian Henderson | 15,000 | 0.01 |
| Monique Melis | 1,690 | 0.00 |
| Paul Thandi | 30,000 | 0.02 |
| Michael Torpey | 0 | 0.00 |
| Nicholas Winsor | 50,000 | 0.03 |
| Sir Michael Snyder | 145,000 | 0.08 |

Sir Michael Snyder retired from the Board on 31 October 2021

This table includes vested shares where the Director has beneficial ownership, shares independently acquired in the market and those held by a spouse or civil partner or dependant child under the age of 18 years.

Nick Winsor purchased 50,000 shares on 28 February 2022, his total holding is now 100,000 shares representing 0.06% of the Company's issued share capital. Other than this, since the year end and up to 7 March 2022, no transactions in shares by Directors and their connected persons have taken place.

## Directors' Shareholdings (audited)

### Shareholding guidelines

Executive Directors are required to build up a holding of shares equivalent to 200% of their annual salary. With the DVRP and introduction of an LTIP, a five year timeframe was formalised as part of the new Remuneration Policy for the build-up of the Executive Director Shareholding Requirement. Until this level is achieved, there is a requirement to retain 50% of net shares in the Deferred Variable Reward Plan and those which vest under the LTIP.

Daniel Frumkin has purchased 2,350,000 shares. David Arden has purchased 18,400; he became a Director of the Company on 19 March 2018 and we allowed him time to build up his shareholding.

Executive Directors are required to retain 100% of their shareholding requirement (or actual shareholding if lower) for two years post-cessation of employment.

| | Base Salary | Requirement as a % of base salary | Wholly owned shares | Value[1] | Shareholding requirement met? |
|---|---|---|---|---|---|
| Daniel Frumkin | £740,000 | 200% | 2,350,000 | £2,258,350 | Yes |
| David Arden | £405,000 | 200% | 18,400 | £17,682 | No |

1. Values are based on 31 December 2021 closing price of 96.10 pence.
2. The above table reflects the position as at 31 December 2021.

## Outstanding Share Awards (audited)

Options have an exercise price that is equal to market value at the date of grant; share options awarded under the Company Share Option Plan (CSOP) from CSOP 2016 onwards are based on the Volume Weighted Average Share Price for Metro Bank on a date determined by the Remuneration Committee.

We have not awarded share options to Non-Executive Directors since 2015 (relating to the 2014 performance year).

No dividends or dividend equivalents are payable on any share options or on any unvested share awards held.

The tables below show, for each Executive Director and Non-Executive Director as at 31 December 2021:

- the total number of share awards, shares granted or interests in shares granted and the award price;
- the total number of outstanding share awards; and
- the total number of share awards frozen, subject to the ongoing RWA investigation.

### Daniel Frumkin

| 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 vested (frozen) | Share options still subject to conditions | Exercised in year |
|---|---|---|---|---|---|---|---|---|---|---|
| DVRP 2021 – deferred shares[1, 3] | 477,821 | 01/06/2021 | £0.00 | £523,214 | 01/06/2024 | 01/06/2028 | – | – | 477,821 | – |
| LTIP 2021[2, 3] | 675,799 | 01/06/2021 | £0.00 | £740,000 | 01/06/2025 | 01/06/2028 | – | – | 675,799 | – |
| CSOP 2020 – Hiring Agreement[1] | 100,000 | 31/03/2020 | £0.93 | £93,000 | 30/04/2023 | 30/04/2027 | – | – | 100,000 | – |
| Total | **1,253,620** | | | | | | | | **1,253,620** | |

1. Subject to continued employment.
2. 100% of salary was awarded under the LTIP as nominal cost options that are subject to performance conditions.
3. The number of shares was determined using the closing price of 109.5p on the day before the grant date.

### David Arden

| 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 vested (frozen) | Share options still subject to conditions | Exercised in year |
|---|---|---|---|---|---|---|---|---|---|---|
| DVRP 2021 – deferred shares[1, 3] | 263,897 | 01/06/2021 | £0.00 | £288,968 | 01/06/2024 | 01/06/2028 | – | - | 263,897 | – |
| LTIP 2021[2, 3] | 369,863 | 01/06/2021 | £0.00 | £405,000 | 01/06/2025 | 01/06/2028 | – | - | 369,863 | – |
| CSOP 2020[1] | 76,947 | 31/03/2020 | £0.93 | £71,561 | 30/04/2023 | 30/04/2027 | – | – | 76,947 | – |
| CSOP 2019 Deferred Cash 1 Year[1] | 9,600 | 02/04/2019 | £7.94 | £76,224 | 30/04/2020 | 30/04/2020 | – | 9,600 | – | – |
| CSOP 2019[1] | 19,200 | 02/04/2019 | £7.94 | £152,448 | 30/04/2020 | 30/04/2024 | – | 3,840 | 15,360 | – |
| CSOP 2018[1] | 30,000 | 31/03/2018 | £35.36 | £1,060,800 | 30/04/2019 | 30/04/2023 | – | 11,999 | 18,001 | – |
| **Total** | **769,507** | | | | | | **–** | **25,439** | **744,068** | **–** |

The table above shows the position as at 31 December 2021, the awards granted in 2018, 2019 and 2020 and the 2021 LTIP lapsed with effect from 15 February 2022

1. Subject to continued employment
2. 100% of salary was awarded under the LTIP as nominal cost options that are subject to performance conditions.
3. The number of shares was determined using the closing price of 109.5p on the day before the grant date.

### Performance conditions and targets in relation to the 2021 LTIP awards

Performance conditions and targets together with corresponding weightings for LTIP awards granted on 1 June 2021 in respect of the performance period 2021-2024 are as follows:

| | Weighting | Threshold[3] | Maximum[3] |
|---|---|---|---|
| Total shareholder return (TSR) relative to the FTSE 250 (excluding investment trusts) | 40% | Median against peers | Upper quartile or above |
| Statutory ROTE[1] | 40% | See notes below | |
| Risk and regulatory[2] | 20% | See notes below | |

1. The Return on Tangible Equity (ROTE) performance measure will be disclosed in the Annual Report immediately following the Bank resuming provision of medium term guidance to the market. Since the Bank is not currently providing medium term guidance to the market, this is deemed commercially sensitive.
2. 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.
3. 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.

## Executive Director proposed Share-Based Awards

The following share-based awards are proposed to be made in respect of the 2021 performance year and are already included in the single figure table for 2021.

2022 LTIP awards have also been included in the table below.

### Daniel Frumkin

| Share Option Plan Name [1] | Award date | Exercise price | Face Value of award | First vesting date | Last vesting date |
|---|---|---|---|---|---|
| DVRP 2022 – Retained Shares | 31/03/2022 | £0.00 | £547,600 | 31/03/2022 | 31/03/2022 |
| DVRP 2022 – Deferred Shares | 31/03/2022 | £0.00 | £81,400 | 31/03/2025 | 31/03/2029 |
| LTIP 2022 [2] | 31/03/2022 | £0.00 | £740,000 | 31/03/2025 | 31/03/2029 |
| **TOTAL** | | | **£1,369,000** | | |

### David Arden

| Share Option Plan Name [1] | Award date | Exercise price | Face Value of award | First vesting date | Last vesting date |
|---|---|---|---|---|---|
| DVRP – Retained Shares 2022 | 31/03/2022 | £0.00 | £103,275 | 31/03/2022 | 31/03/2022 |
| DVRP – Deferred Shares 2022 | 31/03/2022 | £0.00 | £154,913 | 31/03/2025 | 31/03/2029 |
| **TOTAL** | | | **£258,188** | | |

Notes:
1. All awards are subject to a 12-month retention period.
2. Awards under the Long Term Incentive Plan ("LTIP") are subject to performance conditions specified at grant including Return on Tangible Equity, Relative Total Shareholder Return and Risk and regulatory.
3. The number of shares will be determined using the closing price on 30 March 2022 which is the date before the grant date.

# Directors' report

The Directors have the pleasure of presenting their Annual Report for the year ended 31 December 2021. 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 International Financial Reporting Standards and includes the Corporate Governance Report set out on pages 92 to 147.

The Directors consider the Annual Report for the year ended 31 December 2021, 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 2021 were the provision of banking and related services. We are a deposit-taking and lending institution with a focus on retail and small and medium-size commercial customers, offering consistent fair pricing and excellent customer service. We 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 162.

No dividend was declared or paid during 2021 (2020: £nil). The Directors do not anticipate declaring a dividend in the near future.

### Significant Events

In February 2021, we announced the acquisition of a portfolio of loans from peer-to-peer investors who invested through the Retail Money Market Ltd platform for a cash consideration of up to £384 million. The transaction completed in April 2021 and the Portfolio had an aggregate book value of £337 million at completion.

In June 2021, we completed the disposal of the RateSetter car dealer finance loan portfolio to LE Capital UK (Asset 1) Limited. The Portfolio had an aggregate book value of £15 million and formed a non-core part of the RateSetter back book acquired by us in April 2021.

On 4 November 2021 we confirmed that we received an approach from funds affiliated with The Carlyle Group (Carlyle) regarding a possible offer to acquire our entire issued share capital. On 18 November 2021, we agreed with Carlyle to terminate discussions regarding the possible offer for the Bank.

### Articles of Association

The Articles of Association can be found on our website: metrobankonline.co.uk.

### Share Capital

As at 31 December 2021, our issued share capital was £172.42 comprising 172,420,458 ordinary shares of 0.0001p each. Further details of our called-up share capital, together with details of shares allotted during the year, is shown in note 26 to the financial statements on page 194.

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.

### Annual General Meeting

Subject to Government restrictions, we hope to hold an in person Annual General Meeting in May 2022. 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 94 and 95. Sir Michael Snyder stepped down as Senior Independent Director and Non-Executive Director, effective 31 October 2021. Monique Melis became the Senior Independent Director effective 31 October 2021 (subject to regulatory approval). David Arden resigned as a director, effective 15 February 2022.

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 2021

| | Appointment Date | Resignation Date |
|---|---|---|
| Robert Sharpe (independent Chair) | 1 November 2020 | – |
| Daniel Frumkin (CEO) | 1 January 2020 | – |
| David Arden (CFO) | 29 March 2018 | 15 February 2022 |
| Catherine Brown (iNED) | 1 October 2018 | – |
| Sally Clark (iNED) | 1 January 2020 | – |
| Anne Grim (iNED) | 20 April 2020 | – |
| Ian Henderson (iNED) | 20 April 2020 | – |
| Anna (Monique) Melis (SID)* | 20 June 2017 | – |
| Sir Michael Snyder (former SID) | 22 September 2015 | 31 October 2021 |
| Paul Thandi (iNED) | 1 January 2019 | – |
| Michael Torpey (iNED) | 1 September 2019 | – |
| Nick Winsor (iNED) | 20 April 2020 | – |

* Subject to regulatory approval

## Directors' interests

Details of the Directors' beneficial interests are set out in the Annual Report on Remuneration on page 145.

## 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 109.

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 Committee's discretion. As at 31 December 2021, 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 16 March 2022, being the last practical date before publication of this report, the Group has been notified under DTR 5 of the interests in its issued share capital, and these are set out in the table below. All such shareholders have the right to vote in all circumstances at general meetings.

| Shareholder | Ordinary shares held | % of total ordinary shares | Direct/ indirect interest |
|---|---|---|---|
| Spaldy Investments Limited | 15,549,496 | 9.02% | Direct |
| Spruce House Partnership | 15,500,000 | 8.99% | Direct |
| Davis Selected Advisers | 9,191,516 | 5.33% | Indirect |
| 683 Capital Management | 8,977,587 | 5.21% | Indirect |
| Ruane, Cunniff and Goldfarb | 5,020,755 | 5.15% | Direct |

## Greenhouse gas emissions

Our energy consumption and associated greenhouse gas emissions during 2021 are set out in the Strategic Report on page 50.

## Employee involvement

We encourage employee involvement in the Bank. Increasing Colleague awareness of the financial and economic factors that affect us plays a major role in maintaining our customer focus. More information on our colleagues and how we engaged with them can be found on pages 98–100 of the Corporate Governance Report.

## Engagement with stakeholders

The Board recognises that the long-term success of the Bank will depend upon the interests of all our stakeholders and this view is intrinsic in our decision making. More information on our stakeholders, how we engaged with them and how the Board took them into consideration when making decisions are set out in the Corporate Governance Report.

## Diversity

Our Diversity and Inclusion policy outlines our commitment to employment policies which follow best practice, based on equal opportunities for all colleagues. We aim for our workforce to reflect the diverse communities in which we operate and recognise that diversity is not only a key part of a responsible business strategy, but also supports a strong customer experience. We give full and fair consideration to all applications for employment.

Our Board Diversity Policy, which sets out our commitment to diversity and inclusion for the Board can be found on our website www.metrobankonline.co.uk/investor-relations.

At Metro Bank we believe that a diverse Board, appointed on merit, with a broad range of skills, backgrounds, knowledge and experience, will be a more effective and responsible Board.

More information on our performance against our objectives within the policy can be found in the Nomination Committee Report on page 125.

### Disabled employees
For all colleagues and candidates we always look to make reasonable adjustments to ensure equity. 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 through during 2021 can be found on page 39. We have also appointed a member of the Board as our Modern Slavery Champion who with the CEO will monitor ongoing compliance with the Modern Slavery Policy.

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

### Internal Control and Risk Management Systems
The Directors confirm that they have undertaken a robust assessment of the emerging and principal risks facing the Group. We seek to manage all risks that arise from our activities. Details of risk management systems, and details of risk management objectives and policies, are shown in the Risk Report on pages 52 to 91. Details around the processes in place in relation to financial reporting can be found in the Audit Committee report on pages 110 to 117. 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.

### Viability Statement
Our Viability Statement is set out on pages 90 to 91.

### Auditors
Our Auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the Annual General Meeting.

### Political donations
We made no political donations in the year ending 31 December 2021 (2020: £nil).

### Research and development
We continue to invest in our digital offering. During the year, we spent £39 million on intangible assets and a further £54 million on research and development costs which were not capitalised.

### Post balance sheet events
A summary of the key post balance sheet events is set out in note 38 to the financial statements on page 218.

### Future developments
Our business and future plans are reviewed in the Strategic Report.

### Financial instruments and financial risk management
Information relating to financial instruments and financial risk management can be found on pages 52 to 91 and in note 10 to the financial statements.

### Listing Rules disclosures
For the purposes of LR 9.8.4R, the information required to be disclosed by LR 9.8.4R can be found in the following sections of the Report:

| Item | Location, where applicable |
|---|---|
| Detail of long-term incentive schemes | 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 36 to the financial statements |
| Waived emoluments | Annual Report on Remuneration |

### Corporate Governance Statement
The Corporate Governance Report on pages 92 to 151 in accordance with Rule 7.2 of the Disclosure Guidance and Transparency Rules and Rule 9.8.6 (5) and (6) of the Listing Rules forms part of this Directors' Report.

## Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group 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; and
- 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 the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors section within the Governance Report, 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, and of the loss of the Group and Company; and
- 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; and
- 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 148 to 151 has been approved by the Board of Directors.

By Order of the Board

**Melissa Conway**
Company Secretary
23 March 2022

# Independent auditors' report

to the members of Metro Bank PLC

## Report on the audit of the financial statements

### Opinion

In our opinion, Metro Bank PLC's group 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 2021 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts 2021 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 31 December 2021; the Consolidated statement of comprehensive income; the Consolidated and Company cash flow statements; the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

#### Overview

*Audit scope*

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of reporting units and other qualitative factors (including history of misstatement through fraud or error).
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit) or in the context of individual primary statement account balances (audit of specific account balances). The company is the only financially significant component. We performed other procedures including testing information technology general controls, analytical procedures and tests of detail of 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 (ECL) on loans and advances to customers (group and company)
- Carrying values of non-financial assets (excluding goodwill) (group and company)
- Impact of the COVID-19 pandemic (group and company)

*Materiality*

- Overall group materiality: £11.3m (2020: £5.2m) based on 5% of the average consolidated profit or loss before tax of the last 3 years.
- Overall company materiality: £10.7m (2020: £5.1m) based on 5% of the average consolidated profit or loss before tax of the last 3 years.
- Performance materiality: £8.5m (2020: £3.9m) (group) and £8.0m (2020: £3.8m) (company).

**The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

## Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The recognition of revenue on loans and advances and the acquisition of RateSetter, which were key audit matters last year, are no longer included because of the reduced level of work and related impact on the financial statements. The quantum of interest income to be spread over the behavioural life of loans is now lower than our performance materiality and so the risk of material misstatement is normal. The acquisition of RateSetter occurred in 2020 and is no longer a relevant audit risk in 2021. Otherwise, the key audit matters are consistent with last year.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Determination of allowance for Expected Credit Losses (ECL) on loans and advances to customers (group and company)<br><br>*Refer to page 117 (Audit Committee report), page 177 (Note 12: Loans and advances to customers) and page 198 (Note 30: Expected credit losses).*<br><br>The calculation of the allowance for ECL requires management to make a number of significant judgements, assumptions and estimates. The continuing uncertainty in the economic environment caused by COVID-19 has required a greater use of judgement. A number of overlays continue to be required to address specific considerations, such as the impact of lifting COVID-19 support measures and the uncertainty caused by the developments in the pandemic which may not be fully reflected in economic forecasts. These overlays are applied with consideration for the specific geographical and industry concentrations of the portfolio. In addition, model adjustments have been applied to reflect known model limitations.<br><br>We consider there to be a significant audit risk in determining ECL for the following portfolios: Retail Mortgages, Consumer (specifically for RateSetter unsecured loans) and Commercial (excluding the small asset finance and invoice finance portfolios, and government backed loans). This significant risk is identified in relation to the following key assumptions and judgements:<br><br>– Judgement exercised in determining the probability of default ('PD') – new models (e.g. RateSetter), significant changes to existing models and models where previous issues have been identified (e.g. Commercial PD model);<br>– Judgements exercised by management in determining whether a significant increase in credit risk ('SICR') should be recognised;<br>– The selection of forward-looking economic assumptions used in the models;<br>– The judgements involved in addressing underlying economic uncertainty through the use of post model overlays and the application of these adjustments; and<br>– The measurement of ECL on individually assessed stage 3 loans, including management's estimation of future expected cash flows (for example the timing and value of collateral realisation). | We evaluated the design and implementation of key controls. Where we planned to rely on them, we tested their operating effectiveness and concluded that we could place reliance on the controls for the purposes of our audit. This involved testing of controls over:<br><br>– the recording of collateral into lending system for Retail loans;<br>– governing the watchlist process and the identification of credit impaired loans;<br>– the performance of periodic credit reviews for Commercial lending ; and<br>– the review and approval of provisions applied to individually impaired loans.<br><br>We engaged the support of our credit modelling specialists and performed the following substantive audit procedures in order to assess the performance of the ECL models and the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience.<br><br>**Probability of default (PD)**<br>We critically assessed the methodology applied in the impairment models to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested key assumptions and judgements. These included those made by management in determining PDs used in the calculation of provisions. As part of this assessment we considered whether increases in probability of default due to the impact of COVID-19 on economic conditions were adequately captured within models, or whether a post model overlay was included to address the latent risk.<br><br>Our credit modelling specialists independently rebuilt a commercial loans ECL model, representing 48% of the overall modelled ECL balance. This was performed using management's methodology and comparing the output to management's modelled ECL output. We identified no material differences.<br><br>**Significant increase in credit risk (SICR)**<br>To test whether judgements exercised in determining whether SICR events have occurred, we performed substantive procedures. These included assessing the SICR definitions against IFRS requirements, selecting samples of loans across the Commercial stage 1 and 2 populations and independently assessing the stage allocation against SICR criteria.<br><br>**Forward looking information and multiple economic scenarios**<br>We used our economic analysis software, utilising data from the Bank of England, HM Treasury, and Consensus Economics, to assess the reasonableness of management's economic scenarios and associated weightings, giving specific consideration to the economic uncertainty caused by COVID-19.<br><br>**Post model overlays**<br>We critically assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs, evaluating and challenging the methodology, completeness and application. This included management's assessment of climate change risk, which resulted in the recognition of a post model overlay.<br><br>**Individually assessed stage 3 loans**<br>For a sample of stage 3 credit impaired loans, we:<br><br>– Critically evaluated the basis on which the allowance was determined, and the evidence supporting the analysis performed by management; and<br>– Independently challenged whether the key assumptions used, such as the recovery strategies, expected cash flows, collateral rights and valuations, and ranges of potential outcomes, were appropriate, given the borrowers' circumstances.<br><br>Based on the evidence obtained, we found the methodologies, modelled assumptions, management judgements and collective and individually assessed ECL to be appropriate and materially compliant with the requirements of IFRS 9. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Carrying values of non-financial assets (excluding goodwill) (group and company)**<br><br>*Refer to page 117 (Audit Committee report), page 180 (Note 14: Property, Plant and Equipment) and page 182 (Note 15: Intangible assets).*<br><br>The group's tangible fixed assets amounted to £765m at 31 December 2021 and mainly comprised leasehold improvements and Right of Use assets. The group has also capitalised as intangible assets certain expenditure in the development of software to support its business strategy. The intangible asset balance was £243m at 31 December 2021. The 'change the bank costs' of implementing the group's business strategy and the continuing losses incurred in 2021, together with the capital constraints under which the group is operating, are potential indicators of impairment.<br><br>The Directors have evaluated the above non-financial assets for impairment, and where relevant estimated the recoverable amounts of those assets. Where the assets do not generate largely independent cash inflows, they have been incorporated into a relevant cash generating unit (CGU) and the recoverable amount of that CGU has been determined. The CGU relevant to the vast majority of assets is the 'retail bank CGU' within the company.<br><br>The determination of the recoverable amount requires management to estimate the higher of value in use and fair value less costs to sell of the retail bank CGU. This assessment is complex and involves subjective judgements. The recoverable amount is estimated using the Board's 5 year Long Term Plan, a decreasing growth rate from year 6 to 10, a terminal growth rate and a discount rate. The application of IAS 36 'Impairment of assets' is also complex as there are methodology judgements required in determining a value in use. Management concluded that no impairment existed as at 31 December 2021.<br><br>The value in use methodology adopted by management, the forecast cash flows and the discount and long term growth rates are key judgements. Due to the magnitude of the balance and these judgements 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. We challenged and tested the reasonableness of management's methodology and key assumptions. This resulted in a number of changes and a reduction in the headroom. Our work included the following substantive tests:<br><br>– Tested the mathematical integrity of the impairment model and agreed the cash flows to the Board approved 5 year Long Term Plan;<br>– Performed a comparison of the performance of the group in 2021 to the budget to assess the reliability of the budgeting and forecasting process;<br>– Evaluated management's accounting policy and impairment methodology with reference to IFRS requirements, including management's determination of the relevant CGU and the carrying amount, using our accounting specialists;<br>– Reviewed the forecasts in the Long Term Plan and evaluated these for reasonableness. We made inquiries of management and the Board, inspected business plans and critically assessed management's growth assumptions. We also performed sensitivity analyses to test the impact of changing various assumptions; and<br>– Engaged our valuation specialists in assessing the reasonableness of the discount rate and terminal growth rate.<br><br>Based on the procedures performed, we found the judgements used in determining the carrying value of the retail bank CGU to be reasonable and supportable.<br><br>We assessed the disclosures made in the financial statements. We are satisfied that these disclosures are appropriate and in compliance with the accounting requirements. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impact of the COVID-19 pandemic (group and company)**<br><br>*Refer to page 117 (Audit Committee report), page 166 (note 1: Basis of preparation and significant accounting policies) and page 90 (Viability statement)*<br><br>In 2020, the group launched its new strategic priorities and a plan to return to sustainable profitability. Shortly after the launch, the COVID-19 pandemic struck and the UK entered a period of business and economic uncertainty which continued throughout 2021. The pandemic led to lower levels of certain customer activity, net interest margin and a significant increase to credit provisions in 2020. In 2021, the bank focused on higher yielding loans, reducing the cost of deposits and transforming the cost base. However, continued operating losses, impacted by the COVID-19 pandemic and the cost of transforming the business, have continued to reduce capital in 2021. Management has calculated that the bank's MREL capital ratio is currently below the sum of the bank's MREL requirement and buffers, but above the minimum requirement.<br><br>The Directors have concluded that the group will have sufficient resources (including capital and liquidity) for a period of at least 15 months from the date of these financial statements. In assisting the Directors reach their conclusion, management has modelled both a base case and severe but plausible downside scenarios to assess whether the group has sufficient capital and liquidity.<br><br>Management's assessment of the carrying value of the group's and company's non-financial assets has also been impacted by the operating performance which has been exacerbated by COVID-19. Similarly, the continuing impact of the pandemic has been considered in arriving at the allowance for expected credit losses.<br><br>The assessment of going concern and the impairment of non-financial assets is dependent on management's future profit forecasts and regulatory capital projections. There is judgement involved in determining these and, in relation to going concern, concluding that there is not a material uncertainty. Due to the importance of these matters to the Board's assessment of the viability of the group and the company, we discussed the judgements with the Audit Committee throughout the audit and hence this constitutes a Key Audit Matter. | Our procedures and conclusions in respect of going concern are set out below in the 'Conclusions relating to going concern' section on page 158. Our procedures in respect of the impairment assessment of non-financial assets and the determination of expected credit losses relating to loans and advances held by the group and company are set out in the key audit matters above. |

**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 COVID-19, 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. 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 43, 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, the financial statement line item we determined to be most likely to be impacted by climate risk. Management's assessment gave consideration to a number of matters, including the climate stress testing performed in 2021.

Using our risk assessment, 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 and the accounting processes and controls. We continually assessed risks and changed the scope of our audit where necessary.

The group comprises five components. Any components which were considered individually financially significant in the context of the group's consolidated financial statements (defined as components that represent more than or equal to 15% of the loss before tax of the consolidated group) were considered full scope components. We considered the individual financial significance of other components in relation to primary statement account balances and the presence of any significant audit risks and other qualitative factors (including history of misstatements through fraud or error). For our group audit, we identified one financially significant component, which is the company. All significant risks relate to the company and the group.

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, 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 | £11.3m (2020: £5.2m). | £10.7m (2020: £5.1m). |
| How we determined it | 5% of the average consolidated profit or loss before tax of the last 3 years | 5% of the average consolidated profit or loss before tax of the last 3 years |
| Rationale for benchmark applied | Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. In 2021, we have changed the measurement basis of this benchmark to one of a 3 year average (2020: 5 year average). This is because we do not believe that the results of 2017 and 2018 are of relevance given the transformation plan and the impact of COVID-19. | Based on the benchmarks used in the Annual Report, profit or loss before tax is a key measure used by the shareholders in assessing the performance of the group, and is a generally accepted auditing benchmark. In 2021, we have changed the measurement basis of this benchmark to one of a 3 year average (2020: 5 year average). This is because we do not believe that the results of 2017 and 2018 are of relevance given the transformation plan and the impact of COVID-19. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £4.7m and £10.7m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £8.5m (2020: £3.9m) for the group financial statements and £8.0m (2020: £3.8m) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.6m (group audit) (2020: £0.3m) and £0.5m (company audit) (2020: £0.2m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management's financial and regulatory capital forecasts. We also performed a comparison of the 2021 budget and the actual results to assess the accuracy of the budgeting process;
- Reviewing the severity and assumptions behind management's severe but plausible downside scenarios and, using our knowledge from the audit, calculating our own sensitivities. We evaluated the impact on the group's compliance with minimum regulatory capital requirements;
- Gaining an understanding of the status of the company's application to the PRA for advanced IRB model approval, including inquiries of management, a review of correspondence and discussions with the PRA;
- Considering the potential mitigating actions that management may have available to it, including portfolio asset sales, and assessing whether these were in the control of management and possible in the going concern period of assessment and evaluating the impact on regulatory capital;
- Reviewing management's stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We also substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England; and
- Assessing the adequacy of disclosures in the Going Concern statement in note 1 of the Consolidated and Company Financial Statements and within the section 'Assessment of viability and going concern' within the Viability statement on page 91 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 2021 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 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 breaches of the rules of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and the Consumer Credit Act 1974, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the 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 with regulators, such as the FCA and the PRA in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, the assessment of the carrying value of non-financial assets (excluding goodwill) and the ability of the group to continue as a going concern (see related key audit matters and the Conclusions relating to going concern section); and

- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 29 July 2009 to audit the financial statements for the year ended 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2010 to 31 December 2021.

## 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
23 March 2022

# Consolidated statement of comprehensive income

For the year ended 31 December 2021

| | Notes | Years ended 31 December 2021 £'million | 2020 £'million |
|---|---|---|---|
| Interest income | 2 | 405.7 | 426.3 |
| Interest expense | 2 | (110.4) | (176.6) |
| **Net interest income** | | 295.3 | 249.7 |
| Fee and commission income | 3 | 71.2 | 61.1 |
| Fee and commission expense | 3 | (1.6) | (1.2) |
| **Net fee and commission income** | | 69.6 | 59.9 |
| Net gains on sale of assets | 4 | 9.4 | 73.3 |
| Other income | 5 | 44.2 | 49.7 |
| **Total income** | | 418.5 | 432.6 |
| General operating expenses | 6 | (536.1) | (502.3) |
| Depreciation and amortisation | 14, 15 | (80.2) | (74.4) |
| Impairment and write-offs of property, plant, equipment and intangible assets | 14, 15 | (24.9) | (40.6) |
| **Total operating expenses** | | (641.2) | (617.3) |
| Expected credit loss expense | 30 | (22.4) | (126.7) |
| **Loss before tax** | | (245.1) | (311.4) |
| Taxation | 9 | (3.1) | 9.7 |
| **Loss for the year** | | (248.2) | (301.7) |
| **Other comprehensive (expense)/income for the year** | | | |
| Items which will be reclassified subsequently to profit or loss: | | | |
| Movement in respect of investment securities held at FVOCI (net of tax): | | | |
| – changes in fair value | 28 | (8.1) | 5.6 |
| – fair value changes transferred to the income statement on disposal | 28 | (0.3) | (0.1) |
| **Total other comprehensive (expense)/income** | | (8.4) | 5.5 |
| **Total comprehensive loss for the year** | | (256.6) | (296.2) |
| **Loss per share** | | | |
| Basic (pence) | 36 | (144.0) | (175.0) |
| Diluted (pence) | 36 | (144.0) | (175.0) |

The accounting policies, notes and information on pages 166 to 218 form part of these financial statements.

# Consolidated and company balance sheets

## As at 31 December 2021

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | Years ended 31 December | | Years ended 31 December | |
| | Notes | 2021 £'million | 2020 £'million | 2021 £'million | 2020 £'million |
| **Assets** | | | | | |
| Cash and balances with the Bank of England | 11 | 3,568 | 2,993 | 3,547 | 2,974 |
| Loans and advances to customers | 12 | 12,290 | 12,090 | 11,976 | 11,821 |
| Investment securities held at FVOCI | 13 | 798 | 773 | 798 | 773 |
| Investment securities held at amortised cost | 13 | 4,776 | 2,640 | 4,776 | 2,640 |
| Financial assets held at fair value through profit and loss | | 3 | 30 | 3 | – |
| Property, plant and equipment | 14 | 765 | 806 | 765 | 803 |
| Investment in subsidiaries | 37 | – | – | 31 | 59 |
| Intangible assets | 15 | 243 | 254 | 231 | 209 |
| Prepayments and accrued income | 16 | 68 | 77 | 64 | 73 |
| Assets classified as held for sale | | – | 295 | – | 295 |
| Other assets | 17 | 76 | 2,621 | 392 | 2,880 |
| **Total assets** | | 22,587 | 22,579 | 22,583 | 22,527 |
| **Liabilities** | | | | | |
| Deposits from customers | 18 | 16,448 | 16,072 | 16,448 | 16,072 |
| Deposits from central banks | 19 | 3,800 | 3,808 | 3,800 | 3,808 |
| Debt securities | 20 | 588 | 600 | 588 | 600 |
| Financial liabilities held at fair value through profit and loss | | – | 30 | – | – |
| Repurchase agreements | 10 | 169 | 196 | 169 | 196 |
| Derivative financial liabilities | 21 | 10 | 8 | 10 | 8 |
| Lease liabilities | 22 | 269 | 327 | 269 | 325 |
| Deferred grants | 23 | 19 | 28 | 19 | 28 |
| Provisions | 24 | 15 | 11 | 15 | 8 |
| Deferred tax liability | 9 | 12 | 12 | 12 | 8 |
| Other liabilities | 25 | 222 | 198 | 217 | 180 |
| **Total liabilities** | | 21,552 | 21,290 | 21,547 | 21,233 |
| **Equity** | | | | | |
| Called-up share capital | 26 | – | – | – | – |
| Share premium | 26 | 1,964 | 1,964 | 1,964 | 1,964 |
| Retained losses[1] | 27 | (942) | (694) | (941) | (689) |
| Other reserves | 28 | 13 | 19 | 13 | 19 |
| **Total equity** | | 1,035 | 1,289 | 1,036 | 1,294 |
| **Total equity and liabilities** | | 22,587 | 22,579 | 22,583 | 22,527 |

1. The Company loss for the year was £252.2 million (2020: loss of £292.1 million)

The accounting policies, notes and information on pages 166 to 218 form part of these financial statements.

The financial statements on pages 162 to 218 were approved by the Board of Directors on 23 March 2022 and signed on its behalf by:

**Robert Sharpe**
Chair

**Daniel Frumkin**
Chief Executive Officer

# Consolidated and company statements of changes in equity

For the year ended 31 December 2021

| | Group | | | | | | Company | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Called-up share capital £'million | Share premium £'million | Retained losses £'million | FVOCI reserve £'million | Share option reserve £'million | Total equity £'million | Called-up share capital £'million | Share premium £'million | Retained losses £'million | FVOCI reserve £'million | Share option reserve £'million | Total equity £'million |
| **Balance as at 1 January 2021** | – | 1,964 | (694) | 3 | 16 | 1,289 | – | 1,964 | (689) | 3 | 16 | 1,294 |
| Loss for the year | – | – | (248) | – | – | (248) | – | – | (252) | – | – | (252) |
| Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI | – | – | – | (8) | – | (8) | – | – | – | (8) | – | (8) |
| Total comprehensive loss | – | – | (248) | (8) | – | (256) | – | – | (252) | (8) | – | (260) |
| Net share option movements | – | – | – | – | 2 | 2 | – | – | – | – | 2 | 2 |
| **Balance as at 31 December 2021** | – | 1,964 | (942) | (5) | 18 | 1,035 | – | 1,964 | (941) | (5) | 18 | 1,036 |
| **Balance as at 1 January 2020** | – | 1,964 | (392) | (3) | 14 | 1,583 | – | 1,964 | (397) | (3) | 14 | 1,578 |
| Loss for the year | – | – | (302) | – | – | (302) | – | – | (292) | – | – | (292) |
| Other comprehensive income (net of tax) relating to investment securities designated at FVOCI | – | – | – | 6 | – | 6 | – | – | – | 6 | – | 6 |
| Total comprehensive loss | – | – | (302) | 6 | – | (296) | – | – | (292) | 6 | – | (286) |
| Net share option movements | – | – | – | – | 2 | 2 | – | – | – | – | 2 | 2 |
| **Balance as at 31 December 2020** | – | 1,964 | (694) | 3 | 16 | 1,289 | – | 1,964 | (689) | 3 | 16 | 1,294 |
| Notes | 26 | 26 | 27 | 28 | 28 | | 26 | 26 | 27 | 28 | 28 | |

The accounting policies, notes and information on pages 166 to 218 form part of these financial statements.

# Consolidated and company cash flow statements

For the year ended 31 December 2021

| | Notes | Group Years ended 31 December 2021 £'million | Group Years ended 31 December 2020 £'million | Company Years ended 31 December 2021 £'million | Company Years ended 31 December 2020 £'million |
|---|---|---|---|---|---|
| **Reconciliation of loss before tax to net cash flows from operating activities:** | | | | | |
| **Loss before tax** | | (245) | (311) | (245) | (299) |
| Adjustments for: | | | | | |
| Impairment and write-offs of property, plant, equipment, intangible assets and investment in subsidiaries | | 25 | 41 | 64 | 41 |
| Interest on lease liabilities | 22 | 17 | 19 | 17 | 19 |
| Depreciation and amortisation | 14, 15 | 80 | 74 | 76 | 73 |
| Share option charge | 7 | 2 | 2 | 2 | 2 |
| Grant income recognised in the income statement | 5 | (11) | (24) | (11) | (24) |
| Amounts provided for (net of amounts released) | 24 | 5 | 8 | 5 | 8 |
| Gain on sale of assets and fair value gains on derivatives | | (9) | (73) | (9) | (73) |
| Accrued interest on and amortisation of investment securities | | 5 | 3 | 5 | 3 |
| **Changes in operating assets and liabilities** | | | | | |
| Changes in loans and advances to customers | 12 | (200) | 2,591 | (155) | 2,560 |
| Changes in deposits from customers | 18 | 376 | 1,595 | 376 | 1,595 |
| Changes in other operating assets | | 2,847 | (2,820) | 2,767 | (2,820) |
| Changes in other operating liabilities | | (38) | (64) | (18) | (23) |
| **Net cash inflows/(outflows) from operating activities** | | 2,854 | 1,041 | 2,874 | 1,062 |
| **Cash flows from investing activities** | | | | | |
| Sales of investment securities | | 1,269 | 615 | 1,269 | 615 |
| Purchase of investment securities | | (3,438) | (1,460) | (3,438) | (1,460) |
| Purchase of property, plant and equipment | 14 | (42) | (29) | (41) | (29) |
| Purchase and development of intangible assets | 15 | (39) | (81) | (64) | (81) |
| Acquisition of subsidiary[1] | | – | (1) | – | (3) |
| Capital injection into subsidiaries | | – | – | – | (33) |
| **Net cash (outflows)/inflows from investing activities** | | (2,250) | (956) | (2,274) | (991) |
| **Cash flows from financing activities** | | | | | |
| Grant repaid | | – | (50) | – | (50) |
| Repayment of capital element of leases | 22 | (29) | (31) | (27) | (30) |
| **Net cash (outflows)/inflows from financing activities** | | (29) | (81) | (27) | (80) |
| Net increase in cash and cash equivalents | | 575 | 4 | 573 | (9) |
| Cash and cash equivalents at start of year | 11 | 2,993 | 2,989 | 2,974 | 2,983 |
| **Cash and cash equivalents at end of year** | 11 | 3,568 | 2,993 | 3,547 | 2,974 |
| | | | | | |
| **Loss before tax includes:** | | | | | |
| Interest received | | 409 | 407 | 394 | 397 |
| Interest paid | | 126 | 176 | 126 | 175 |

1. Shown net of cash acquired in the Group cash flow statement

The accounting policies, notes and information on pages 166 to 218 form part of these financial statements.

# Notes to the financial statements

## 1. Basis of preparation and significant accounting policies

This section sets out the Group's ('our' or 'we') accounting policies which relate to the financial statements as a whole. Where an accounting policy relates specifically to a note then the related accounting policy is set out within that note. All policies have been consistently applied to all the years presented unless stated otherwise.

### 1.1 General information

Metro Bank plc (the 'Company') together with its subsidiaries (the 'Group') provides retail and commercial banking services in the UK and is a public limited company limited by shares incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Company number 06419578). The registered office is One Southampton Row, London WC1B 5HA.

### 1.2 Basis of preparation

The consolidated financial statements of the Group and Company have been prepared in accordance with UK-adopted International Accounting Standards (IAS) and the Companies Act 2006 applicable to companies reporting under IFRS. Whilst the change from IFRS as adopted by EU to UK-adopted IAS constitutes a change in accounting framework, there is no impact on recognition, measurement or disclosure from this transition.

The consolidated financial statements of the Group and Company were authorised by the Board for issue on 23 March 2022.

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 52 to 91. Where information is marked as audited, it is incorporated into these financial statements and it is covered by the Independent auditor's report.

*Going concern*

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements. In reaching this assessment, the Directors have considered projections for the Group's capital and funding position as well as other principal risks. As part of this process the Directors have considered and approved the Group's most recent Long Term Plan including associated downside scenarios. 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 15 months from the date of these financial statements). The Directors did not deem 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 90 to 91.

*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 37). 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 not to present a Company statement of comprehensive income and related notes that form a part of these financial statements.

### 1.3 Functional and presentation currency

These financial statements are presented in pound sterling, which is our functional currency. All amounts have been rounded to the nearest £1 million and £0.1 million for balance sheet and income statement line items respectively, except where otherwise indicated.

**1.4 Cash flow statement**
The cash flow statement shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Under that method, loss before tax is adjusted for non-cash items and changes in other assets and liabilities to determine net cash inflows or outflows from operating activities. Cash flows from investing and financing activities are determined using the direct method which directly reports the cash effects of the transactions.

**1.5 Changes in accounting policy and disclosures**
During the period we have adopted Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase 2 amendments).

The main impact on our financial statements is in relation to our hedging arrangements, which have transitioned from being based on LIBOR to SONIA. The Phase 2 amendments have allowed us to amend the designation of our hedging relationships and the associated hedge documentation to reflect these changes without discontinuing the hedging relationships. Our accounting policies in respect of hedging remain unchanged and continue to be applied. The impact of the changes does not have a significant impact on our consolidated financial statements.

In addition to the above, at year end we had £295 million of mortgages and £103 million of investment securities that are either exposed, or will revert to synthetic LIBOR.

**1.6 Future accounting developments**
At the year-end there are no standards that were in issue but not yet effective, that would have a material impact on the Group, including IFRS 17 'Insurance contracts'. We have not adopted any standards early within these financial statements.

**1.7 Segmental reporting**
IFRS 8 requires operating segments to be identified on the basis of internal reports and components of the Group which are regularly reviewed by the Chief Operating Decision Maker to allocate resources to segments and to assess their performance. For this purpose, the Chief Operating Decision Maker of the Group is our Board of Directors.

The Board considers the results of the Group as a whole when assessing the performance of the Group and allocating resources, owing to our simple structure. Accordingly, the Group has a single operating segment. We operate solely within the UK and, as such, no geographical analysis is required. We are not reliant on any single customer.

**1.8 Foreign currency translation**
Transactions in a foreign currency are translated into the functional currency using the exchange rates prevailing at the date of the transaction.

Monetary items denominated in a foreign currency are translated using the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign currency differences arising on translation are recognised in other income. Gains and losses arising from foreign currency transactions offered to customers are also recognised in other income.

**1.9 Critical accounting judgements and estimates**
The preparation of financial statements in conformity with IFRS requires us to make both material judgements as well as estimates which although based on our best assessment, by definition will seldom equal the actual results. Management believes that the underlying assumptions applied at 31 December 2021 are appropriate and that these consolidated financial statements therefore present the financial position and results of the Group and Company fairly. The areas involving a higher degree of complexity, judgement or where estimates have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year are:

| | | Estimate/judgement | Note | Page |
|---|---|---|---|---|
| Recognition of provisions | | Judgement | 24 | 192 |
| Measurement of expected credit loss allowance | Significant increase in credit risk | Judgement | 30 | 203 |
| | Use of post model overlays and adjustments | Judgement | 30 | 203 |
| | Multiple forward-looking scenarios | Estimate | 30 | 205 |

Further details can be found within the relevant notes.

## 2. Net interest income

**Accounting policy**

We recognise interest income and expense for all interest-bearing financial instruments within 'interest income' and 'interest expense' in the income statement using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate we estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses except for purchased or originated credit impaired assets. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For loans that are credit impaired, interest income is calculated on the carrying amount of the loan net of credit impairment.

**Interest income**

| Group | 2021<br>£'million | 2020<br>£'million |
|---|---|---|
| Cash and balances held with the Bank of England | 4.4 | 6.1 |
| Loans and advances to customers | 378.1 | 393.3 |
| Investment securities held at amortised cost | 20.6 | 24.8 |
| Investment securities held at FVOCI | 2.6 | 2.1 |
| **Total interest income** | 405.7 | 426.3 |

**Interest expense**

| Group | 2021<br>£'million | 2020<br>£'million |
|---|---|---|
| Deposits from customers | 40.1 | 99.1 |
| Deposits from central banks | 4.0 | 8.7 |
| Debt securities | 47.4 | 47.8 |
| Lease liabilities | 16.7 | 18.7 |
| Repurchase agreements | 2.2 | 2.3 |
| **Total interest expense** | 110.4 | 176.6 |

## 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 box. |
| ATM and interchange fees | Where we earn fees from our ATMs or from interchange this is recognised at the point the service is delivered. |

Expenses that are directly related and incremental to the generation of fee and commission income are presented within fee and commission expense.

As disclosed in note 1, we provide services solely within the UK and therefore revenues are not presented on a geographic basis. Revenue is grouped solely by contract-type as we believe this best depicts how the nature, amount and timing of our revenue and cash flows are affected by economic factors.

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Service charges and other fee income | 25.5 | 22.9 |
| Safe deposit box income | 15.1 | 15.0 |
| ATM and interchange fees | 30.6 | 23.2 |
| Fee and commission income | 71.2 | 61.1 |
| Fee and commission expense | (1.6) | (1.2) |
| **Total net fee and commission income** | 69.6 | 59.9 |

## 4. Net gains on sale of assets

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Investment securities held at amortised costs | 0.4 | 4.2 |
| Investment securities held at fair value through other comprehensive income | 0.3 | 0.1 |
| Loan portfolios | 8.7 | 69.0 |
| **Total net gains on sale of assets** | 9.4 | 73.3 |

**Disposal of investment securities**
During the year ended 2021 some of our investment securities were called early by the issuers resulting in a gain being recognised on these assets.

**Disposal of loan portfolios**
On 18 December 2020 we agreed to sell a portfolio of £3.1 billion of loans to NatWest. The portfolio of mortgages sold was subject to a 10% carve out, which related to a group of specifically identified loans on which NatWest undertook further due diligence prior to completion in February 2021. The transaction was in line with our strategy to enhance risk-adjusted returns on capital through the ongoing focus on balance sheet optimisation. In addition to increasing our MREL resources, the sale created additional lending capacity and enabled us to rebalance asset mix towards higher yielding assets such as specialist mortgages and unsecured loans.

The £8.7 million gain relates to the 10% carve out which completed in early 2021. The sale of the loan portfolio was not considered to constitute a change to our business model which is outlined in note 12.

## 5. Other income

| | | |
|---|---|---|
| **Accounting policy** | Other income is accounted for as follows: | |
| | **Product or service** | **Nature, timing and satisfaction of performance obligations and payment terms** |
| | Foreign currency transactions | Gains on foreign currency transactions is the spread earned on foreign currency transactions performed for our customers along with any associated fees. It is recognised at the point in time that the exchange is executed. |
| | Rental income | Rental income is primarily earned from the letting out of surplus space in some of our properties. The revenue is recognised on a straight-line basis over the life of the lease. |
| | Grant income | Grant income primarily relates to amounts recognised in relation to the amounts drawn down against the Capability and Innovation Fund award (further details of which can be found in note 23). Income is recognised in line with the delivery of the commitments we agreed to as part of the bid. |

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Foreign currency transactions | 27.7 | 24.0 |
| Rental income | 0.9 | 0.9 |
| Grant income | 10.5 | 23.9 |
| Other | 5.1 | 0.9 |
| **Total other income** | 44.2 | 49.7 |

## 6. General operating expenses

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| People costs (note 7) | 239.0 | 197.6 |
| Information technology costs | 57.2 | 48.4 |
| Occupancy costs | 32.9 | 34.4 |
| Money transmission and other banking-related costs | 50.6 | 46.0 |
| Transformation costs | 8.9 | 16.7 |
| Remediation costs | 45.9 | 40.8 |
| Capability and Innovation Fund (C&I) costs[1] | 8.1 | 21.6 |
| Legal and regulatory fees | 6.6 | 5.5 |
| Professional fees | 50.1 | 54.1 |
| Contractor costs[2] | 2.1 | 5.6 |
| Printing, postage and stationery costs | 5.6 | 6.2 |
| Travel costs | 1.1 | 1.8 |
| Marketing costs | 4.7 | 6.4 |
| Business acquisition and integration costs | 2.4 | 5.4 |
| Other | 20.9 | 11.8 |
| **Total general operating expenses** | 536.1 | 502.3 |

1. C&I costs represent the non-capitalisable costs of delivering the C&I digital commitments. It includes £2.5 million (2020: £3.2 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. Contractor costs 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 licenses, 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. These costs remained flat during the year reflecting our limited store growth during 2021.

**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. The increase in costs during the year is reflective of both the increase and change in mix of our lending and account activity during the year.

**Professional fees**
Professional fees primarily consists of research and development costs not capitalised, which in the year totalled £29.4 million (2020: £32.7 million). 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 £53.5 million (2020: £49.9 million) on research and development costs not capitalised.

Included within legal, regulatory and professional fees is £nil million (2020: £0.2 million) in respect of the Financial Services Compensation Scheme (FSCS) levy.

**Transformation, remediation, Capability and Innovation Fund and business acquisition and integration costs**
Further details on transformation, remediation, Capability and Innovation Fund and business acquisition and integration costs can be found on page 225.

## 7. People costs

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Wages and salaries[1] | 201.2 | 166.9 |
| Social security costs[1] | 22.0 | 17.9 |
| Pension costs[1] | 13.4 | 10.8 |
| Equity-settled share-based payments[2] | 2.4 | 2.0 |
| **Total people costs** | 239.0 | 197.6 |

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 C&I grant income in note 5.
2. Included within equity-settled share-based payments is £nil million (2020: (£0.2 million)) in respect of share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. These share awards vested annually until April 2021. These related to shares held in treasury, rather than share options, and as such did not get recorded in the share option reserve.

During the year £6.9 million (2020: £7.2 million) of people costs were capitalised as part of our intangibles assets (further details can be found in note 15).

The average monthly number of persons employed during the year was 4,184 (2020: 3,850).

| Group | 2021 | 2020 |
|---|---|---|
| Customer-facing | 2,062 | 2,175 |
| Non-customer-facing | 2,122 | 1,675 |
| **Total number of persons employed** | 4,184 | 3,850 |

**Pension costs**

Payments were made amounting to £14.0 million (2020: £11.2 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 the Company's auditors:

| Group | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Audit of the Consolidated and Company financial statements[1] | 2,342 | 1,923 |
| Audit of the financial statements of the Company's subsidiaries | 143 | 183 |
| Audit-related assurance services[2] | 232 | 115 |
| **Total fees payable to our auditors** | 2,717 | 2,221 |

1. The fee includes £300,000 related to the prior year.
2. Audit-related services consist of independent assurance work relating to CASS, country-by-country reporting, Bank of England TFSME assurance report and the interim review

## 9. Taxation

**Accounting policy**

**Current tax**
Our current tax comprises the expected tax payable or receivable on the taxable profit for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Where we have tax losses that can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set off against deferred tax liabilities carried in the balance sheet.

**Deferred tax**
Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal differences arise from trading losses, depreciation of property, plant and equipment and relief on research and development expenditure.

We recognise a deferred tax asset to the extent that it is probable that future taxable profits will be available against which they can be used and deferred tax liabilities are provided on taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised or the deferred tax liability settled.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and where the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle on a net basis.

## 9. Taxation continued

**Tax expense**

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

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| **Current tax** | | |
| Current tax | (0.5) | (0.1) |
| Adjustment in respect of prior years | 0.6 | (0.5) |
| Total current tax credit/(expense) | 0.1 | (0.6) |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 3.4 | 3.6 |
| Effect of changes in tax rates | (5.4) | 2.1 |
| Adjustment in respect of prior years | (1.2) | 4.6 |
| Total deferred tax (expense)/credit | (3.2) | 10.3 |
| **Total tax (expense)/credit** | (3.1) | 9.7 |

**Reconciliation of the total tax (expense)/credit**

The tax (expense)/credit 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)/credit and the accounting loss multiplied by the UK corporation tax rate is as follows:

| Group | 2021 £'million | Effective tax rate % | 2020 £'million | Effective tax rate % |
|---|---|---|---|---|
| Accounting loss before tax | (245.1) | | (311.4) | |
| Tax expense at statutory tax rate of 19% (2019: 19%) | 46.6 | 19.0% | 59.2 | 19.0% |
| **Tax effects of:** | | | | |
| Non-deductible expenses – depreciation on non-qualifying fixed assets | (2.7) | (1.1%) | (2.4) | (0.8%) |
| Non-deductible expenses – investment property impairment | (1.8) | (0.8%) | (3.2) | (1.0%) |
| Non-deductible expenses – remediation | (7.1) | (2.9%) | (6.6) | (2.1%) |
| Non-deductible expenses – other | (0.1) | – | (0.7) | (0.2%) |
| Impact of intangible asset impairment on R&D deferred tax liability | 3.0 | 1.2% | 0.2 | 0.1% |
| Share-based payments | (0.3) | (0.1%) | (0.2) | (0.1%) |
| Adjustment in respect of prior years | (0.6) | (0.3%) | 4.1 | 1.3% |
| Current year losses for which no deferred tax asset has been recognised | (34.7) | (14.1%) | (42.8) | (13.7%) |
| Effect of changes in tax rates | (5.4) | (2.2%) | 2.1 | 0.7% |
| **Tax credit/(expense) reported in the consolidated income statement** | (3.1) | (1.3%) | 9.7 | 3.2% |

The effective tax rate for this year is 1.3% (2020: (3.2 %)). The main reasons for this, in addition to the reported accounting loss before tax for the year, are set out below:

*Impact of intangible asset impairment on research and development tax relief*

During 2021 we impaired intangible assets relating to the 2020 RateSetter acquisition resulting in a net deferred tax charge. These impairments related to the peer-to-peer element of the RateSetter lending platform that ceased to provide the Group with any value following the acquisition of the back book in April 2021.

*Share based payments*

During the period the Metro Bank share price fell from £1.40 to £1.04. In 2020 the share price fell from £2.06 to £1.40. This had the impact of reducing the deferred tax asset held resulting in a deferred tax charge.

*Adjustment in respect of prior years*

Following the filing of the 2020 corporation tax return we have made an adjustment for R&D intangible assets which is partly offset by an adjustment for fixed assets.

*Losses for which no deferred tax asset has been recognised*
The tax effected value of losses for which no deferred tax asset has been recognised is £34.7 million (2020: £42.8 million). This is due to our long term investment in cost, revenue and infrastructure transformation impacting our profits in the short term.

*Effect of changes in tax rates*
This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate. An increase in the UK corporation rate from 19% to 25% for taxable profits over £250,000 (effective 1 April 2023) was substantively enacted on 24 May 2021.

| | 31 December 2021 | | | | | | 31 December 2020 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group | 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 |
| **2021** | | | | | | | | | | | | |
| Deferred tax assets | 13 | 3 | – | – | – | 16 | 12 | 3 | – | – | – | 15 |
| Deferred tax liabilities | – | 2 | – | (23) | (7) | (28) | – | (1) | – | (16) | (10) | (27) |
| Deferred tax liabilities (net) | 13 | 5 | – | (23) | (7) | (12) | 12 | 2 | – | (16) | (10) | (12) |
| **At 1 January 2021** | 12 | 2 | – | (16) | (10) | (12) | – | 4 | – | (15) | (4) | (15) |
| Income statement | 1 | – | – | (7) | 3 | (3) | 12 | (1) | – | (1) | – | 10 |
| Other comprehensive income | – | 3 | – | – | – | 3 | – | (1) | – | – | – | (1) |
| Acquisition | – | – | – | – | – | – | – | – | – | – | (6) | (6) |
| **At 1 December 2021** | 13 | 5 | – | (23) | (7) | (12) | 12 | 2 | – | (16) | (10) | (12) |

**Unrecognised deferred tax assets**
We have total unused tax losses of £810 million for which a deferred tax asset of £203 million has not been recognised as we continue to be loss making in the short term due to our long term investment in cost, revenue and infrastructure transformation. The impact of recognising the deferred tax asset in the future would be material although tax benefits would be spread over a number of years. In addition, the 50% corporate loss restriction in place extends the timeline over which we can offset losses against future profits. This will be reassessed for the year ending 31 December 2022 in light of actual performance against management forecasts and prevailing market conditions. There is no time limit beyond which these losses expire.

Due to unrealised investment property impairments of £10.4 million there is an unrecognised deferred tax asset of £2.6 million (2020: £1.9 million).

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

## 10. Financial instruments

| Accounting policy | **Repurchase agreements**<br>Where we sell financial assets subject to sale and repurchase agreements are retained in their respective balance sheet categories. 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.<br><br>Where we use financial assets to raise finance through repurchase agreements subject the assets become encumbered and are not available for transfer or sale.<br><br>**Other financial instruments**<br>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 52 to 91.

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 table below.

**Classification of financial instruments**

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value through profit and loss £'million | FVOCI £'million | Amortised cost £'million | Total £'million | Fair value through profit and loss £'million | FVOCI £'million | Amortised cost £'million | Total £'million |
| **Assets** | | | | | | | | |
| Loans and advances to customers | – | – | 12,290 | 12,290 | – | – | 12,090 | 12,090 |
| Investment securities | – | 798 | 4,776 | 5,574 | – | 773 | 2,640 | 3,413 |
| Financial assets held as fair value through profit and loss | 3 | – | – | 3 | 30 | – | – | 30 |
| Assets classified as held for sale | – | – | – | – | – | – | 295 | 295 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | – | – | 16,448 | 16,448 | – | – | 16,072 | 16,072 |
| Deposits from central bank | – | – | 3,800 | 3,800 | – | – | 3,808 | 3,808 |
| Debt securities | – | – | 588 | 588 | – | – | 600 | 600 |
| Financial liabilities held as fair value through profit and loss | – | – | – | – | 30 | – | – | 30 |
| Derivative financial liabilities | 10 | – | – | 10 | 8 | – | – | 8 |
| Repurchase agreements | – | – | 169 | 169 | – | – | 196 | 196 |

**Financial assets and liabilities held at fair value through profit and loss**
The financial assets held at fair value through profit and loss consist of loans previously absorbed by the RateSetter provision fund. Following the acquisition of the legacy peer-to-peer back book from RateSetter investors in April 2021 these loans are now owned by the Company. Following the back book purchase the Group no longer has any liability in respect of the provision fund.

**Financial assets pledged as collateral**

We have pledged £5,463 million (2020: £5,363 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £1,491 million (2020: £1,186 million) is made up of high-quality securities and £3,956 million (2020: £4,177 million) is from our own loan portfolio.

This does not include cash balances pledged as collateral which are shown separately within note 17.

## 11. Cash and balances with the Bank of England

**Accounting policy**

Cash and balances with the Bank of England consists of both cash on hand and demand deposits, both at other banks as well as the Bank of England. In addition, it includes highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investment securities are only classified as cash if they have a short maturity of three months or less from the date of acquisition and are in substance cash equivalents, e.g. debt investments with fixed redemption dates that are acquired within a short period of their maturity.

Where cash is pledged as collateral and as such is not available on demand this is included within other assets within note 17.

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Unrestricted balances with the Bank of England | 3,361 | 2,788 | 3,361 | 2,788 |
| Cash and unrestricted balances with other banks | 177 | 146 | 156 | 127 |
| Money market placements | 30 | 59 | 30 | 59 |
| **Total cash and balances with the Bank of England** | 3,568 | 2,993 | 3,547 | 2,974 |

The expected credit loss held against cash and balances with the Bank of England is less than £0.1 million (31 December 2020: 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 2021 | | | 31 December 2020 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million | Gross carrying amount £'million | ECL allowance £'million | Net carrying amount £'million |
| Consumer lending | 890 | (42) | 848 | 204 | (25) | 179 |
| Retail mortgages | 6,723 | (19) | 6,704 | 6,892 | (26) | 6,866 |
| Commercial lending (excluding asset and invoice finance) | 4,526 | (102) | 4,424 | 4,874 | (98) | 4,776 |
| **Total loans and advances to customers (Company)** | 12,139 | (163) | 11,976 | 11,970 | (149) | 11,821 |
| Asset and invoice finance | 320 | (6) | 314 | 274 | (5) | 269 |
| **Total loans and advances to customers (Group)** | 12,459 | (169) | 12,290 | 12,244 | (154) | 12,090 |

## 12. Loans and advances to customers continued

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:

| Group | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Overdrafts | 66 | 73 | 66 | 73 |
| Credit cards | 13 | 10 | 13 | 10 |
| Term loans | 811 | 121 | 811 | 121 |
| **Total consumer lending** | 890 | 204 | 890 | 204 |
| Residential owner occupied | 5,022 | 5,051 | 5,022 | 5,051 |
| Retail buy-to-let | 1,701 | 1,841 | 1,701 | 1,841 |
| **Total retail mortgages** | 6,723 | 6,892 | 6,723 | 6,892 |
| **Total retail lending** | 7,613 | 7,096 | 7,613 | 7,096 |
| Professional buy-to-let | 950 | 1,117 | 950 | 1,117 |
| Bounce back loans | 1,304 | 1,353 | 1,304 | 1,353 |
| Coronavirus business interruption loans | 165 | 114 | 165 | 114 |
| Recovery loan scheme[1] | 157 | – | 157 | – |
| Other term loans | 1,791 | 2,138 | 1,791 | 2,138 |
| Commercial term loans | 4,367 | 4,722 | 4,367 | 4,722 |
| Overdrafts and revolving credit facilities | 156 | 149 | 156 | 149 |
| Credit cards | 3 | 3 | 3 | 3 |
| Asset and invoice finance | 320 | 274 | – | – |
| **Total commercial lending** | 4,846 | 5,148 | 4,526 | 4,874 |
| **Gross loans and advances to customers** | 12,459 | 12,244 | 12,139 | 11,970 |
| | | | | |
| **Amounts include:** | | | | |
| Repayable at short notice | 181 | 171 | 181 | 171 |

1. Recovery loan scheme includes £66 million acquired from third parties under forward flow arrangements (31 December 2020: £nil). 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.

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Investment securities held at FVOCI | 798 | 773 | 798 | 773 |
| Investment securities held at amortised cost | 4,776 | 2,640 | 4,776 | 2,640 |
| **Total investment securities** | 5,574 | 3,413 | 5,574 | 3,413 |

**Investment securities held at FVOCI**

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Sovereign bonds | 566 | 386 | 566 | 386 |
| Residential mortgage-backed securities | 38 | 50 | 38 | 50 |
| Covered bonds | 156 | 337 | 156 | 337 |
| Multi-lateral development bank bonds | 38 | – | 38 | – |
| **Total investment securities held at FVOCI** | 798 | 773 | 798 | 773 |

**Investment securities held at amortised cost**

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Sovereign bonds | 1,198 | 495 | 1,198 | 495 |
| Residential mortgage-backed securities | 1,687 | 1,624 | 1,687 | 1,624 |
| Covered bonds | 442 | 521 | 442 | 521 |
| Multi-lateral development bank bonds | 1,289 | – | 1,289 | – |
| Asset backed securities | 160 | – | 160 | – |
| **Total investment securities held at amortised cost** | 4,776 | 2,640 | 4,776 | 2,640 |

## 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 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 disclosed.

| Group | Investment property £'million | Leasehold improvements £'million | Freehold land and buildings £'million | Fixtures, fittings and equipment £'million | IT Hardware £'million | Right-of-use assets £'million | Total £'million |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| 1 January 2021 | 18 | 292 | 298 | 25 | 11 | 330 | 974 |
| Additions | – | 12 | 29 | – | 1 | (4) | 38 |
| Disposals | – | – | – | – | – | (29) | (29) |
| Write-offs | – | (10) | – | (1) | (11) | (2) | (24) |
| Transfers | – | (14) | 14 | – | – | – | – |
| **31 December 2021** | 18 | 280 | 341 | 24 | 1 | 295 | 959 |
| **Accumulated depreciation** | | | | | | | |
| 1 January 2021 | 12 | 66 | 21 | 15 | 7 | 47 | 168 |
| Depreciation charge for the year | – | 14 | 4 | 4 | 2 | 18 | 42 |
| Impairments | – | – | – | – | – | 6 | 6 |
| Disposals | – | – | – | – | – | (4) | (4) |
| Write-offs | – | (9) | – | – | (9) | – | (18) |
| Transfers | – | (3) | 3 | – | – | – | – |
| **31 December 2021** | 12 | 68 | 28 | 19 | – | 67 | 194 |
| **Net book value** | 6 | 212 | 313 | 5 | 1 | 228 | 765 |

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

**Impairments**
During the year impairments were recognised in relation to the right of use assets on the three stores announced for closure. Prior to impairment, the right of use assets and lease liabilities were remeasured through to the next break clause. The leasehold improvements, fixtures and fittings associated with these stores have been written off on the basis that they will not provide the Group with any economic benefit post closure.

Impairment indicators were also identified in respect of other items of our property, plant and equipment. The assets, which included our stores, were tested for impairment. 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 the 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.

**Write-offs**
As well as the write-offs relating to the store closures outlined above during the year we wrote-off a number of items of IT hardware that are no longer being used or no longer providing the Group with any economic benefit.

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

**Contractual commitment for the acquisition of property, plant and equipment**
As at 31 December 2021 we had no contractual commitments relating to the acquisition of property, plant and equipment that are not reflected in the tables above (31 December 2020: £nil).

Relevant disclosures for the Company have not been included as they are not materially different to the Group disclosures.

## 15. Intangible assets

**Accounting policy**

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over our interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment assessment, goodwill acquired in a business combination is allocated to each of the cash-generating units (CGUs), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, however it is tested for impairment at the end of each reporting period.

The recoverable amount of a CGU is the higher of its fair value less cost to sell, and the present value of its expected future cash flows.

If the recoverable amount is less than the carrying value, an impairment loss is charged to the income statement. Goodwill is stated at cost less accumulated impairment losses. Any impairment is recognised immediately as an expense and is not subsequently reversed.

**Other intangible assets**

Software includes both purchased items and internally developed systems, which consists principally of identifiable and directly associated internal colleague, contractor and other costs.

Purchased intangible assets and costs directly associated with the development of systems are capitalised as intangible assets where there is an identifiable asset which we control and which will generate future economic benefits in accordance with IAS 38.

Costs to establish feasibility or to maintain existing performance are recognised as an expense. Intangible assets are amortised on a straight-line basis within the income statement using the following useful economic lives:

| | |
|---|---|
| Core banking software[1] | up to 20 years |
| Other banking software | 3 to 10 years |
| Software licences | licence period |
| Customer contracts | 10 years |
| Brands | 5 years |

All intangible assets are reviewed at the end of each reporting period for indicators of impairment.

1. Core banking software consists of our central banking transaction platform. The original platform was assessed as having a 20-year life due to it being the central component of our digital infrastructure. It was upgraded during 2019 with the upgrade assessed as having a 15-year life. Our core banking software has been in use since we first opened and given its significance is unlikely to be replaced in the foreseeable future.

| Group | 2021 Goodwill £'million | 2021 Brands £'million | 2021 Software £'million | 2021 Total £'million | 2020 Goodwill £'million | 2020 Brands £'million | 2020 Software £'million | 2020 Total £'million |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| 1 January | 10 | 2 | 328 | 340 | 4 | – | 224 | 228 |
| Additions | – | – | 39 | 39 | – | – | 81 | 81 |
| Recognised in business combinations | – | – | – | – | 6 | 2 | 32 | 40 |
| Write-offs | – | – | (32) | (32) | – | – | (10) | (10) |
| Deferred grant (see note 23) | – | – | 1 | 1 | – | – | 1 | 1 |
| **31 December** | 10 | 2 | 336 | 348 | 10 | 2 | 328 | 340 |
| **Amortisation** | | | | | | | | |
| 1 January | – | – | 86 | 86 | – | – | 60 | 60 |
| Amortisation charge for the year | – | – | 38 | 38 | – | – | 33 | 33 |
| Impairments | – | – | 7 | 7 | – | – | – | – |
| Write-offs | – | – | (26) | (26) | – | – | (7) | (7) |
| **31 December** | – | – | 105 | 105 | – | – | 86 | 86 |
| **Net book value** | 10 | 2 | 231 | 243 | 10 | 2 | 242 | 254 |

**Software**
Software consists of both internally generated (including the RateSetter platform) and externally acquired licences. As at 31 December 2021 externally acquired licences had a net book value of £6 million (31 December 2020: £9 million). Out of our total intangible assets, £98 million of software assets were under the course of construction at 31 December 2021 (31 December 2020: £99 million).

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

**Goodwill 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 2021 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).

| | 2021 £'million |
|---|---|
| Asset and invoice finance business | 4 |
| Retail bank | 6 |
| **Total** | 10 |

### 15. Intangible assets continued

The recoverable amount for both CGUs was determined by a value-in-use (VIU) calculation. The VIU was higher than their carrying value and therefore no impairment charge has been recognised for the current year (2020: no charge). The VIU calculation is based on our Board-approved Long Term Plan which covers the five year period from 2022 to 2026 inclusive. Our Long Term Plan is constructed using our best estimate of the future performance of the business and encompasses commercially sensitive estimates including lending and deposit yields and volumes, costs over the period and the timing and benefit of key strategic priorities (see pages 20 to 21). 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 90 to 91.

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) 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 10 at which point a terminal growth rate of 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).

A pre-tax discount rate of 13.3% has been used for the VIU calculation. The discount rate is based on our post-tax weighted average cost of capital (which is grossed up to a pre-tax rate). The rate is compared to industry peers to ensure it is appropriate and also reflects the risks specific to the assets in the CGUs.

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 of either CGU to fall below its carrying amount.

| Company | 2021 Software £'million | 2020 Software £'million |
|---|---|---|
| **Cost** | | |
| 1 January | 293 | 221 |
| Additions | 64 | 81 |
| Write-offs | (33) | (10) |
| Deferred grant (see note 23) | 1 | 1 |
| **31 December** | 325 | 293 |
| **Amortisation** | | |
| 1 January | 84 | 59 |
| Amortisation charge for the year | 37 | 32 |
| Write-offs | (27) | (7) |
| **31 December** | 94 | 84 |
| **Net book value** | 231 | 209 |

## 16. Prepayments and accrued income

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Prepayments | 28 | 30 | 24 | 26 |
| Accrued income | 38 | 46 | 38 | 46 |
| VAT receivable | 2 | 1 | 2 | 1 |
| **Total prepayments and accrued income** | 68 | 77 | 64 | 73 |
| Current portion | 68 | 77 | 64 | 73 |
| Non-current portion | – | – | – | – |

## 17. Other assets

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Due from other banks[1] | – | 2,568 | – | 2,568 |
| Cash pledged as collateral | 36 | 36 | 36 | 36 |
| Other[2] | 40 | 17 | 39 | 16 |
| Amounts owed by Group undertakings | – | – | 317 | 260 |
| **Total other assets** | 76 | 2,621 | 392 | 2,880 |
| Current portion | 52 | 2,595 | 365 | 2,854 |
| Non-current portion | 24 | 26 | 27 | 26 |

1. Due from other banks comprises solely of the amount receivable from NatWest in respect of the portion of the loan portfolio that was derecognised 31 December 2020, less amounts already received as at 31 December 2020.
2. Other balance primarily comprises customer transactions in process or items in the course of collection over year end.

## 18. Deposits from customers

Total deposits from customers as at 31 December 2021 comprised of 52% from retail customers (31 December 2020: 56%) and 48% from commercial customers (31 December 2020: 44%).

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Deposits from retail customers | 8,527 | 8,960 | 8,527 | 8,960 |
| Deposits from commercial customers | 7,921 | 7,112 | 7,921 | 7,112 |
| **Total deposits from customers** | 16,448 | 16,072 | 16,448 | 16,072 |

# Notes to the financial statements continued

## 19. Deposits from central banks

Deposits from central banks consists solely of amounts drawn down under the Bank of England's Term Funding Scheme (TFS) and Term Funding Scheme with additional incentives for SMEs (TFSME).

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Amounts drawn down under TFS | – | 3,258 | – | 3,258 |
| Amounts drawn down under TFSME | 3,800 | 550 | 3,800 | 550 |
| **Deposits from central banks** | 3,800 | 3,808 | 3,800 | 3,808 |

In 2021, £3,250 million of TFS drawings were refinanced into TFSME. TFSME was closed to further drawdowns in October 2021 and our drawdowns will mature in 2024, 2025 and 2027 in the amounts of £550 million, £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. |

| Name | Issue date | Currency | Amount issued £'million | Coupon rate | Call date | Maturity date |
|---|---|---|---|---|---|---|
| Fixed Rate Reset Callable Subordinated Notes | 26/06/18 | GBP | 250 | 5.50% | 26/06/23 | 26/06/28 |
| Fixed Rate Reset Senior Non-Preferred Notes | 08/10/19 | GBP | 350 | 9.50% | 08/10/24 | 08/10/25 |

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| 1 January | 600 | 591 | 600 | 591 |
| Movements in micro hedging arrangements | (14) | 7 | (14) | 7 |
| Unwind of issuance costs | 2 | 2 | 2 | 2 |
| **31 December** | 588 | 600 | 588 | 600 |

The Bank of England has extended the implementation deadline for a holding company to June 2023 to align with the call date on our Fixed Rate Reset Callable Subordinated Notes. Should we opt to not call these notes in June 2023 they will continue to provide funding, however there will be a reduced benefit to Tier 2 capital and MREL.

## 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 as we employ dynamic portfolio hedge accounting of interest rate risk across fixed rate financial assets and fixed rate financial liabilities. Relevant differences between IFRS as issued by the IASB and UK-adopted IAS specifically relate to our dynamic hedges of non-interest bearing liabilities and fixed rate mortgages.

Where we are using interest rate swaps to hedge the changes in fair value attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply fair value hedge accounting. If there is an effective hedge relationship, the hedged item (such as fixed rate mortgages or non-interest bearing customer deposits) is adjusted for fair value changes in respect of the hedged risk. These fair value changes are recognised in the income statement together with the fair value movements on the hedging instrument (the interest rate swaps).

Where we are using interest rate swaps to hedge the exposure to variability in cash flows attributable to interest rate risk on a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, we apply cash flow hedge accounting. If there is an effective hedge relationship, the effective portion of the movement in fair value of the hedging instrument (the interest rate swap) is recognised in other comprehensive income and taken to the cash flow hedge reserve. The financial hedged item (such as floating rate loans and advances to customers) is accounted for as normal in line with IFRS 9 accounting requirements.

Hedge accounting is discontinued when a hedge ceases to be highly effective, a derivative expires or is sold, the underlying hedged item matures or is repaid, or periodically if a new underlying hedged item or hedging instrument is added to the hedge relationship. Where a fair value hedge is de-designated (either due to becoming ineffective or as part of our dynamic approach to hedge accounting) any hedge adjustments accrued to that point are amortised over the remaining life of the hedged item. When a cash flow hedge is de-designated any accumulated amounts in the cash flow hedge reserve are recycled to profit or loss as and when the hedged forecast cash flows impact the income statement so long as the hedged forecast cash flows are still expected.

At the inception of every hedge, we produce hedge documentation which identifies the hedged risk, hedged item and hedging instrument. This documentation sets out the methodology used for testing hedge effectiveness.

We use derivatives as part of our approach to hedging interest rate and foreign exchange exposure.

Our derivative financial instruments are analysed in the table below.

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liability | | Assets | | Liability | |
| Group and Company | Fair value £'million | Notional contract amount £'million | Fair value £'million | Notional contract amount £'million | Fair value £'million | Notional contract amount £'million | Fair value £'million | Notional contract amount £'million |
| Interest rate swaps/Designated as hedging instruments | – | – | 9 | 1,164 | – | – | 8 | 1,431 |
| Foreign currency swaps/Designated as held at fair value through profit and loss | 1 | 160 | 2 | 162 | 1 | 127 | 1 | 129 |
| **Total** | 1 | 160 | 11 | 1,326 | 1 | 127 | 9 | 1,560 |

## 21. Derivatives continued

**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 as follows:

- Benchmark interest rate risk as a component of interest rate risk.
- Exchange rate risk for foreign currency financial assets and financial liabilities.

Other risks such as credit risk and liquidity risk are managed separately and are not included in the hedge accounting relationship.

The changes in the designated risk component usually account for the largest portion of the overall change in fair value of the hedged item.

**Portfolio fair value hedges**

During 2019 we implemented a macro hedging programme as part of which we increased our use of interest rate swaps to manage our interest rate risk. So far the macro hedging programme has been applied to our fixed rate mortgage assets only.

We determine hedged items by analysing portfolios of fixed rate mortgages into repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated appropriately to those repricing time buckets.

The hedge relationship is tested for effectiveness prospectively at the designation date, and retrospectively at each de-designation on a monthly basis. This is done by comparing fair value movements of the designated proportion of the bucketed mortgages, against the fair value movements of the derivatives, to ensure that they are within an 80% to 125% range.

The aggregated fair value changes in the hedged mortgages are recognised on the balance sheet as an asset and liability respectively. At the end of every month, we de-designate the hedge relationships and redesignate them as new hedges in order to minimise the ineffectiveness from early repayments and accommodate new exposures. At de-designation, the fair value hedge accounting adjustments are amortised on a straight-line basis over the remaining period until the repricing of the mortgage. Amortisation begins at the date of de-designation.

**Micro fair value hedges**

We use this hedging strategy on fixed rate assets and liabilities held at fair value through other comprehensive income and amortised cost as well as on our fixed rate debt issuance.

**Hedge ineffectiveness**

Hedge ineffectiveness within portfolio fair value hedges of the fixed rate mortgage portfolio can occur due to a number of potential sources, such as:

- non-zero derivative designated in a hedge relationship;
- mismatches between contractual terms such as basis, timing, principal and notionals; or
- change in credit risk of interest rate swaps.

**Summary of hedging instruments in designated hedge relationships**

The amounts relating to items designated as hedging instruments in fair value hedge relationships to manage our exposure to interest rates are:

| | 31 December 2021 | | | | 31 December 2020 | | | |
|---|---|---|---|---|---|---|---|---|
| | Assets | | Liability | | Assets | | Liability | |
| Group and Company | Notional contract amount £'million | Carrying amount £'million | Notional contract amount £'million | Carrying amount £'million | Notional contract amount £'million | Carrying amount £'million | Notional contract amount £'million | Carrying amount £'million |
| Interest rate swaps | – | – | 1,164 | 10 | – | – | 1,431 | 8 |
| Total derivatives designated as fair value hedges | – | – | 1,164 | 10 | – | – | 1,431 | 8 |

**Summary of hedged items in designated hedge relationships**

The items designated as hedged items in fair value hedge relationships to manage our exposure to interest rates are:

| Group and Company | 31 December 2021 Carrying amount Assets £'million | Liabilities £'million | Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item Assets £'million | Liabilities £'million | 31 December 2020 Carrying amount Assets £'million | Liabilities £'million | Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item Assets £'million | Liabilities £'million |
|---|---|---|---|---|---|---|---|---|
| Fixed rate mortgages[1] | 456 | – | 2 | – | 663 | – | 8 | – |
| Fixed rate debt issuance[2] | – | 443 | 7 | – | – | 457 | – | 7 |
| Fixed rate investment securities at FVOCI[3] | 195 | – | 1 | – | 263 | – | 4 | – |
| Fixed rate investment securities at amortised cost[4] | 60 | – | – | – | 62 | – | 2 | – |
| Fixed rate loans[1] | 5 | – | – | – | 7 | – | 1 | – |
| **Total derivatives designated as fair value hedges** | 716 | 443 | 10 | – | 995 | 457 | 15 | 7 |

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 items are recorded in Investment Securities held at FVOCI and the cumulative fair value changes are recorded in Other reserves.
4. Hedged item and the cumulative fair value changes, are recorded in Investment Securities held at amortised costs.

For the purposes of calculating ineffectiveness recognised in the profit or loss, the total accumulated amount of fair value hedge adjustment is used.

**Summary of ineffectiveness from designated hedge relationships**

An analysis of the hedge ineffectiveness recognised in profit or loss for the designated fair value hedge relationships is set out below:

| Group and Company | 2021 £'million | 2020 £'million |
|---|---|---|
| **(Loss)/gain arising from fair value hedges** | | |
| Hedging instrument | (0.6) | (0.2) |
| Hedged item attributable to the hedged risk | 0.8 | (0.3) |
| **Total ineffectiveness arising from fair value hedges** | 0.2 | (0.5) |

**LIBOR transition**

As outlined in note 1 during 2021 we have adopted Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase 2 amendments).

As a result of the transition some of our hedging arrangements have moved from being based on LIBOR to SONIA. The Phase 2 amendments have allowed us to amend the designation of our hedging relationships and the associated hedge documentation to reflect these changes without discontinuing the hedging relationships. The impact of the changes does not have a significant impact on our consolidated financial statements.

## 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 for the future lease payments discounted at the rate implicit in the lease (where available) or our incremental cost of borrowing. Generally we use our deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Where we are reasonably certain to exercise a break in the lease, only the lease payments up until the date of the break are included.

We subsequently remeasure the lease liability when there is a change to an index or rate used or when there is a change in expectation that we will exercise a purchase option or break clause or if we extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the right-of-use asset.

Irrecoverable VAT on lease payments is excluded from the lease liability and is taken to the income statement over the period which is due. This is included within note 6, General operating expenses, under 'occupancy expense'.

We have elected not to recognise a lease liability and right-of-use assets for any leases that have a term of less than 12 months, or are for an asset which is deemed to be of low value (item is worth less than £5,000). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of the lease.

All of our leases within the scope of IFRS 16 relate to our stores and head office properties.

**Lease liabilities**

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **1 January** | 327 | 341 | 325 | 341 |
| Additions and modifications | (6) | 4 | (6) | 4 |
| Recognised in business combinations | – | 3 | – | – |
| Disposals | (40) | (9) | (40) | (9) |
| Lease payments made | (29) | (31) | (27) | (30) |
| Interest on lease liabilities | 17 | 19 | 17 | 19 |
| **31 December** | 269 | 327 | 269 | 325 |
| Current | 25 | 29 | 25 | 28 |
| Non-current | 244 | 298 | 244 | 297 |

**Right-of-use assets**

All of our disclosures relating to right-of-use assets, including our accounting policy, can be found in note 14.

**Additions and modifications**

As part of our decision to close three stores the lease liabilities on these stores were remeasured out to their first break clause (where available). This led to a modification of the lease liabilities of £6 million, with a corresponding adjustment made to the associated right-of-use assets.

**Disposals**

The disposals during year relate to the four stores where we purchased the freehold or long-lease during the year (2020: three stores). Following the purchase both the lease liabilities and right-of-use assets relating to these stores were derecognised. Additionally we disposed of the majority of our leases at Old Bailey office space, which we vacated during 2020. We had already impaired the right-of -use assets related during 2020 following our decision to no longer use this space.

### Low value and short leases

During the year ended 31 December 2021 £0.7 million (year ended 31 December 2020: £0.2 million) was recognised in the income statement with respect to assets of low value or a lease of less than 12 months.

### Future income due under non-cancellable property leases

We lease out surplus space in some of our properties. The table below sets out the cash payments expected over the remaining non-cancellable term of each lease, exclusive of VAT.

| Receivable | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Within one year | 1 | 1 | 1 | 1 |
| Due in one to five years | 4 | 4 | 4 | 4 |
| Due in more than five years | 4 | 5 | 4 | 5 |
| **Total** | 9 | 10 | 9 | 10 |

### Finance lease receivables

Through our asset finance business we lease a variety of assets to third parties, which typically consist of plant, machinery and vehicles. These rentals typically cover the assets' useful economic life and as such any residual value is minimal. Amounts receivable are classified as loans and advances to customers and are categorised within our asset and invoice finance lending per the breakdown provided in note 12.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 31 December 2021 | | | 31 December 2020 | | |
| Group | 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 | 7 | (1) | 6 | 8 | (1) | 7 |
| Due in one to five years | 10 | (1) | 9 | 13 | (1) | 12 |
| Due in more than five years | – | – | – | – | – | – |
| **Total** | 17 | (2) | 15 | 21 | (2) | 19 |

## 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. |

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **1 January** | 28 | 50 | 28 | 50 |
| Released to the income statement | (10) | (23) | (10) | (23) |
| Offset against capital expenditure (see note 15) | 1 | 1 | 1 | 1 |
| **31 December** | 19 | 28 | 19 | 28 |

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

As part of the grant we are subject to delivering a number of public commitments. These commitments can be found on BCR's (the awarding body) website. As at 31 December 2021 we are currently on track with the delivery of these commitments.

## 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.<br><br>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.<br><br>The majority of our stores and offices have an automatic right to renewal at the end of the lease under the provisions of the Landlord and Tenant Act 1954 ('the act'). Where this is the case we do not provide for restorations on these sites since we have no intention of vacating at the end of the lease term. For sites that are outside the act, or sites within the act where we think there is a chance we will vacate a site at the end of its lease, a provision is made for dilapidations.<br><br>The provision is made in line with the underlying obligations contained within the lease. |
| | Onerous contracts | Onerous contract provisions are recognised when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits we expect to be received under it.<br>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. |
| | 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. |
| | Other provisions | Other provisions consist of other sundry amounts that are provided for in the ordinary course of our business. |

No provision has been recognised in relation to any of the legal and regulatory matters set out in note 32.

| | |
|---|---|
| **Critical accounting judgement** | **Recognition of provisions**<br>A key area of judgement applied in the preparation of these financial statements is determining whether a present obligation exists and where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis. In the early stages of legal and regulatory matters, it is typically the case that it is not possible to reliably estimate the outcome and in these cases we do not provide for their outcome, however do provide further disclosures outlining the matters in further detail.<br><br>Additional information about legal and regulatory matters which constitute contingent liabilities is available in note 32. |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Customer remediation £'million | Dilapidations £'million | Onerous contracts £'million | Legal and regulatory £'million | Other provisions £'million | Total £'million |
| **1 January** | 2 | 3 | 6 | – | – | 11 |
| Additions | – | 2 | 5 | 5 | 1 | 13 |
| Released | – | (2) | (4) | – | – | (6) |
| Utilised | (1) | – | (2) | – | – | (3) |
| **31 December** | 1 | 3 | 5 | 5 | 1 | 15 |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Customer remediation £'million | Dilapidations £'million | Onerous contracts £'million | Legal and regulatory £'million | Other provisions £'million | Total £'million |
| **1 January** | 12 | 3 | – | – | 2 | 17 |
| Additions | 1 | – | 9 | – | – | 10 |
| Recognised in business combinations | – | – | 3 | – | – | 3 |
| Released | – | – | – | – | (2) | (2) |
| Utilised | (11) | – | (6) | – | – | (17) |
| **31 December** | 2 | 3 | 6 | – | – | 11 |

All additions have been recognised in the income statement, with the exception of £2 million provision for dilapidations. This has been recognised as an addition to the right-of-use assets (see note 14).

**Dilapidations**

The amounts provided in respect of dilapidations are calculated based on assessments by an independent qualified valuer. They represent the best estimate of the present value to restore the site to the condition required under the lease. As the date restoration is required may be up to 25 years in the future, there is uncertainty in this estimation. Additionally, for sites that are outside the act, should we be successful in renewing the lease at the end of its term, it is possible that the provision recognised may not be utilised.

The additional provision for dilapidations during the year relates to the three stores we will be closing in 2022 (where a provision had not already been recognised). A provision for the restoration of the Old Bailey office space was substantially released in the year following the disposal of the majority of this site.

The provision made in relation to these sites is expected to be utilised within the next two years.

**Onerous contracts**

Onerous contracts primarily relate to the non-rental costs of fulfilling property contracts from which we will no longer benefit. The additions in the year primarily relate to the three stores announced for closures and have been determined with reference to the occupancy costs from the date of closure through to the next lease break. Rental costs on these sites from which we will receive no future economic benefits are represented by an impairment to the right of use asset (see note 14 for further details). The utilisation and releases in the year relate to both occupancy costs at Old Bailey, a previous head office site, the majority of which has now been disposed of, as well as a provision in relation to negative margin peer-to-peer loans, which is no longer required following the acquisition of the RateSetter back book in April 2021.

The majority of our current onerous contract provisions are anticipated to be utilised within the next two years.

**Legal and regulatory**

Provision for regulatory matters consists of £5 million provided in respect of the FCA investigation into potential rule breaches in the period prior to the announcements made on 23 January 2019 and 26 February 2019 in relation to risk-weighted assets and AIRB accreditation respectively.

As at 31 December 2021 we believe there to be sufficient certainty in the outcome of this investigation to make a provision against the likely penalty. The actual level of penalty remains uncertain. Management expects that the outcome will sit within a range up to £13 million. The provision reflects management's best estimate of the outcome at this stage.

## 25. Other liabilities

| | Group 31 December 2021 £'million | Group 31 December 2020 £'million | Company 31 December 2021 £'million | Company 31 December 2020 £'million |
|---|---|---|---|---|
| Trade creditors | 4 | 4 | 4 | 4 |
| Taxation and social security costs | 11 | 9 | 10 | 8 |
| Accruals | 76 | 101 | 75 | 98 |
| Deferred income | 37 | 7 | 37 | 7 |
| Deferred consideration | 8 | 8 | 8 | 8 |
| Amounts payable to group undertakings | – | – | 7 | – |
| Other liabilities | 86 | 69 | 76 | 55 |
| **Total other liabilities** | 222 | 198 | 217 | 180 |
| Current portion | 175 | 172 | 170 | 154 |
| Non-current portion | 47 | 26 | 47 | 26 |

## 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. |

We have a single class of shares. As at 31 December 2021, we had 172.4 million ordinary shares of 0.0001p (31 December 2020: 172.4 million) authorised and in issue.

**Called-up ordinary share capital, issued and fully paid**

The called-up share capital reserve is used to record our nominal share capital. At 31 December 2021 our called-up share capital was £172.42 (31 December 2020: £172.42).

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **31 December** | – | – | – | – |

**Share premium**

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

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **31 December** | 1,964 | 1,964 | 1,964 | 1,964 |

## 27. Retained losses

Retained losses records our cumulative losses since our formation. The Group's retained losses also include the accumulated earnings of our subsidiaries since they were acquired.

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **1 January** | (694) | (392) | (689) | (397) |
| Loss for the year | (248) | (302) | (252) | (292) |
| **31 December** | (942) | (694) | (941) | (689) |

No dividends were paid during the year (2020: none). We do not currently have any distributable reserves and, as such, it is unlikely a dividend will be paid in the foreseeable future.

## 28. Other reserves

**Share option reserve**

The share option reserve is used to record movements in relation to share options awarded under our CSOP plans.

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **1 January** | 16 | 14 | 16 | 14 |
| Equity-settled share-based payment charges (note 7) | 2 | 2 | 2 | 2 |
| **31 December** | 18 | 16 | 18 | 16 |

**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.

| | Group 2021 £'million | Group 2020 £'million | Company 2021 £'million | Company 2020 £'million |
|---|---|---|---|---|
| **1 January** | 3 | (3) | 3 | (3) |
| Changes in fair value | (11) | 6 | (11) | 6 |
| Deferred tax movements | 3 | – | 3 | – |
| **31 December** | (5) | 3 | (5) | 3 |

**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 (see note 7 for further details). 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 2020: less than £1 million) and therefore 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.<br><br>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.<br><br>The fair value of colleague awards plans is calculated at the grant date using a Black-Scholes and Monte Carlo model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. |

We provide share award schemes to colleagues as part of their remuneration packages, and we operate a number of share-based compensation schemes, namely the Deferred Variable Reward Plan (DVRP) and Long Term Incentive Plan (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 Remuneration Committee. Standard share options are granted for no consideration, are not pensionable and carry no voting rights.

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 can be satisfied by market purchase or issue of new shares (via our Employee Benefit Trust). Further details on our treasury share can be found in note 28.

In 2021 we revised our approach to share-based compensation, although continue to recognise charges in relation to prior year schemes which continue to vest. Total share based compensation charges totalled £2.4 million in the year ended 2021 (2020: £2.0 million)

**Long Term Incentive Plan**
The LTIP is the primary long-term incentive plan for the members of the Group's Executive Committee. 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 primarily for senior managers (in 2021 this only consisted of the Executive Committee). 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 within the Group. 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 is available 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:

| Group | 2021 Number of options '000 | 2021 Weighted average exercise price £ | 2020 Number of options '000 | 2020 Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 January | 7,170 | 12.99 | 4,760 | 19.98 |
| Granted | 3,646 | – | 2,733 | 0.93 |
| Exercised | (3) | 0.93 | – | – |
| Lapsed | (336) | 5.49 | (323) | 14.06 |
| **Outstanding at 31 December** | 10,477 | 13.37 | 7,170 | 12.99 |
| **Exercisable at 31 December** | 4,202 | 18.29 | 3,468 | 19.74 |

The average share price during 2021 was 111p (2020: 114p). For share options exercised during the period, the weighted average share price at the date of exercise was 113p (2020: no options exercised).

**Fair value of options granted**

The number of options outstanding at year end was as follows:

| Exercise price | 2021 Number of options '000 | 2021 Weighted average remaining contractual life years | 2020 Number of options '000 | 2020 Weighted average remaining contractual life years |
|---|---|---|---|---|
| £0.00 | 3,646 | 9.4 | – | – |
| £0.93 | 2,403 | 8.3 | 2,629 | 9.3 |
| £7.94 | 712 | 7.2 | 752 | 8.2 |
| £9.00 | – | – | 47 | 0.8 |
| £10.00 | 128 | 0.8 | 128 | 1.8 |
| £12.00 | 235 | 1.8 | 235 | 2.8 |
| £13.00 | 60 | 2.2 | 60 | 3.2 |
| £13.50 | 616 | 2.8 | 616 | 3.8 |
| £14.00 | 194 | n/a | 194 | n/a |
| £16.00 | 611 | n/a | 607 | n/a |
| £20.00 | 444 | 4.2 | 446 | 5.2 |
| £32.73 | 633 | 5.2 | 639 | 6.2 |
| £35.36 | 795 | 6.2 | 817 | 7.2 |
| **Total** | 10,477 | 6.2 | 7,170 | 7.2 |

The total fair value of options granted in 2021 was £3.8 million (2020: £2.3 million), based on the following assumptions:

| Group | 2021 awards |
|---|---|
| Weighted average risk-free interest rate | 0.00% to 0.71% |
| Weighted average expected life | 1 to 8 years |
| Weighted average expected volatility | 136% |
| Weighted average expected dividend yield | nil |
| Weighted average share price | £1.11 |
| Weighted average exercise price | £0.00 |

Volatility has been estimated by taking the historical volatility in the Group's share price 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 award granted in 2021 as these we made to members of the Executive Committee the lapse assumption has been set at 0%.

## 30. Expected credit losses

**Accounting policy**

We assess on a forward-looking basis the expected credit losses (ECL) associated with the assets carried at amortised cost and FVOCI and recognise a loss allowance for such losses at each reporting date.

Impairment provisions are driven by changes in credit risk of loans and securities, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information.

**Loans and advances**

Sophisticated impairment models have been developed for our retail and commercial loan portfolios, with three core models: revolving products; fixed term loans; and mortgages. Expected credit losses are calculated for drawn loans, and for committed lending.

The same broad calculation approach is applied for each core model. Expected credit losses are calculated by multiplying three main components, being the probability of default, loss given default and the exposure at default, discounted at the original effective interest rate.

Key model inputs, judgements and estimates include:

- Consideration of when a significant increase in credit risk occurs.
- Probability of default (PD), loss given default and exposure at default as well as their modelled impact.
- Macroeconomic scenarios and weightings applied.

**Significant increase in credit risk**

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans. This is considered based on a staging approach:

| Stage | Description | ECL recognised |
|---|---|---|
| Stage 1 | Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk (high quality investment securities only) at the reporting date. | **12-month expected credit losses**<br>Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios. |
| Stage 2 | Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment. | **Lifetime expected credit losses**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. |
| Stage 3 | Financial assets that are credit impaired at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay. | **Lifetime expected credit losses**<br>Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.<br><br>Interest income is calculated on the carrying amount of the loan net of credit allowance. |
| Purchased or originated credit-impaired (POCI) assets | Financial assets that have been purchased and had objective evidence of being 'non-performing' or 'credit impaired' at the point of purchase. | **Lifetime expected credit losses**<br>At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognised as a loss allowance. |

A significant increase in credit risk may be identified in a number of ways:

- Quantitative criteria – where the numerically calculated probability of default on a loan has increased significantly since initial recognition. This is assessed using detailed models which assess whether the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, we implement different thresholds by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The threshold is set at three times the median PD of the portfolio at origination.
- Qualitative criteria – instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative analysis. In addition instruments classified on the Early Warning List as higher risk, are allocated to Stage 2, regardless of the results of the quantitative analysis.

A loan will be considered to be 'non-performing' or 'credit impaired' when it meets our definition of default – that is to say, the loan is 90 days past due, or the borrower is considered unlikely to pay without realisation of collateral. Unlikeliness to pay is assessed through the presence of triggers including the loan being in repossession, the customer having been declared bankrupt, or evidence of financial distress leading to forbearance.

A loan may also be considered to be non-performing when it is subject to forbearance measures, consisting of concessions in relation to:

- a modification of the previous terms and conditions of the loan which the borrower is not considered able to comply with; or
- a total or partial refinancing of a troubled debt contract that would not have been granted had the borrower not been in financial difficulties.

It may not be possible to identify a single discrete event which defines an asset as 'non-performing' or 'credit impaired'. Instead, the combined effect of several events may cause financial assets to become credit impaired.

A probation period is implemented before transferring a financial instrument to a lower stage (i.e. from Stage 3 to Stage 2, or from Stage 2 to Stage 1). Specifically, in order to move an account from Stage 3 to Stage 2, we apply a backstop such that the instrument should meet the Stage 2 criteria for three consecutive months. The same logic is applied when transferring an account from Stage 2 to Stage 1.

**Probability of default**
The probability of default represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (for Stage 1 accounts), or over the remaining lifetime of the loan (for Stage 2 and 3 accounts). A probability of default is calculated for all loans based on historic data and incorporates:

- Credit quality scores.
- Life cycle trends depending on a loan's vintage.
- Factors indicating the quality of the vintage.
- Characteristics of the current and future economic environment.

## 30. Expected credit losses continued

**Loss given default**
The loss given default (LGD) represents our expectation of the extent of a loss on a defaulted exposure, and is expressed as a percentage considering expected recoveries on defaulted accounts. We apply two LGD rates – one for unsecured lending and one for secured lending. LGD rates have been modelled considering a range of inputs, including:

- Value of collateral on secured portfolios – a key driver of the expected recovery in the event of default.
- Expected haircut applied to the collateral value to reflect a forced sale discount.
- Price index forecasts applied to project collateral values into the future.
- Stress factors based on macroeconomic scenarios.

**Exposure at default**
This is the amount that we expect to be owed at the point of default. This is subject to judgement since a balance will not necessarily remain static between the balance sheet date and the point of expected default. For example:

- Interest should be accrued.
- Repayments may be received on mortgages.
- For a revolving product, further drawings may be taken between the current point in time and the point of default.
- Estimations of these factors will be incorporated into our estimate of exposure at default.

PD, LGD and exposure at default are calculated and applied at an individual account level for secured lending. For unsecured lending, PD and exposure at default are calculated and applied at an individual account level, but LGD is assessed at a portfolio level and applied to accounts on an individual basis.

**Macroeconomic scenarios**
The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL, and are designed to capture material 'non-linearities' (i.e. where the increase in credit losses if conditions deteriorate, exceeds the decrease in credit losses if conditions improve).

In the normal course of business, we use three scenarios. These represent a 'most likely outcome', (the 'Baseline' scenario) and two, less likely, 'Outer' scenarios on either side of the Baseline scenario, referred to as an 'Upside' and a 'Downside' scenario respectively. The Baseline scenario captures the most likely economic future; the downside scenario presents particular adverse economic conditions; and the upside scenario presents more favourable economic conditions. During 2021 a fourth, 'Severe downside' macroeconomic scenario has been introduced across all portfolios to ensure the set of scenarios adequately reflect a wider range of downside risks which have been previously included within management overlays.

Key scenario assumptions are set using data sourced from independent external economists. This helps ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

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

- UK interest rates (five year mortgage rate).
- UK unemployment rates.
- UK HPI changes, year-on-year.
- UK GDP changes, year-on-year.

Macroeconomic scenarios impact the ECL calculation through varying PDs and LGDs. We use UK HPI to index mortgage collateral which has a direct impact on LGDs. Other metrics are considered to have a direct impact on PDs and were selected following a search and data calibration exercise of possible drivers. A list of around 15 potential drivers were initially considered, representing drivers which capture trends in the economy at large, and may indicate economic trends which will impact UK borrowers. The list included variables which impact economic output, interest rates, inflation, stock prices, borrower income and the UK housing market. An algorithm was then used to choose the subset of drivers which had the greatest significance and predictive fit to our data.

Each scenario was determined by flexing the baseline scenario, taking into account a number of factors in the global and UK economy such as commodity prices, global interest rates, UK investment spend and exchange rates, as well as the possible impact of recessionary conditions or financial shocks. A 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 2021 are as follows:

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

These assumptions are considered sufficient to capture any material non-linearities.

The weightings applied to each scenario at 31 December 2020 were Baseline – 40%, Upside – 30% and Downside – 30%.

**Economic variable assumptions**

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

| | | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|
| Interest rates (%) – five year mortgage rate | Base | 2.7% | 3.3% | 3.7% | 4.1% |
| | Upside | 3.0% | 3.6% | 4.2% | 4.6% |
| | Downside | 2.3% | 2.8% | 3.1% | 3.1% |
| | Severe downside | 2.1% | 2.6% | 2.9% | 3.1% |
| UK unemployment (%) | Base | 4.7% | 4.4% | 4.4% | 4.5% |
| | Upside | 3.9% | 3.3% | 3.5% | 3.8% |
| | Downside | 6.2% | 6.6% | 6.5% | 6.3% |
| | Severe downside | 7.2% | 7.5% | 7.2% | 7.1% |
| UK house price index – % change year-on-year | Base | 3.4% | 6.0% | 5.2% | 3.7% |
| | Upside | 14.2% | 8.5% | 4.8% | 2.1% |
| | Downside | (12.8%) | (8.1%) | (1.9%) | 4.4% |
| | Severe downside | (16.3%) | (10.3%) | (2.5%) | 4.3% |
| UK GDP – % change | Base | 3.9% | 3.1% | 1.4% | 1.0% |
| | Upside | 7.7% | 1.7% | 1.2% | 1.1% |
| | Downside | (2.3%) | 5.7% | 2.4% | 1.7% |
| | Severe downside | (3.9%) | 5.4% | 2.2% | 1.8% |

## 30. Expected credit losses continued

The assumptions used for the ECL estimate as at 31 December 2020 are as follows:

| | | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| Interest rates (%) | Base | 2.2% | 2.8% | 3.3% | 3.6% |
| | Upside | 2.4% | 2.9% | 3.7% | 4.2% |
| | Downside | 1.7% | 2.3% | 2.6% | 2.7% |
| UK unemployment (%) | Base | 7.4% | 6.8% | 5.9% | 5.5% |
| | Upside | 6.4% | 5.6% | 5.0% | 4.8% |
| | Downside | 9.2% | 9.3% | 8.3% | 7.6% |
| UK house price index – % change year-on-year | Base | (5.0%) | (3.2%) | 5.7% | 5.8% |
| | Upside | (1.1%) | 7.6% | 7.4% | 5.5% |
| | Downside | (9.8%) | (1.9%) | 4.7% | 6.8% |
| UK GDP – % change | Base | 6.8% | 5.4% | 2.7% | 1.0% |
| | Upside | 10.7% | 3.9% | 2.4% | 1.1% |
| | Downside | 1.8% | 7.0% | 3.0% | 1.0% |

Following the initial four-year projection period, the Upside, Downside and Severve 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 expected credit losses on other assets classified and measured at amortised cost and fair value through other comprehensive income. These include investment securities, cash held at banks and other financial assets. These impairment provisions are not material.

| Critical accounting judgement | **Measurement of the expected credit loss allowance**<br>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.<br><br>**Significant increase in credit risk**<br>IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans as a lifetime ECL is recognised compared to a 12-month ECL for performing loans. This is considered based on a staging approach. Financial assets that have had no significant increase in credit risk since initial recognition, or that have low credit risk at the reporting date, are considered to be performing loans and are classified as 'Stage 1'. Losses are calculated based on our expectation of defaults which may occur within the next 12 months. Assets which are considered to have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, are classified as 'Stage 2'. Losses are calculated based on defaults which may occur at any point in the asset's lifetime.<br><br>Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to Stage 2, is performed at each reporting period by considering the change in the PD expecting over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the PD occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.<br><br>In response to the COVID-19 pandemic we introduced the ability for our customers to request payment deferrals or covenant suspensions. As at 31 December 2021 all payment deferrals provided on our mortgage and consumer lending portfolios had ended. The use of a payment deferral is not in itself considered to be trigger of a significant increase in credit risk and as such the granting of a COVID-19 related payment deferral does not in itself result in a transfer between stages for the purposes of IFRS 9. Payment deferral is however a potential indicator of an increase risk and has been reflected via a post model overlay.<br><br>**Use of post model overlays and adjustments**<br>We have applied expert judgement to the measurement of the expected credit loss in the form of post model overlays and adjustments.<br><br>*Post model adjustments*<br>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 an account level.<br><br>*Post model overlays*<br>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).<br><br>The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by the Audit Committee (see page 117). |
|---|---|

## 30. Expected credit losses continued

| Critical accounting judgement | *ECL assessment*<br>Given the continued economic uncertainty, and further uncertainty on how the pandemic will unfold, we continue to maintain prudent levels of PMOs. The level of PMAs/PMOs has been reduced during 2021 with the total percentage of ECL stock comprised of PMAs/PMOs reducing to 26% (2020: 50%).<br><br>PMAs make up £9.1 million of the ECL stock for the year ending 31 December 2021 (2020: £23.1 million) and are being held in anticipation of IFRS 9 commercial models being implemented into production by H1 2022, once these are validated and approved through internal governance process, and are comprised of:<br><br>– IFRS 9 commercial Secured LGD model (2021: £9.8 million; 2020: £9.9m) – A management overlay raised in H2 2021 in anticipation of the new IFRS 9 Commercial model has been applied whilst this model is being reviewed.<br><br>– IFRS 9 commercial Business Loans Lifetime PD model scope extended to commercial Revolving facilities (2021: (£0.7) million; 2020: £10.9 million).<br><br>In 2020 a PMA of £2.3 million was also applied in respect of commercial fixed term EAD model (2020: £nil).<br><br>PMOs make up £35.0 million of the ECL stock for the year ending 31 December 2021 (2020: £54.0 million) and are comprised of:<br><br>– An overlay to reflect the existing payment deferrals provided to customers – For mortgages and consumer lending a portfolio level overlay has been maintained to reflect the increased risk for customers currently benefiting from COVID-19 payment deferrals (2021: £2.7 million; 2020: £10.9 million). This overlay has been reduced during 2021 as customers have demonstrated consistent repayments following the end of the deferral period. We expect this to be fully unwound in the first half of 2022.<br><br>– Uncertainties to economic forecast – To reflect the additional uncertainty not captured in the scenarios used. The latest commercial portfolio macroeconomic scenarios include a favourable view of GDP which reflects the benefits of the easing of lock-down restrictions. Further, government support schemes have artificially delayed default emergence. The commercial economic forecasts have been lagged, to capture the future default risk expected to emerge, as government support schemes came to an end in the second half of 2021. (2021: £9.6 million; 2020: £16.5 million).<br><br>– An expert judgement overlay for the commercial portfolio – To reflect additional downside risks as a result of COVID-19 and associated severe economic scenarios, including sector-based stress for customers benefiting from temporary COVID-19 support, additional stress on Hospitality sector due to the recent Omicron variant and a contagion overlay to reflect cross default risk (2021: £13.4 million; 2020: £10.6 million).<br><br>– An expert judgement overlay for the Mortgage portfolio – To reflect additional downside risks as a result of COVID-19 and associated severe economic scenarios (2021: £4.2 million; 2020: £nil).<br><br>– Climate change impact – An expert judgement overlay has been raised for 2021 to reflect the impact of Climate change on property values for the mortgage and commercial portfolios (2021: £5.1 million; 2020: £nil). The impact of climate change on our ECL will continue to evolve over time as the impacts of both climate change and associated policy responses by government become clearer.<br><br>In 2020 overlays were also applied in respect of Brexit (£8.5 million) and potential losses on government backed lending schemes (£7.5 million).<br><br>The overlays which reflect the continued COVID-19 uncertainty will continue to be reassessed based on the evolving economic, COVID-19 outlook and observation of performance data during 2022.<br><br>All PMOs impact the ECL measurement, however not all adjust the staging. |
|---|---|

**Critical accounting estimate**

**Measurement of the expected credit loss allowance**
We consider that the key source of estimation uncertainty relates to the formulation and incorporation of multiple forward-looking economic scenarios into the ECL estimates to meet the measurement objective of IFRS 9.

**Multiple forward-looking economic scenarios**
The ECL recognised in the financial statements reflects the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on a number of economic scenarios and including management overlays where required. These scenarios are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL.

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

- UK interest rates.
- UK unemployment rates.
- UK HPI changes, year on year.
- UK GDP changes, year on year.

The weightings applied to each scenario at 31 December 2021 and 31 December 2020 are:

| | 31 December 2021 % | 31 December 2020 % |
|---|---|---|
| Baseline | 40% | 40% |
| Upside | 20% | 30% |
| Downside | 30% | 30% |
| Severe downside | 10% | – |

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):

| £'million | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Baseline | 42 | 39 | 70 | 151 |
| Upside | 39 | 35 | 69 | 143 |
| Downside | 56 | 58 | 76 | 190 |
| Severe downside | 62 | 71 | 78 | 211 |
| Weighted | 47 | 49 | 73 | 169 |

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.

Post model overlays 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

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Retail mortgages | (7) | 18 |
| Consumer lending | 17 | 12 |
| Commercial lending (excluding asset and invoice finance) | 4 | 87 |
| Asset and invoice finance | 1 | 3 |
| Expected credit losses included within gains on sale of assets | – | 6 |
| Held for sale assets | – | 1 |
| Write-offs and other movements | 7 | – |
| **Total expected credit loss expense** | **22** | **127** |

**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 2021, the loss allowance included within the FVOCI reserve is £0.1 million (31 December 2020: £0.1 million).

All investment securities held at amortised cost are deemed to be in Stage 1. The total expected credit loss recognised for these assets at 31 December 2021 is £0.1 million (31 December 2020: £0.1 million).

*Loss allowance*

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

**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 2021, 79% (31 December 2020: 84%) of our loans consisted of retail mortgages and commercial term loans secured on collateral, with average debt-to-value of 55% (31 December 2020: 56%) and 57% (31 December 2020: 56%) respectively. Further details on the collateral of our loans can be found in the Risk Report.

As at 31 December 2021 we didn't hold any financial instruments for which no loss allowance was recognised because of collateral (31 December 2020: none).

**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 2021 | 5,911 | 863 | 118 | – | 6,892 | (5) | (17) | (4) | – | (26) | 5,906 | 846 | 114 | – | 6,866 |
| Transfers to/(from) Stage 1[1] | 362 | (345) | (17) | – | – | (8) | 8 | – | – | – | 354 | (337) | (17) | – | – |
| Transfers to/(from) Stage 2 | (469) | 477 | (8) | – | – | 1 | (1) | – | – | – | (468) | 476 | (8) | – | – |
| Transfers to/(from) Stage 3 | (19) | (26) | 45 | – | – | – | 1 | (1) | – | – | (19) | (25) | 44 | – | – |
| Net remeasurement due to transfers[2] | – | – | – | – | – | 7 | (1) | – | – | 6 | 7 | (1) | – | – | 6 |
| New lending[3] | 894 | 233 | – | – | 1,127 | (1) | (4) | – | – | (5) | 893 | 229 | – | – | 1,122 |
| Repayments, additional drawdowns and interest accrued | (131) | (17) | (2) | – | (150) | – | – | – | – | – | (131) | (17) | (2) | – | (150) |
| Derecognitions[4] | (1,002) | (122) | (22) | – | (1,146) | 1 | 1 | 1 | – | 3 | (1,001) | (121) | (21) | – | (1,143) |
| Changes to model assumptions[5] | – | – | – | – | – | 3 | 1 | (1) | – | 3 | 3 | 1 | (1) | – | 3 |
| **31 December 2021** | **5,546** | **1,063** | **114** | **–** | **6,723** | **(2)** | **(12)** | **(5)** | **–** | **(19)** | **5,544** | **1,051** | **109** | **–** | **6,704** |

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

1. Represents stage transfers prior to any ECL remeasurements.
2. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer. In addition it includes any ECL change resulting from model assumptions and forward looking information on these loans.
3. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed as well as any ECL that has been recognised in relation to these loans during the year.
4. Represents the 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.

## 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 2021 | 149 | 43 | 12 | – | 204 | (6) | (9) | (10) | – | (25) | 143 | 34 | 2 | – | 179 |
| Transfers to/(from) Stage 1 | 8 | (8) | – | – | – | (1) | 1 | – | – | – | 7 | (7) | – | – | – |
| Transfers to/(from) Stage 2 | (6) | 6 | – | – | – | – | – | – | – | – | (6) | 6 | – | – | – |
| Transfers to/(from) Stage 3 | (2) | (3) | 5 | – | – | – | 2 | (2) | – | – | (2) | (1) | 3 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 1 | – | (2) | – | (1) | 1 | - | (2) | – | (1) |
| New lending | 697 | 66 | 12 | 1 | 776 | (16) | (7) | (9) | – | (32) | 681 | 59 | 3 | 1 | 744 |
| Repayments, additional drawdowns and interest accrued | (20) | (9) | (1) | – | (30) | – | – | – | – | – | (20) | (9) | (1) | – | (30) |
| Derecognitions | (40) | (13) | (7) | – | (60) | 1 | 2 | 7 | – | 10 | (39) | (11) | – | – | (50) |
| Changes to model assumptions | – | – | – | – | – | 3 | 3 | – | – | 6 | 3 | 3 | – | – | 6 |
| **31 December 2021** | 786 | 82 | 21 | 1 | 890 | (18) | (8) | (16) | – | (42) | 768 | 74 | 5 | 1 | 848 |

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

**Commercial lending (excluding asset and invoice finance)**

Our top 10 commercial exposures total £326 million (2020: £366 million), representing 7% (2020: 8%) of our total commercial 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 2021 | 3,843 | 906 | 125 | – | 4,874 | (15) | (43) | (40) | – | (98) | 3,828 | 863 | 85 | – | 4,776 |
| Transfers to/(from) Stage 1 | 189 | (184) | (5) | – | – | (7) | 7 | – | – | – | 182 | (177) | (5) | – | – |
| Transfers to/(from) Stage 2 | (292) | 299 | (7) | – | – | 1 | (2) | 1 | – | – | (291) | 297 | (6) | – | – |
| Transfers to/(from) Stage 3 | (179) | (81) | 260 | – | – | – | 3 | (3) | – | – | (179) | (78) | 257 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 3 | (9) | (16) | – | (22) | 3 | (9) | (16) | – | (22) |
| New lending | 427 | 58 | 6 | – | 491 | (4) | (2) | (1) | – | (7) | 423 | 56 | 5 | – | 484 |
| Repayments, additional drawdowns and interest accrued | (120) | (31) | (12) | – | (163) | – | – | – | – | – | (120) | (31) | (12) | – | (163) |
| Derecognitions | (443) | (192) | (41) | – | (676) | 2 | 8 | 11 | – | 21 | (441) | (184) | (30) | – | (655) |
| Changes to model assumptions | – | – | – | – | – | (3) | 10 | (3) | – | 4 | (3) | 10 | (3) | – | 4 |
| **31 December 2021** | 3,425 | 775 | 326 | – | 4,526 | (23) | (28) | (51) | – | (102) | 3,402 | 747 | 275 | – | 4,424 |

| | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| £'million | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| 1 January 2020 | 3,628 | 72 | 51 | – | 3,751 | (4) | (1) | (6) | – | (11) | 3,624 | 71 | 45 | – | 3,740 |
| Transfers to/(from) Stage 1 | 13 | (11) | (2) | – | – | – | – | – | – | – | 13 | (11) | (2) | – | – |
| Transfers to/(from) Stage 2 | (678) | 679 | (1) | – | – | – | – | – | – | – | (678) | 679 | (1) | – | – |
| Transfers to/(from) Stage 3 | (80) | (20) | 100 | – | – | – | 1 | (1) | – | – | (80) | (19) | 99 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | – | (28) | (29) | – | (57) | – | (28) | (29) | – | (57) |
| New lending | 1,462 | 199 | 8 | – | 1,669 | (4) | (13) | (3) | – | (20) | 1,458 | 186 | 5 | – | 1,649 |
| Repayments, additional drawdowns and interest accrued | (111) | 1 | (7) | – | (117) | – | – | – | – | – | (111) | 1 | (7) | – | (117) |
| Derecognitions | (391) | (14) | (24) | – | (429) | 1 | 1 | 2 | – | 4 | (390) | (13) | (22) | – | (425) |
| Changes to model assumptions | – | – | – | – | – | (8) | (3) | (3) | – | (14) | (8) | (3) | (3) | – | (14) |
| 31 December 2020 | 3,843 | 906 | 125 | – | 4,874 | (15) | (43) | (40) | – | (98) | 3,828 | 863 | 85 | – | 4,776 |

### 30. Expected credit losses continued

**Asset and invoice finance**

| £'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 2021 | 272 | – | 2 | – | 274 | (4) | – | (1) | – | (5) | 268 | – | 1 | – | 269 |
| Transfers to/(from) Stage 1 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Transfers to/(from) Stage 2 | (5) | 5 | – | – | – | – | – | – | – | – | (5) | 5 | – | – | – |
| Transfers to/(from) Stage 3 | (2) | – | 2 | – | – | – | – | – | – | – | (2) | – | 2 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | – | (1) | (1) | – | (2) | – | (1) | (1) | – | (2) |
| New lending | 139 | – | – | – | 139 | (2) | – | – | – | (2) | 137 | – | – | – | 137 |
| Repayments, additional drawdowns and interest accrued | (47) | – | (1) | – | (48) | – | – | – | – | – | (47) | – | (1) | – | (48) |
| Derecognitions | (43) | – | (2) | – | (45) | 1 | – | 1 | – | 2 | (42) | – | (1) | – | (43) |
| Changes to model assumptions | – | – | – | – | – | 1 | – | – | – | 1 | 1 | – | – | – | 1 |
| **31 December 2021** | 314 | 5 | 1 | – | 320 | (4) | (1) | (1) | – | (6) | 310 | 4 | – | – | 314 |

| £'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 2020 | 301 | – | – | – | 301 | (2) | – | – | – | (2) | 299 | – | – | – | 299 |
| Transfers to/(from) Stage 1 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Transfers to/(from) Stage 2 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Transfers to/(from) Stage 3 | (4) | – | 4 | – | – | – | – | – | – | – | (4) | – | 4 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | – | – | (1) | – | (1) | – | – | (1) | – | (1) |
| New lending | 100 | – | 1 | – | 101 | (2) | – | – | – | (2) | 98 | – | 1 | – | 99 |
| Repayments, additional drawdowns and interest accrued | (90) | – | (2) | – | (92) | – | – | – | – | – | (90) | – | (2) | – | (92) |
| Derecognitions | (35) | – | (1) | – | (36) | – | – | – | – | – | (35) | – | (1) | – | (36) |
| Changes to model assumptions | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| 31 December 2020 | 272 | – | 2 | – | 274 | (4) | – | (1) | – | (5) | 268 | – | 1 | – | 269 |

### Total

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| 1 January 2021 | 10,175 | 1,812 | 257 | – | 12,244 | (30) | (69) | (55) | – | (154) | 10,145 | 1,743 | 202 | – | 12,090 |
| Transfers to/(from) Stage 1 | 559 | (537) | (22) | – | – | (16) | 16 | – | – | – | 543 | (521) | (22) | – | – |
| Transfers to/(from) Stage 2 | (772) | 787 | (15) | – | – | 2 | (3) | 1 | – | – | (770) | 784 | (14) | – | – |
| Transfers to/(from) Stage 3 | (202) | (110) | 312 | – | – | – | 6 | (6) | – | – | (202) | (104) | 306 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 11 | (11) | (19) | – | (19) | 11 | (11) | (19) | – | (19) |
| New lending | 2,157 | 357 | 18 | 1 | 2,533 | (23) | (13) | (10) | – | (46) | 2,134 | 344 | 8 | 1 | 2,487 |
| Repayments, additional drawdowns and interest accrued | (318) | (57) | (16) | – | (391) | – | – | – | – | – | (318) | (57) | (16) | – | (391) |
| Derecognitions | (1,528) | (327) | (72) | – | (1,927) | 5 | 11 | 20 | – | 36 | (1,523) | (316) | (52) | – | (1,891) |
| Changes to model assumptions | – | – | – | – | – | 4 | 14 | (4) | – | 14 | 4 | 14 | (4) | – | 14 |
| **31 December 2021** | 10,071 | 1,925 | 462 | 1 | 12,459 | (47) | (49) | (73) | – | (169) | 10,024 | 1,876 | 389 | 1 | 12,290 |
| Off-balance sheet items | | | | | | | | | | | | | | | |
| Commitments and guarantees[1] | | | | | 1,245 | | | | | – | | | | | 1,245 |

| £'million | Gross carrying amount | | | | | Loss allowance | | | | | Net carrying amount | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| 1 January 2020 | 14,026 | 574 | 115 | – | 14,715 | (9) | (5) | (20) | – | (34) | 14,017 | 569 | 95 | – | 14,681 |
| Transfers to/(from) Stage 1 | 122 | (117) | (5) | – | – | (1) | 1 | – | – | – | 121 | (116) | (5) | – | – |
| Transfers to/(from) Stage 2 | (1,299) | 1,301 | (2) | – | – | 1 | (1) | – | – | – | (1,298) | 1,300 | (2) | – | – |
| Transfers to/(from) Stage 3 | (142) | (43) | 185 | – | – | – | 2 | (2) | – | – | (142) | (41) | 183 | – | – |
| Net remeasurement due to transfers | – | – | – | – | – | 1 | (43) | (34) | – | (76) | 1 | (43) | (34) | – | (76) |
| New lending | 2,139 | 249 | 10 | – | 2,398 | (11) | (16) | (3) | – | (30) | 2,128 | 233 | 7 | – | 2,368 |
| Repayments, additional drawdowns and interest accrued | (337) | (30) | (10) | – | (377) | – | – | – | – | – | (337) | (30) | (10) | – | (377) |
| Transfers to held for sale | (289) | (7) | – | – | (296) | 1 | – | – | – | 1 | (288) | (7) | – | – | (295) |
| Derecognitions | (4,045) | (115) | (36) | – | (4,196) | 4 | 2 | 4 | – | 10 | (4,041) | (113) | (32) | – | (4,186) |
| Changes to model assumptions | – | – | – | – | – | (16) | (9) | – | – | (25) | (16) | (9) | – | – | (25) |
| 31 December 2020 | 10,175 | 1,812 | 257 | – | 12,244 | (30) | (69) | (55) | – | (154) | 10,145 | 1,743 | 202 | – | 12,090 |
| Off-balance sheet items | | | | | | | | | | | | | | | |
| Commitments and guarantees | | | | | 769 | | | | | – | | | | | 769 |

1. Represents undrawn lending facilities. Further details can be found in note 31.

### 30. Expected credit losses continued

**Credit risk exposures**

*Retail mortgages*

| £'million | 31 December 2021 Stage 1 12-month ECL | 31 December 2021 Stage 2 Lifetime ECL | 31 December 2021 Stage 3 Lifetime ECL | 31 December 2021 POCI Lifetime ECL | 31 December 2020 Stage 1 12-month ECL | 31 December 2020 Stage 2 Lifetime ECL | 31 December 2020 Stage 3 Lifetime ECL | 31 December 2020 POCI Lifetime ECL |
|---|---|---|---|---|---|---|---|---|
| Up to date | 5,544 | 1,010 | 38 | – | 5,911 | 802 | 47 | – |
| 1 to 29 days past due | 2 | 27 | 9 | – | – | 18 | 8 | – |
| 30 to 89 days past due | – | 26 | 16 | – | – | 43 | 13 | – |
| 90+ days past due | – | – | 51 | – | – | – | 50 | – |
| **Gross carrying amount** | 5,546 | 1,063 | 114 | – | 5,911 | 863 | 118 | – |

*Consumer lending*

| £'million | 31 December 2021 Stage 1 12-month ECL | 31 December 2021 Stage 2 Lifetime ECL | 31 December 2021 Stage 3 Lifetime ECL | 31 December 2021 POCI Lifetime ECL | 31 December 2020 Stage 1 12-month ECL | 31 December 2020 Stage 2 Lifetime ECL | 31 December 2020 Stage 3 Lifetime ECL | 31 December 2020 POCI Lifetime ECL |
|---|---|---|---|---|---|---|---|---|
| Up to date | 786 | 71 | 2 | – | 149 | 38 | – | – |
| 1 to 29 days past due | – | 2 | – | – | – | 3 | – | – |
| 30 to 89 days past due | – | 9 | 3 | – | – | 2 | – | – |
| 90+ days past due | – | – | 16 | 1 | – | – | 12 | – |
| **Gross carrying amount** | 786 | 82 | 21 | 1 | 149 | 43 | 12 | – |

*Commercial lending (excluding asset and invoice finance)*

| £'million | 31 December 2021 Stage 1 12-month ECL | 31 December 2021 Stage 2 Lifetime ECL | 31 December 2021 Stage 3 Lifetime ECL | 31 December 2021 POCI Lifetime ECL | 31 December 2020 Stage 1 12-month ECL | 31 December 2020 Stage 2 Lifetime ECL | 31 December 2020 Stage 3 Lifetime ECL | 31 December 2020 POCI Lifetime ECL |
|---|---|---|---|---|---|---|---|---|
| Up to date | 3,414 | 654 | 117 | – | 3,843 | 863 | 96 | – |
| 1 to 29 days past due | 11 | 43 | 2 | – | – | 21 | 2 | – |
| 30 to 89 days past due | – | 78 | 23 | – | – | 22 | 11 | – |
| 90+ days past due | – | – | 184 | – | – | – | 16 | – |
| **Gross carrying amount** | 3,425 | 775 | 326 | – | 3,843 | 906 | 125 | – |

*Asset and invoice finance credit risk exposure*

| £'million | 31 December 2021 Stage 1 12-month ECL | 31 December 2021 Stage 2 Lifetime ECL | 31 December 2021 Stage 3 Lifetime ECL | 31 December 2021 POCI Lifetime ECL | 31 December 2020 Stage 1 12-month ECL | 31 December 2020 Stage 2 Lifetime ECL | 31 December 2020 Stage 3 Lifetime ECL | 31 December 2020 POCI Lifetime ECL |
|---|---|---|---|---|---|---|---|---|
| Up to date | 313 | 2 | 1 | – | 272 | – | – | – |
| 1 to 29 days past due | 1 | 3 | – | – | – | – | – | – |
| 30 to 89 days past due | – | – | – | – | – | – | – | – |
| 90+ days past due | – | – | – | – | – | – | 2 | – |
| **Gross carrying amount** | 314 | 5 | 1 | – | 272 | – | 2 | – |

**Write-off policy**

We write off financial assets (either partially or fully) when there is no realistic expectation of receiving further payment from the customer. Indicators that there is no reasonable expectation of recovery include debt sale to a third party and ceasing enforcement activity. We may write-off financial assets that are still subject to enforcement activity.

**Modification of financial assets**

We sometimes renegotiate the terms of loans provided to customers with a view to maximising recovery. Restructuring activities include extended payment arrangements or the modification or deferral of payments.

The modifications, including payment deferrals have not led to any material modification gains or losses being recognised.

## 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.<br><br>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).<br><br>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 2021, we had undrawn loan facilities granted to retail and commercial customers of £1,245 million (2020: £769 million). The increase from 2020 to 2021 reflects a large pipeline of RLS lending as at 31 December 2021.

In addition, as part of our retail and commercial operations, we had commitments of £302 million (2029: £351 million) in respect of credit card and overdraft facilities. These commitments represent agreements to lend in the future, subject to certain conditions. Such commitments are cancellable, subject to notice requirements, and given their nature are not expected to be drawn down to the full level of exposure.

## 32. Legal and regulatory matters

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

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 (details of our provisions are set out in note 24). This is because, based on the facts currently known, it is not practicable to predict the outcome of any of these matters or reliably estimate any financial impact. Their inclusion does not constitute any admission of wrongdoing or legal liability.

**Financial Crime**

In 2017 and 2019 initial disclosures were made to the US Office of Foreign Assets Control (OFAC) in relation to Cuba and Iran. We completed our review in respect of these matters in December 2021 and have submitted our findings to OFAC. We continue to engage and co-operate fully with our regulators. At this stage it is not practicable to identify the likely outcome or to estimate the potential financial impact with any certainty.

In addition, we continue to engage and co-operate fully with the FCA's enquiries regarding the Bank's financial crime systems and controls. These enquiries remain at a relatively early stage.

## 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 2021 | | | | | 31 December 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Effects of offsetting on the balance sheet | | | Related amounts not offset | | Effects of offsetting on the balance sheet | | | Related amounts not offset | |
| Group | Gross amount £'million | Gross amounts offset in the balance sheet £'million | Net amounts presented in the balance sheet £'million | Amounts pledged as collateral £'million | Net amount £'million | Gross amount £'million | Gross amounts offset in the balance sheet £'million | Net amounts presented in the balance sheet £'million | Amounts pledged as collateral £'million | Net amount £'million |
| **Assets** | | | | | | | | | | |
| Loans and advances to customers | 12,290 | – | 12,290 | (3,956) | 8,334 | 12,090 | – | 12,090 | (4,177) | 7,913 |
| Investment securities | 5,574 | – | 5,574 | (1,491) | 4,083 | 3,413 | – | 3,413 | (1,186) | 2,227 |
| Derivative financial assets | 1 | (11) | (10) | – | (10) | 1 | (9) | (8) | – | (8) |
| Deferred tax assets | 16 | (28) | (12) | – | (12) | 15 | (27) | (12) | – | (12) |
| Other assets | 76 | – | 76 | (36) | 40 | 2,621 | – | 2,621 | (36) | 2,585 |

## 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, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, we will classify the instruments as Level 3.
- **Level 3 financial instruments** – Those that include one or more unobservable input that is significant to the measurement as whole.

| | 31 December 2021 | | | | | 31 December 2020 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Group | Carrying value £'million | Quoted market price Level 1 £'million | Using observable inputs Level 2 £'million | With significant unobservable inputs Level 3 £'million | Total fair value £'million | 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 | 12,290 | – | – | 12,356 | 12,356 | 12,090 | – | – | 11,892 | 11,892 |
| Investment securities held at FVOCI | 798 | 760 | 38 | – | 798 | 773 | 723 | 50 | – | 773 |
| Investment securities held at amortised cost | 4,776 | 2,977 | 1,710 | 60 | 4,747 | 2,640 | 1,021 | 1,567 | 66 | 2,654 |
| Financial assets held at FVTPL | 3 | – | – | 3 | 3 | 30 | – | – | 30 | 30 |
| **Liabilities** | | | | | | | | | | |
| Deposits from customers | 16,448 | – | – | 16,452 | 16,452 | 16,072 | – | – | 16,147 | 16,147 |
| Deposits from central bank | 3,800 | – | – | 3,800 | 3,800 | 3,808 | – | – | 3,808 | 3,808 |
| Debt securities | 588 | 495 | – | – | 495 | 600 | 483 | – | – | 483 |
| Financial liabilities held at FVTPL | – | – | – | – | – | 30 | – | – | 30 | 30 |
| Derivative financial liabilities | 10 | – | 10 | – | 10 | 8 | – | 8 | – | 8 |
| Repurchase agreements | 169 | – | – | 169 | 169 | 196 | – | – | 196 | 196 |

Cash and balances with the Bank of England, trade and other receivables, trade and other payables, assets classified as held for sale and other assets and liabilities which meet the definition of financial instruments are not included in the tables. Their carrying amount is a reasonable approximation of fair value.

Information on how fair values are calculated are explained below:

**Loans and advances to customers**
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

**Investment securities**
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value Level 1 assets), or using observable inputs (in the case of fair value Level 2 assets).

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

**Deposits from customers**
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

**Debt securities**
Fair values are determined using the quoted market price at the balance sheet date.

**Deposits from central banks/repurchase agreements**
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short-dated.

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

## 35. Related parties

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

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

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Short-term benefits | 5.4 | 5.3 |
| Post-employment benefits | 0.1 | 0.1 |
| Share-based payment costs | 1.3 | 0.7 |
| **Total compensation for key management personnel** | 6.8 | 6.1 |

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

## 35. Related parties continued

**Banking transactions with key management personnel**

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

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Loans outstanding at 1 January | 1.9 | 0.7 |
| Loans relating to persons and companies newly considered related parties | – | 1.8 |
| Loans relating to persons and companies no longer considered related parties | (0.5) | (0.6) |
| Loans issued during the year | 1.8 | – |
| Loans outstanding as at 31 December | 3.2 | 1.9 |
| Interest expense on loans payable to the Group (£'000) | 30 | 34 |

There were three (31 December 2020: three) loans outstanding at 31 December 2021 totalling £3.2 million (31 December 2020: £1.9 million). Of these, two are residential mortgages secured on property and one is an asset finance loan; all loans were provided on our standard commercial terms.

In addition to the loans detailed above, we have issued credit cards and granted overdraft facilities on current accounts to Directors and key management personnel.

Credit card balances outstanding at 31 December were as follows:

| Group | 2021 £'000 | 2020 £'000 |
|---|---|---|
| Credit cards outstanding as at 31 December | 5 | 22 |

Deposit transactions during the year and the balances outstanding at 31 December were as follows:

| Group | 2021 £'million | 2020 £'million |
|---|---|---|
| Deposits held at 1 January | 2.1 | 3.3 |
| Deposits relating to persons and companies newly considered related parties | 0.1 | 0.2 |
| Deposits relating to persons and companies no longer considered related parties | (0.1) | (0.3) |
| Net amounts withdrawn | (0.6) | (1.1) |
| Deposits outstanding as at 31 December | 1.5 | 2.1 |

**Transactions with Group companies**

Details of transactions with Group companies can be found within note 37.

## 36. Loss per share

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

| | 2021 | 2020 |
|---|---|---|
| Loss attributable to ordinary equity holders of Metro Bank (£'million) | (248.2) | (301.7) |
| Weighted average number of ordinary shares in issue – basic ('000) | 172,421 | 172,420 |
| **Basic loss per share (pence)** | (144.0) | (175.0) |

Diluted loss per share has been calculated by dividing the loss attributable to ordinary equity holders of Metro Bank by the weighted average number of ordinary shares in issue during the year plus the weighted average number of ordinary shares that would be issued on the conversion to shares of options granted to colleagues. As we made a loss during both the years to 31 December 2021 and 31 December 2020, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive loss per share.

| | 2021 | 2020 |
|---|---|---|
| Loss attributable to ordinary equity holders of Metro Bank (£'million) | (248.2) | (301.7) |
| Weighted average number of ordinary shares in issue – diluted ('000) | 172,421 | 172,420 |
| **Diluted loss per share (pence)** | (144.0) | (175.0) |

There have been no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements which would require the restatement of EPS.

## 37. Investment in subsidiaries

The Group had the following subsidiaries at 31 December 2021:

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares directly held by the Parent (%) | Proportion of ordinary shares directly held by the Group (%) |
|---|---|---|---|---|
| SME Invoice Finance Limited[1] | UK | Invoice financing and factoring | 100 | – |
| SME Asset Finance Limited[1] | UK | Asset finance | – | 100 |
| RDM Factors Limited[1] | UK | Dormant | – | 100 |
| Retail Money Market LTD[2] | UK | Peer to peer lending | 100 | – |
| RateSetter Trustee Services Limited[2] | UK | Dormant | – | 100 |
| RateSetter Motor Limited[2] | UK | Dormant | – | 100 |
| Security Trustee Services Limited[2] | UK | Dormant | 100 | – |
| Vehicle Credit Limited[3] | UK | Motor Finance | 100 | – |
| Vehicle Stocking Limited[3] | UK | Dormant | – | 100 |

1. Registered address One Southampton Row, London, W21B 5HA.
2. Registered address 6th Floor, 55 Bishopsgate, London, EC2N 3AS.
3. Registered address No.1, Osiers Business Centre, Leicester, LE19 1DX.

The proportion of the voting rights in the subsidiary undertakings held directly by the Company do not differ from the proportion of ordinary shares held.

We are currently in the process of winding up a number of the subsidiaries.

## 37. Investment in subsidiaries continued

**Investment in subsidiaries**

| | Company 2021 £'million | Company 2020 £'million |
|---|---|---|
| 1 January | 59 | 15 |
| Cost of subsidiaries acquired | – | 11 |
| Capital injections into subsidiaries post acquisition | 18 | 33 |
| Impairment of subsidiaries | (46) | – |
| **31 December** | 31 | 59 |

In April 2021 we purchased the back book of peer-to-peer loans from RateSetter investors. As a result of that transaction the provision fund that RateSetter operated (via RateSetter Trustee Services Limited) for the benefit of these investors ceased to have liability for further claims, which resulted in a net release of £18 million of liabilities. This was treated as a deemed capital contribution due to the resulting increase in the subsidiary's net asset.

Following the acquisition of the back book we have been rationalising the Group structure with nearly all activities being transferred to the Company during the year. We envisage dissolving the majority of the remaining RateSetter subsidiaries over the course of 2022.

Given that limited trading activities continue to occur in the RateSetter business we undertook an impairment assessment. The recoverable amount of the investment in RateSetter has been determined to be the fair value of the net assets remaining in the business, which will be distributed back to the Company. This resulted in an impairment charge of £46 million.

**Transactions between the Company and Group subsidiaries**

| | Company 2021 £'million | Company 2020 £'million |
|---|---|---|
| Interest on inter-Company loan with SME Asset/Invoice Finance | 6.4 | 6.7 |
| Servicing fees paid to RateSetter | 5.9 | 0.5 |

| | Company 2021 £'million | Company 2020 £'million |
|---|---|---|
| Amounts outstanding as at 31 December owed by SME Asset/Invoice Finance | 312 | 260 |
| Amounts outstanding as at 31 December owed to RateSetter | 5 | – |

The expected credit loss recognised within the Company's financial statements in respect of the inter-Company loan facility is less than £0.1 million (31 December 2020: less than £0.1 million).

The transactions above are eliminated upon consolidation.

## 38. Post balance sheet events

There have been no material post balance sheet events.

# Country-by-country report

The reporting obligations set out in Article 89 of the European Union's 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 Company, Metro Bank, 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) | 4,184 |
| Turnover (£'million) | 418.5 |
| Loss before tax (£'million) | 245.1 |
| Tax expense (£'million) | 3.1 |
| Corporation tax paid (£'million) | – |

No public subsidies were received during the year.

## Basis of preparation

**Country**

Metro Bank PLC and its subsidiaries only operate with the United Kingdom (UK) and are all UK registered entities.

**Full-time equivalent employees (FTEs)**

FTEs 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 FTEs, all of which were employed in the UK.

**Turnover and loss before tax**

Turnover and loss before tax are compiled from the Metro Bank PLC consolidated financial statements for the year ended 31 December 2021, which are prepared in accordance with International Financial Reporting Standards (IFRSs). 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 2021. 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.
- The Group brought forward into 2021 tax losses from previous years that were used to extinguish a portion of its taxable profits in 2021 and will be similarly used in future years.
- Other differences between when income and expenses are accounted for under IFRSs and when they become taxable.

# Independent auditors’ report

to the directors of Metro Bank PLC

## Report on the audit of the country-by-country information

### Opinion

In our opinion, Metro Bank PLC’s (the “group”) country-by-country information for the year ended 31 December 2021 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 2021 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:

- Evaluation of management’s financial and regulatory capital forecasts. We also performed a comparison of the 2021 budget and the actual results to assess the accuracy of the budgeting process;
- Reviewing the severity and assumptions behind management’s severe but plausible downside scenarios and, using our knowledge from the audit, calculating our own sensitivities. We evaluated the impacts on the group’s compliance with minimum regulatory capital requirements;
- Gaining an understanding of the status of the company’s application to the PRA for advanced IRB model approval, including inquiries of management, a review of correspondence and discussions with the PRA;
- Considering the potential mitigating actions that management may have available to it, including portfolio asset sales, and assessing whether these were in the control of management and possible in the going concern period of assessment and evaluating the impact on regulatory capital; and
- Reviewing management’s stress testing of liquidity and evaluation of the impact on liquidity of past stress events. We also substantiated the liquid resources held, and liquidity facilities available to the group, for example, with the Bank of England.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s 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.

## 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), Prudential Regulatory Authority (PRA) and the Consumer Credit Act 1974, and we considered the extent to which non-compliance might have a material effect on the country-by-country information. We also considered those laws and regulations that have a direct impact on the country-by-country information such as applicable 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 with regulators, such as the FCA and the PRA in relation to the group's compliance with banking regulations;
- Incorporating unpredictability into the nature, timing and/or extent of our testing;
- Challenging assumptions and judgements made by management in their estimation of the allowance for ECL on loans and advances to customers, the assessment of the carrying value of non-financial assets (excluding goodwill) and the ability of the group to continue as a going concern ; and
- Identifying and testing journal entries including those posted by infrequent or unexpected users, those posted to unusual account combinations and those posted late in the financial reporting process.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the 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.

# Independent auditors' report continued

to the directors of Metro Bank PLC

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
23 March 2022

# Other disclosures
**(Unaudited)**

**Reconciliation of statutory balance sheet to risk-weighted assets**

| Group | 31 December 2021 Financial statements £'million | 31 December 2021 Average risk density | 31 December 2021 Risk-weighted assets £'million | 31 December 2020 Financial statements £'million | 31 December 2020 Average risk density | 31 December 2020 Risk-weighted assets £'million |
|---|---|---|---|---|---|---|
| Cash and balances with the Bank of England | 3,568 | 1% | 33 | 2,993 | 1% | 32 |
| Loans and advances to customers | 12,290 | 42% | 5,204 | 12,090 | 42% | 5,068 |
| Investment securities held at fair value through other comprehensive income | 798 | 2% | 19 | 773 | 5% | 39 |
| Investment securities held at amortised cost | 4,776 | 6% | 301 | 2,640 | 12% | 328 |
| Financial assets held at fair value through profit and loss | 3 | – | – | 30 | – | – |
| Property, plant and equipment | 765 | 100% | 765 | 806 | 100% | 806 |
| Intangible assets | 243 | 26% | 64 | 254 | 30% | 75 |
| Prepayments and accrued income | 68 | 84% | 57 | 77 | 81% | 62 |
| Assets classified as held for sale | – | – | – | 295 | 36% | 105 |
| Deferred tax asset[1] | – | n/a | 5 | – | n/a | 2 |
| Other assets | 76 | 97% | 74 | 2,621 | 22% | 567 |
| Total assets | 22,587 | 29% | 6,522 | 22,579 | 31% | 7,084 |
| Off-balance sheet assets | | | 188 | | | 167 |
| Credit risk (excluding counterparty credit risk) | | | 6,710 | | | 7,251 |
| CRR | | | 6 | | | 7 |
| Market risk | | | 9 | | | 14 |
| Operational risk | | | 729 | | | 685 |
| Total risk-weighted assets | | | 7,454 | | | 7,957 |

1. In the consolidated balance sheet per the financial statements, deferred tax is shown as a net figure with the deferred tax liability, however from a regulatory perspective the deferred tax asset and liability are treated separately.

# Alternative performance measures
**(Unaudited)**

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP) under which we report. These measures are consistent with those used by management to assess underlying performance. In addition, a number of non-IFRS metrics are calculated which are commonly used within the banking industry.

These alternative performance measures have been defined below:

**Cost of risk**
Expected credit loss expense divided by average gross loans.

| | 2021 £'million | 2020 £'million |
|---|---|---|
| Expected credit loss expense (note 31) | 22.4 | 126.7 |
| Average gross lending | 12,330 | 14,675 |
| **Cost of risk** | 0.18% | 0.86% |

**Cost of deposits**
Interest expense on customer deposits divided by the average deposits from customers for the year.

| | 2021 £'million | 2020 £'million |
|---|---|---|
| Interest on customer deposits (note 2) | 40.1 | 99.1 |
| Average deposits from customer | 16,369 | 15,262 |
| **Cost of deposits** | 0.24% | 0.65% |

**Loan-to-deposit ratio**
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.

| | 2021 £'million | 2020 £'million |
|---|---|---|
| Loans and advances to customers (note 12) | 12,290 | 12,090 |
| Deposits from customer (note 19) | 16,448 | 16,072 |
| **Loan-to-deposit ratio** | 75% | 75% |

**Net interest margin**
Net interest income as a percentage of average interest-earning assets.

| | 2021 £'million | 2020 £'million |
|---|---|---|
| Net interest income (note 2) | 295.3 | 249.7 |
| Average interest-earning assets | 21,128 | 20,550 |
| **Net interest margin** | 1.40% | 1.22% |

**Non-performing loan ratio**
Gross balance of loans in stage three (non-performing loans) as a percentage of gross loans as at year end.

| | 2021 £'million | 2020 £'million |
|---|---|---|
| Stage three loans (note 30) | 462 | 257 |
| Loans and advances to customers (note 12) | 12,459 | 12,244 |
| **Non-performing loan ratio** | 3.71% | 2.10% |

**Underlying loss**

Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business.

The following items are considered to be non-underlying:

| Non-underlying item | Description | Reason for exclusion |
|---|---|---|
| Listing Share Awards | Share awards granted to key members of management in 2016 in recognition of their significant contribution to the successful listing on the London Stock Exchange. These share awards vest annually until April 2021. | The awards were one-off in nature as they directly related to our listing on the London Stock Exchange and are distinct from the annual share options we grant. The last tranche of share awards vested in 2021 and as such will not be present in the non-underlying items in 2022. |
| Impairment and write-offs of PPE and intangible assets | The costs associated with non-current assets that are no longer being used by and/or generate future economic benefit for the business. | The impairments and write-offs relating to PPE and intangible assets is removed as they distort comparison between years. This is on the basis that the write-offs and impairments relate to specific events and triggers which are not consistent between years. |
| Net BCR 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 fulfiling 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 comprise of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to financial crime. | The remediation costs are felt to be time limited and will disappear once the investigations have concluded. As such are removed to allow greater comparability between periods.<br><br>Following the conclusion of the PRA and near completion of the associated FCA investigation we anticipate these costs reducing into 2022 with the future costs primarily being in relation to the regulatory matters regarding financial crime. |
| Transformation costs | Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme. | The transformation costs are seen as a non-recurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent year-on-year distortion. As we are approaching the final stages of our turnaround we anticipate these costs reducing in 2022 with no further transformation costs being recognised in 2023. |
| Business acquisition and integration costs | The costs associated with acquiring and integrating RateSetter. | We acquire businesses infrequently and the costs are not anticipated to be recurring. Given the integration of RateSetter was substantially completed in 2021, any further costs will not be presented as non-underlying going forward. |
| Mortgage portfolio sale | The gain on sale and associated costs of the £3.1 billion mortgage portfolio sale. It also includes the income and cost of servicing this portfolio until it was transferred in 2021. | The sale of loan portfolios is generally not considered in line with our business model. Given the infrequency of sales and the quantum of the gain it has been removed in order to prevent year-on-year distortion. The portfolio transfer completed in 2021 and as such will not be present in the non-underlying items in 2022. |

# Alternative performance measures continued
**(Unaudited)**

A reconciliation from statutory loss before tax to underlying loss before tax is set out below.

| Year ended 31 December 2021 | Statutory basis £'million | Listing Share Awards £'million | Impairment and write-off of property, plant, equipment and intangible assets £'million | C&I fund costs £'million | Transformation costs £'million | Remediation costs £'million | Business acquisition and integration costs £'million | Mortgage portfolio sale £'million | Underlying basis £'million |
|---|---|---|---|---|---|---|---|---|---|
| Net interest income | 295.3 | – | – | 0.4 | – | – | – | – | 295.7 |
| Net fee and commission income | 69.6 | – | – | – | – | – | – | – | 69.6 |
| Net gains on sale of assets | 9.4 | – | – | – | – | – | – | (8.7) | 0.7 |
| Other income | 44.2 | – | – | (9.4) | – | – | – | (2.9) | 31.9 |
| **Total income** | 418.5 | – | – | (9.0) | – | – | – | (11.6) | 397.9 |
| General operating expenses | (536.1) | – | – | 9.0 | 8.9 | 45.9 | 2.4 | 3.3 | (466.6) |
| Depreciation and amortisation | (80.2) | – | – | – | – | – | – | – | (80.2) |
| Impairment and write-offs of PPE and intangible assets | (24.9) | – | 24.9 | – | – | – | – | – | – |
| **Total operating expenses** | (641.2) | – | 24.9 | 9.0 | 8.9 | 45.9 | 2.4 | 3.3 | (546.8) |
| Expected credit loss expense | (22.4) | – | – | – | – | – | – | – | (22.4) |
| **Loss before tax** | (245.1) | – | 24.9 | – | 8.9 | 45.9 | 2.4 | (8.3) | (171.3) |

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

We also disclose a number of capital and liquidity metrics which are required by the PRA and FCA. The basis of calculation of those metrics is defined within the relevant legislation.

# Shareholder information

**Registered and other offices**
The Company's registered office and head office is:

One Southampton Row
London
WC1B 5HA

Telephone: 0345 08 08 500/0345 08 08 508
Website: www.metrobankonline.co.uk

**Registrars**
The Company has appointed Equiniti Limited to maintain its register of members. Shareholders should contact Equiniti using the details below in relation to all general enquiries concerning their shareholding:

Equiniti Limited[1,2]
Aspect House
Spencer Road
Lancing, West Sussex BN99 6DA

Telephone: 0371 384 2311
International callers: +44 121 415 7095

1. Equiniti Limited and Equiniti Financial Services Limited are part of the Equiniti group of companies. Company share registration, employee scheme and pension administration services are provided through Equiniti Limited, which is registered in England and Wales with No. 6226088. Investment and general insurance services are provided through Equiniti Financial Services Limited, which is registered in England and Wales with No. 6208699 and is authorised and regulated by the UK Financial Conduct Authority.
2. Lines are open from 8.30 to 5.30pm (UK time) Monday to Friday, excluding public holidays in England and Wales.

**Unsolicited mail**
The Company is required by law to make its share register available on request to unconnected organisations. As a consequence, shareholders may receive unsolicited mail, including mail from unauthorised investment firms. If you wish to limit the amount of unsolicited mail received, please contact the Mailing Preference Service, an independent organisation whose services are free for consumers.

Further details can be obtained from:

Mailing Preference Service
MPS Freepost LON 20771
London
W1E 0ZT

Website: www.mpsonline.org.uk

**Annual General Meeting**
Subject to Government restrictions, we hope to hold an in person Annual General Meeting in May 2022. More information will be published in the Notice of Meeting.

# Shareholder information continued

**Forward-looking statements**

This annual report contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this annual report are based on the Company's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, that could cause the Company's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance.

No assurances can be given that the forward-looking statements in this annual report will be realised. The Company undertakes no obligation to release the results of any revisions to any forward-looking statements in this annual report that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and the Company disclaims any such obligation.

**Shareholder profile by size of holding as at 31 December 2021**

| Range | Total number of holdings | Percentage of holders | Total number of shares held at 31 December 2021 | Percentage of total |
|---|---|---|---|---|
| 1–1,000 | 362 | 46.29% | 102,585 | 0.06% |
| 1,001–5,000 | 117 | 14.96% | 279,952 | 0.16% |
| 5,001–10,000 | 60 | 7.67% | 463,363 | 0.27% |
| 10,001–50,000 | 90 | 11.51% | 2,040,618 | 1.18% |
| 50,001–100,000 | 31 | 3.96% | 2,284,533 | 1.32% |
| 100,001–500,000 | 66 | 8.44% | 13,905,926 | 8.07% |
| 500,001–1,000,000 | 18 | 2.30% | 11,760,809 | 6.82% |
| 1,000,001 and above | 38 | 4.86% | 141,582,855 | 82.11% |
| **Total** | 782 | 100.00% | 172,420,641 | 100.00% |

**Shareholder profile by category as at 31 December 2021**

| Category | Number of holders | Percentage of holders within type | Shares held at 31 December 2021 | Percentage of issued share capital |
|---|---|---|---|---|
| Private shareholders | 395 | 50.52% | 1,130,963 | 0.66% |
| Banks | 3 | 0.38% | 43,959 | 0.03% |
| Nominees and other institutional investors | 384 | 49.10% | 171,245,719 | 99.31% |
| **Total** | 782 | 100.00% | 172,420,641 | 100.00% |

It should be noted that many private investors hold their shares through nominee companies and therefore the percentage of shares held by private shareholders may be higher than that shown.

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