Pillar 3 2021

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1. Executive Summary

This Pillar 3 disclosure complements and expands on information disclosed in Metro Bank PLC's (Metro Bank or the Bank) 2021 Annual Report and Accounts. It provides information on Metro Bank's regulatory capital resources and requirements, including a reconciliation of financial capital to regulatory capital, credit risk, market risk and operational requirements, and key ratios as required by EU Capital Requirements Regulations (CRR).

Common Equity Tier 1 (CET1) ratio

12.6%

(2020: 15.0%)

See page 45

Tier 1 capital ratio

12.6%

(2020: 15.0%)

See page 45

Total capital ratio

15.9%

(2020: 18.1%)

See page 45

CRR leverage ratio

4.4%

(2020: 5.6%)

See page 48

Liquidity coverage ratio (LCR)

281%[1]

(2020: 187%)

See page 68

Risk Weighted Assets (RWAs) (£'million)

7,454

(2020: 7,957)

See page 52

Total assets as per published financial statements (£'million)

22,587

(2020: 22,579)

See page 46

1. LCR position as at 31 December 2021

Application of the Basel Framework

Pillar 3 disclosure requirements apply to banks, building societies and investment banks. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes.

The framework consists of three pillars:

- **Pillar 1:** Defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.
- **Pillar 2:** This builds on Pillar 1 and incorporates the Bank's own assessment of additional capital resources needed in order to cover specific risks faced by the institution that are not covered by the minimum regulatory capital resources requirement set out under Pillar 1. The amount of any additional capital requirement is also assessed by the PRA during its Supervisory Review and Evaluation Process (SREP) and is used to determine the overall capital resources required by the Bank.
- **Pillar 3:** Aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management.

Metro Bank PLC has nine subsidiaries, of which five are dormant. Metro Bank PLC is regulated by the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) and a number of subsidiaries are regulated by the FCA only. Metro has applied for, and been granted, permission to use the individual consolidation method when producing prudential returns. There are no differences between the basis of consolidation for accounting and regulatory purposes. Further details on the Bank's subsidiaries can be found in note 37 of the 2021 Annual Report and Accounts.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among our parent undertaking and our subsidiaries.

We do not have any joint ventures.

Scope

Metro Bank PLC is a UK-based bank that provides services to retail and commercial clients. It is authorised by the PRA and regulated by the PRA and FCA and is required to comply with regulatory rules implemented by the PRA, who have continued to uphold those from the European Banking Authority (EBA). These rules are enforced in the UK by the PRA and introduce consistent capital adequacy standards governing how much capital banks must hold to protect their depositors and shareholders.

This Pillar 3 report is prepared in accordance with the CRR. The report is also prepared in accordance with the relevant EBA guidelines, most notably the 'Guidelines on disclosure requirements under Part Eight of Pillar 3 continued Regulation (EU) No 575/2013' as amended by Regulation (EU) 2019/876 in effect at the reporting date.

This document sets out our 2021 Pillar 3 Disclosure in accordance with the rules laid out in the CRR (Part 8) and our Pillar 3 Policy Document. In meeting the regulatory requirements, this document provides information on Metro Bank's capital and liquidity position, risk management processes, regulatory methodologies and disclosure. The purpose of these disclosures is to give information on the basis of calculating Basel III capital requirements and on the management of the risks that we face.

Basis of disclosure

We are required to report on the basis of our consolidated financial situation. Unless otherwise stated, all figures are as at 31 December 2021, our financial year end, with comparative figures for 31 December 2020 where relevant.

The disclosures may differ from similar information in our Annual Report and Accounts prepared in accordance with International Financial Reporting Standards (IFRS); therefore, the information in these disclosures may not be directly comparable. For the year ended 31 December 2021 we used the Standardised Approach to credit risk and market risk and the Basic Indicator Approach (BIA) to operational risk.

Frequency of disclosures

Our Pillar 3 Disclosures are published annually in conjunction with the date of publication of our financial statements.

Exemption from disclosure

1 Materiality

In accordance with CRR Article 432 and the EBA guidelines on materiality, confidentiality and proprietary and on disclosure frequency (EBA GL 2014/14), firms may omit one or more disclosures if the information provided by such disclosures is not, in the light of the criterion, regarded as material.

We consider that information is material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

We have omitted the following disclosures specified in CRR as they are not material:

- Geographical split of impairments. Almost all (95%) of past due but not impaired loans and advances to customers and impaired loans and advances to customers are categorised as being in the UK. The past due exposures and impaired exposures relating to other geographical areas are considered immaterial, in line with the requirement of CRR Article 432.
- Pre-credit risk mitigation (CRM) balances and pre credit conversion factor (CCF). All balances are disclosed post-CRM and post-CCF. The main guarantees used by the Bank substitutes the exposure classification and as such shows no variation in the post-CRM exposure value compared to pre-CRM exposure value.
- Counterparty credit risk amounts to less than 1% of total RWAs. Consequently, on the grounds of materiality no further details are provided in accordance to templates EU CCR3, EU CCR5-A, EU CCR5-B, EU CCR6 and EU CCR8.

1. Executive Summary continued

2 Proprietary or confidential information
In accordance with CRR Article 432 and the EBA guidelines on materiality, confidentiality and proprietary and on disclosure frequency (EBA GL 2014/14), firms may omit one or more disclosures if the information provided by such disclosures is regarded as proprietary or confidential.

We consider information to be proprietary if sharing that information with the public would undermine our competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render our investments therein less valuable. We consider information to be confidential if there are obligations to customers or other counterparty relationships which bind us to confidentiality.

No disclosures have been omitted because they are proprietary or confidential.

3 Non-applicable disclosures
We have omitted the following disclosures specified in CRR as they are not applicable:

- CRR Article 438 (d): We use the standardised approach to calculating risk weights, not the Internal Ratings Based (IRB) approach.
- CRR Article 441: We are not a Globally Systemically Important Institution (G-SII).
- CRR Article 447: We do not have any exposures in equities not included in the trading book.
- CRR Article 452: We use the standardised approach to credit risk, not the IRB approach.
- CRR Article 454: We use the Basic Indicator Approach (BIA) to operational risk, not the Advanced Measurement Approach (AMA).
- CRR Article 455: We do not use Internal Market Risk Models.

We have also omitted disclosures specified by EBA/GL/2020/07 which are in response to the COVID-19 crisis on the grounds that the PRA have waived the application of the disclosure templates for firms that are not G-SIIs or Other Systemically Important Institutions (O-SII).

Changes to disclosures
We continue to develop the quality and transparency of our disclosures to ensure that they are as clear and informative as possible.

We have made enhancements in our disclosures since our 2020 report. The key changes include:

- Table 7 (LRSpl) now being disclosed.
- Credit risk tables in chapter 5 have been updated to align to the format as prescribed in the EBA/GL/2016/11 Guidelines.
- The LCR ratio disclosure in section 8.2 now discloses the ratio as a 12-month average, as prescribed in the EBA/GL/2017/01 Guidelines.

Regulatory considerations
In December 2016 the EBA published the final guidelines on the Pillar 3 disclosures (EBA GL 2016/11) which came into effect on 31 December 2017 for G-SIIs, O-SIIs and any other institutions that have been advised by competent authorities to comply with some or all guidance in these guidelines.

We do not currently fall into any of the above categories, however, some tables and templates in the guidelines have been adopted and disclosed where applicable and appropriate.

Regulatory measures announced in 2020 in light of COVID-19, known as the 'CRR quick-fix' package, accelerated the implementation of certain CRR2 amendments which included the benefit of a revised SME supporting factor and treatment of software intangible assets. In July 2021 the PRA published amendments to the CRR which became effective from 1 January 2022. The key change is the reversal of the EU's treatment of software assets, where these will now be deducted from CET1 capital. This capital benefit has been unwound since 1 January 2022. The original IFRS9 transitional relief has moved from 50% to 25% along with the COVID-19 transitional relief which moved from 100% to 75% on 1 January 2022.

In October 2021 the Financial Policy Committee and PRA published a policy statement on the changes to the UK leverage ratio framework. The changes are effective from 1 January 2022 and requires eligible firms to meet a 3.25% leverage ratio requirement. The Bank is outside the scope of the UK leverage ratio framework.

Summary of risk profile
The Bank has continued to focus on ensuring that a strong and effective regulatory reporting framework remains embedded within the Group. This is 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 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.

Further details on our approach to risk management can be found in the Risk report on pages 5 to 44.

In summarising the movement in risk metrics for 2021:

Table 1: RWA Summary

	2021 £'million	2020 £'million
Credit Risk	6,710	7,251
Counterparty Credit Risk	6	7
Market Risk	9	14
Operational Risk	729	686
Total RWA	7,454	7,957

1. Executive Summary continued

Table 2: Key Ratios

	31 December 2021 £'million	31 December 2020 £'million
Common Equity Tier 1 (CET1) ratio	12.6%	15.0%
Tier 1 capital ratio	12.6%	15.0%
Total capital ratio	15.9%	18.1%
MREL ratio	20.5%	22.4%
CRR Leverage ratio	4.4%	5.6%
Liquidity Coverage Ratio (LCR)[1]	281%	187%
Risk Weighted Assets (RWAs)	7,454	7,957
Total assets as per published financial statements	22,587	22,579

1. LCR position as at 31 December 2021.

The tables above summarise the key regulatory figures and metrics on a transitional basis as at 31 December 2021.

CET1 capital decreased by £256 million to £936 million (31 December 2020: £1,192 million), reflecting the loss incurred by the Group in the year.

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 by c. 0.8%. At the same time, the original IFRS 9 transitionary relief will move from 50% to 25% along with the COVID-19 transitional relief which moves from 100% to 75%, reducing CET1 by c. 0.3%. From 13 December 2022, the Bank of England has announced that the UK countercyclical buffer will increase from 0% back to its pre-pandemic level of 1%.

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 capital. The reduction was also supported by the settlement of the final tranche of the mortgage portfolio in February 2021.

Review by Board

Metro Bank is committed to a robust internal controls framework in order to ensure that external reports and disclosures are subject to adequate verification and comply with the relevant standards and regulations. As an external publication, the Pillar 3 disclosures have been subject to internal verification and are reviewed by the Risk Oversight Committee (ROC) on behalf of the Board. The governance in place allows for sufficient challenge and oversight prior to publication.

The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of our Annual Report and Accounts.

"We attest to the best of our knowledge that the Metro Bank Pillar 3 disclosures comply with the regulatory requirements around Pillar 3 and have been prepared in compliance with our internal controls framework."

Daniel Frumkin
Chief Executive Officer

Richard Lees
Chief Risk Officer
23 March 2022

2. Risk Management

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 stablilised 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.

2. Risk management continued

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.

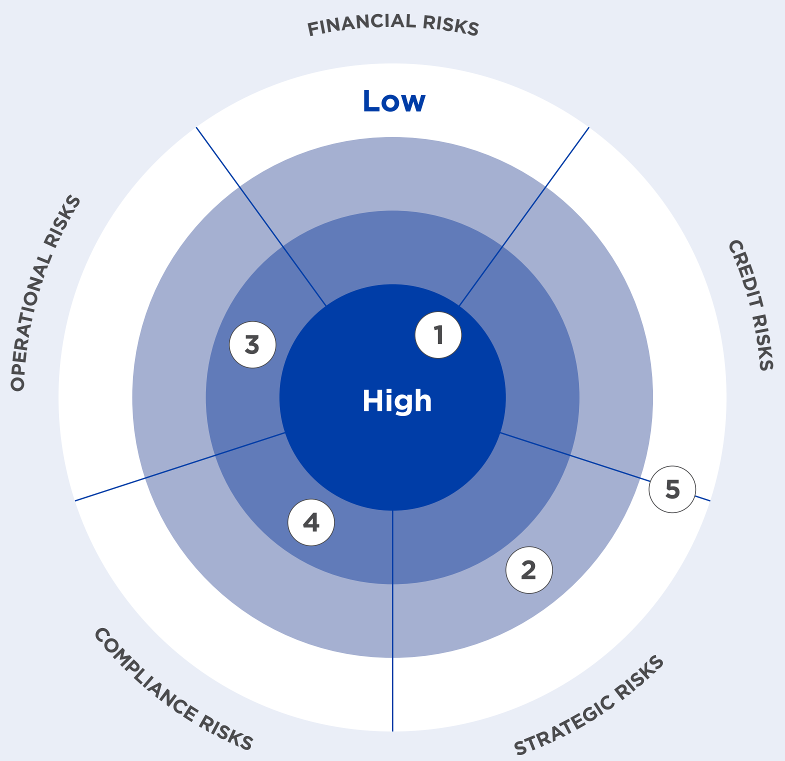
5. Climate change

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



Key

- < 12months
- 1–2 years
- 2–3 years
- 3 years +

1. Macroeconomic environment
2. Digitalisation
3. Technology and cyber resilience
4. Regulatory change
5. Climate change

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 of the Annual Report and Accounts, 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 Expected Credit Loss (ECL) and Risk Weighted Assets (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 17 to 33 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 page 42 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 33 to 35 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. 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 35 to 37 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. 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. 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. 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. 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 pages 39 and 40 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

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.

MITIGATION

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.

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.

FUTURE FOCUS

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 priority in 2022, along with the pipeline of regulatory engagement and developments.

See pages 40 and 41 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

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.

MITIGATION

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.

FUTURE FOCUS

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 41 and 42 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 pages 38 and 39 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 successful 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 37 and 38 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 held. 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 below.

Commercial customers who are showing signs of potential financial difficulty are supported through our relationship teams, and where appropriate, our Business and 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 reperformed 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 of the Annual Report and Accounts.

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 of the Annual Report and Accounts.

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.

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	8,407	355	–	–	8,762	35	2	–	–	37	0.42%
Band 2	3.00 – 17.00	1,654	1,503	–	–	3,157	11	40	–	–	51	1.62%
Band 3	17.00 – 99.99	10	67	–	–	77	1	7	–	–	8	10.39%
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	8,646	661	–	–	9,307	23	13	–	–	36	0.39%
Band 2	3.00 – 17.00	1,529	1,016	–	–	2,545	7	45	–	–	52	2.04%
Band 3	17.00 – 99.99	–	135	–	–	135	–	11	–	–	11	8.15%
Band 4	100	–		257	–	257	–	–	56	–	56	21.64%
Total		10,175	1,812	257	–	12,244	30	69	56	–	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.

Our SICR assessment is set out in Section 3.3.1.

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 outcome of helping customers through challenging periods with little impact observed as these schemes closed. The repossessions moratorium, 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
The table below 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. IFRS9 stage classifications continues 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)

	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
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 £'million	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 (31 December 2020: £nil)

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 conservative 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 Delta variant of COVID-19 is the dominant strain in the UK, and a new wave of infections has begun.
- 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 above 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
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 and 204 of the Annual Report and Accounts.

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 (audited)
Deposit-funded approach
We aim to attract deposits that are diverse and are low cost, which are less sensitive to competition within the deposit market. Our deposit base during the year and at year end remains stable and resilient throughout the pandemic, with retail deposits forming a higher portion of our balance sheet than commercial deposits. At 31 December 2021, 48% of our deposits came from commercial customers, including SMEs (31 December 2020: 44%) with the remaining 52% (31 December 2020: 56%) coming from retail and retail partnerships 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
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.

2. Risk management continued

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)	–	–	
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)	–	–	
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 & 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 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.

2. Risk management continued

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

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

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

Monitoring (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

31 December 2021	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances with the Bank of England	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)	–	–

31 December 2020	Up to 3 months £'million	3–6 months £'million	6–12 months £'million	1–5 years £'million	Over 5 years £'million	Non-interest bearing £'million	Total £'million
Cash and balances with the Bank of England	2,913	–	–	–	–	80	2,993
Loans and advances to customers	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.

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

Table 23: Interest rate sensitivity

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

Raising of additional capital

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

Measurement
We measure our capital resources in line with regulatory requirements. In order to appropriately manage our capital resources, we produce regular reports on the current and forecasted level of capital for the Board and 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 1st 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 implement 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 AML and CTF 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 outs 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 outs 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 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 2020. 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 our customers protect against such attacks.

2. Risk management continued

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 5 to 42 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 of the Annual Report and Accounts which also show how this links to the Group's principal risks.

Risk management and internal controls

As described in the Corporate governance report on pages 108, 115 and 150 of the Annual Report and Accounts as well as the Risk report on pages 9 to 11, 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 of the Annual Report and Accounts 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 and 21 of the Annual Report and Accounts) 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 of the Annual Report and Accounts 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 5 to 42) 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.

2. Risk management continued

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 of the Annual Report and Accounts).

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.

Number of directorships

The total number of directorships held by members of the management body are detailed below.

Further details on the management body and on recruitment and diversity policy are shown on the Board of Directors section of the Annual Report and Accounts.

Table 26: Number of directorships of the management body

Name	Position	Directorships[1]
Robert Sharpe	Chairman	3
Daniel Frumkin	Chief Executive Officer	–
Anna (Monique) Melis	Senior Independent Director	2
Anne Grim	Independent Non-executive Director	2
Paul Thandi	Independent Non-executive Director	1
Michael Torpey	Independent Non-executive Director	1
Catherine Brown	Independent Non-executive Director	3
Sally Clark	Independent Non-executive Director	3
Ian Henderson	Independent Non-executive Director	1
Nicholas Winsor	Independent Non-executive Director	2

1. Commercial director appointments only, excluding directorships of Metro Bank and recognising directorships in a same group as a single directorship.

3. Capital Resources

Throughout 2021, Metro Bank remained with the capital requirements that were in force as set out in European and national legislations.

Tier 1 Capital

As at 31 December 2021, our capital base was made up of £936 million (31 December 2020: £1,192 million) of Tier 1 capital. Tier 1 capital consists of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in the PRA Handbook and CRR, and audited reserves.

Tier 2 Capital

Tier 2 capital is £249 million (31 December 2020: £249 million). Tier 2 capital consists of Fixed Rate Reset Callable Subordinated Notes due in 2028.

The details of the main features of these capital instruments can be found below.

Capital composition

Table 3 summarises the composition of regulatory capital.

Required levels of Own Funds

CRR Article 92 describes the calculation of capital ratios and the use of different tiers of capital resource. Metro Bank has at all times complied with these requirements.

Table 3: Capital Composition

		31 December 2021 £'million	31 December 2020 £'million
	Capital Resources		
1	Capital instruments and the related share premium accounts	1,964	1,964
	Of which: ordinary shares	–	–
2	Retained earnings	(942)	(694)
3	Accumulated other comprehensive income (and other reserves)	13	19
6	**Statutory Total Equity per Financial Statements**	1,035	1,289
	Regulatory Capital adjustments		
7	Additional value adjustments (negative amount)	(2)	(1)
8	Intangible assets (net of related deferred tax liability)	(235)	(249)
	Add-back of software assets	64	75
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(13)	(12)
	IFRS 9 transitional arrangements	87	91
28	**Total regulatory adjustments to CET1**	(99)	(96)
29	**Total Regulatory CET1 capital**	936	1,192
45	**Tier 1 capital**	936	1,192
	Tier 2 capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	249	249
51	**Tier 2 capital before regulatory adjustments**	249	249
58	**Tier 2 capital**	249	249
59	**Total capital**	1,184	1,441
60	**Total risk weighted assets**	7,454	7,957
	Capital ratios and buffers		
61	CET1	12.6%	15.0%
62	Tier 1	12.6%	15.0%
63	Total capital	15.9%	18.1%
64	Institution specific buffer requirement	2.5%	2.5%
65	*Of which: capital conservation buffer requirement*	2.5%	2.5%
66	*Of which: countercyclical buffer requirement*	0.0%	0.0%

3. Capital Resources continued

Table 4: Balance sheet to capital walkthrough

	31 December 2021		31 December 2020	
	Balance Sheet[1] £'million	Regulatory Capital £'million	Balance Sheet £'million	Regulatory Capital £'million
Assets				
Cash and balances with the Bank of England	3,568		2,993	
Loans and advances to customers	12,290		12,090	
Investment securities held at FVOCI	798		773	
Investment securities held at amortised cost	4,776		2,640	
Financial assets held at fair value through profit and loss	3		30	
Property, plant and equipment	765		806	
Intangible assets	243	(243)	254	(254)
Prepayments and accrued income	68		77	
Assets classified as held for sale	–		295	
Other assets	76		2,621	
Total assets	22,587		22,579	
Liabilities				
Deposits from customers	16,448		16,072	
Deposits from central banks	3,800		3,808	
Debt securities	588		600	
Financial liabilities held at fair value through profit and loss	–		30	
Repurchase agreements	169		196	
Derivative financial liabilities	10		8	
Lease liabilities	269		327	
Deferred grants	19		28	
Provisions	15		11	
Deferred tax liability	12	(5)	12	(8)
Other liabilities	222		198	
Total liabilities	21,552		21,290	
Equity				
Called-up share capital	–		–	
Share premium	1,964	1,964	1,964	1,964
Retained earnings	(942)	(942)	(694)	(694)
Other reserves	13	13	19	19
Total equity	1,035		1,289	
Total equity and liabilities	22,587		22,579	
Other regulatory adjustments				
IFRS 9 transitional arrangement		87		91
Software add back		64		75
Prudential valuation		(2)		(1)
CET1 Capital		936		1,193

3. Capital Resources continued

Table 5: Capital instruments main features

1	Issuer	Metro Bank PLC	Metro Bank PLC
2	Unique identifier	GB00BZ6STL67	XS1844097987
3	Governing law(s) of the instrument	English	English
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated/solo and (sub-) consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Fixed Rate Reset Callable Subordinated Notes
8	Amount recognised in regulatory capital (£)	97.42	248,812,045
9	Nominal amount of instrument (£)	97.42	250,000,000
9a	Issue price	0.0001p	Par value
9b	Redemption price	n/a	100%
10	Accounting classification	Equity	Liability – amortised cost
11	Original date of issuance	Various	26/06/2018
12	Perpetual or dated	Perpetual	10 years
13	Original maturity date	n/a	26/06/2028
14	Issuer call subject to prior supervisory approval	n/a	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	26/06/2023
16	Subsequent call dates, if applicable	n/a	None
	Coupons/dividends		
17	Fixed or floating dividend/coupon	n/a	Initial fixed coupon
18	Coupon rate and any related index	n/a	5.50%
19	Existence of a dividend stopper	n/a	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No
22	Non-cumulative or cumulative	Non-cumulative	n/a
23	Convertible or non-convertible	n/a	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a
25	If convertible, fully or partially	n/a	n/a
26	If convertible, conversion rate	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a
29	If convertible, specify issuer of instrument in converts into	n/a	n/a
30	Write-down features	n/a	None contractual, statutory via bail-in
31	If write-down, write-down trigger(s)	n/a	n/a
32	If write-down, full or partial	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a
35	Position in subordination hierarchy in liquidation	n/a	Tier 2
36	Non-compliant transitioned features	n/a	n/a
37	If yes, specify non-compliant features	n/a	n/a

Full terms and conditions of our shares are available on the Investor relations section of our website https://www.metrobankonline.co.uk/investor-relations/

3. Capital Resources continued

Minimum Requirements for own funds and eligible liabilities (MREL)

Metro Bank is required to meet an interim MREL requirement of 18% of RWAs plus the 2.5% Capital Conservation Buffer and end-state MREL from 1 January 2023. The Bank is operating in buffers but remain above regulatory minima. MREL ratio of 20.5% as at 31 December 2021 compares to our interim MREL requirement plus buffers of 20.5%.

Following discussion with the Bank of England (BoE), post the publication of the BoE's December 2021 MREL Policy Statement, the BoE has provided the Bank with a six-month adjustment to the point in time at which the BoE'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 the Bank's end-state MREL deadline of 1 January 2023.

Leverage ratio

The leverage ratio measures the relationship between our capital resources and total assets, as well as certain off balance sheet exposures. The purpose of monitoring and managing this metric is to enable regulators to limit the build-up of excessive leverage in the banking systems and at individual institutions. It is calculated as Tier 1 capital divided by adjusted balance sheet exposure.

We actively monitor and manage excessive leverage:

- we take into account the leverage exposure when forming business plans;
- we actively assess the overall level of leverage when determining the long-term plans for our growth and capital resources; and
- leverage is regularly reported to the Board, and included within all business plans.

Our leverage ratio at 31 December 2021 was 4.4% (31 December 2020: 5.6%). Tables 5 and 6 provide more detail on the components of the exposure measure used to calculate our leverage ratio, disclosed in accordance with the templates prescribed by the EBA.

The movement in the leverage ratio in the year reflected a reduction in Tier 1 capital due to the loss made by the Group during 2021.

Table 6: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		31 December 2021 £'million	31 December 2020 £'million
1	**Total assets as per published financial statements**	22,587	22,579
4	Adjustments for derivative financial instruments	8	23
5	Adjustments for securities financing transactions (SFTs)[1]	3	3
6	Adjustments for off-balance sheet items	321	249
7	Other adjustments[2]	(1,689)	(1,643)
8	**Total leverage ratio exposure**	**21,230**	**21,211**

1. SFTs are any transaction where securities are used to borrow cash, or vice versa. Practically, this mostly includes repurchase agreements (repos), securities lending activities, and sell/buy-back transactions.
2. Includes loans under the Bounce Back Loan Scheme (BBLS), which amounted to £1,304 million at 31 December 2021.

3. Capital Resources continued

Table 7: LRCom: Leverage ratio common disclosure

		31 December 2021 £'million	31 December 2020 £'million
	On-balance sheet exposures (excluding derivative and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	21,146	21,197
2	(Asset amounts deducted in determining Tier 1 capital)	(247)	(261)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	20,899	20,936
	Other off-balance sheet exposures		
	Derivative Exposures	8	23
	Securities Financing Transaction	3	3
17	Off-balance sheet exposures at gross notional amount	1,246	790
18	(Adjustments for conversion to credit equivalent amounts)	(925)	(541)
19	Other off-balance sheet exposures	–	–
	Capital and total exposures		
20	Tier 1 capital	936	1,192
21	Total leverage ratio exposures	21,230	21,211
	Leverage ratio		
22	Leverage ratio	4.4%	5.6%

Table 8: LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

	CRR leverage ratio exposures 31 December 2021 £'million	CRR leverage ratio exposures 31 December 2020 £'million
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	20,899	20,936
Banking book exposures, of which:	20,899	20,936
Covered bonds	597	860
Exposures treated as sovereigns	5,207	3,667
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,327	–
Institutions	167	2,741
Secured by mortgages of immovable property	8,889	9,826
Retail exposures	1,248	508
Corporate	413	418
Exposures in default	209	247
Other exposures (e.g. equity, securitisations and other non-credit obligation assets)	2,841	2,670

3. Capital Resources continued

Application of transitional arrangements for IFRS 9

Metro Bank has elected to apply IFRS 9 transitional arrangements and for 2021 the rules allowed for an add-back to obtain a capital relief equal to 50% of the impairment provisions recognised on 1 January 2018. The COVID-19 regulatory measures finalised in June 2020, which allowed for 100% relief of stage 1 and stage 2 impairment provisions recognised since 1 January 2020 during 2021, falls to 75% on 1 January 2022 and subsequently 50% and 25% in the two years following.

Table 9: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		31 December 2021 £'million	31 December 2020 £'million
	Available capital (amounts)		
1	CET1 capital	936	1,192
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	850	1,101
3	Tier 1 capital	936	1,192
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	850	1,101
5	Total capital	1,184	1,441
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,099	1,350
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	7,454	7,957
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	7,379	7,880
	Capital ratios		
9	CET1 (as a percentage of risk exposure amount)	12.6%	15.0%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	11.5%	14.0%
11	Tier 1 (as a percentage of risk exposure amount)	12.6%	15.0%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	11.5%	14.0%
13	Total capital (as a percentage of risk exposure amount)	15.9%	18.1%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied[1]	14.9%	17.1%
	Leverage ratio		
15	Leverage ratio total exposure measure	21,230	21,211
16	Leverage ratio	4.4%	5.6%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.0%	5.2%

1. 2020 figure updated.

4. Capital Requirements

4.1 Minimum capital requirements
The Bank adheres to regulatory minimum capital requirements as defined by our ICAAP process. Our CET1 ratio for 31 December 2021 was 12.6% (31 December 2020: 15.0%), total capital ratio was 15.9% (31 December 2020: 18.1%), and regulatory leverage ratio was 4.4% (31 December 2020: 5.6%).

4.2 Pillar 1
We have applied the Standardised Approach to measure credit risk RWAs and the BIA to measure operational risk RWAs. Under Basel III, we must set aside capital equal to 8% of our total risk-weighted assets to cover our Pillar 1 capital requirements. This covers credit risk, operational risk, market risk and counterparty credit risk. Our capital adequacy exceeded the minimum required by the regulators at all times.

4.3 Pillar 2A
4.3.1 Capital requirements
We must also set aside additional capital to provide for additional Pillar 2 risks. Within Pillar 2, Pillar 2A considers, in addition to the minimum capital requirements under Pillar 1 risks, any supplementary requirements for those risks and any requirements for risk categories not captured by Pillar 1.

We are required to maintain a certain level of capital to meet several requirements:

- to meet minimum regulatory capital requirements and to ensure we operate within our risk appetite;
- to ensure we can meet our objectives, including growth objectives;
- to ensure we can withstand future uncertainty, such as a severe economic downturn; and
- to provide a level of comfort and protection to depositors, customers, shareholders and other third parties.

We produce regular reports on the current and forecasted level of capital, as well as the results of stress scenarios, to the Board and to the ROC (chaired by a Non-Executive Director) and the ERC (chaired by the Chief Risk Officer).

Table 10 sets out our RWAs and Table 11 sets out our capital requirements.

Table 10 has been updated to align to the format prescribed in EBA/GL/2016/11 Guidelines.

4. Capital Requirements continued

Table 10: EU OV1 – Overview of risk weighted assets

		RWAs		Minimum capital requirements	
		31 December 2021 £'million	31 December 2020 £'million	31 December 2021 £'million	31 December 2020 £'million
1	**Credit risk (excluding counterparty credit risk (CCR))**	6,444	7,009	516	561
2	*Of which the standardised approach*	6,444	7,009	516	561
6	**CCR**	6	7	–	1
7	*Of which mark to market*	3	5	–	1
12	*Of which CVA*	3	2	–	–
14	**Securitisation exposures in the banking book (after the cap)**	261	240	21	19
18	*Of which standardised approach*	*261*	*240*	*21*	*19*
19	**Market Risk**	9	14	1	1
20	*Of which foreign currency risk*	9	14	1	1
23	**Operational risk**	729	686	58	55
24	*Of which basic indicator approach*	729	686	58	55
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	5	2	–	–
29	**Total**	**7,454**	**7,957**	**596**	**637**

Table 11: Capital requirements

	31 December 2021	
Minimum requirements	CET1	Total Capital
Pillar 1	4.5%	8.0%
Pillar 2A	0.6%	1.1%
Total capital requirement (TCR)	5.1%	9.1%
Capital conservation buffer	2.5%	2.5%
UK countercyclical capital buffer	0.0%	0.0%
Total (excluding PRA buffer, if applicable)	**7.6%**	**11.6%**

4. Capital Requirements continued

4.3.2 ICAAP
The Board has established an Overall Capital Adequacy Framework in order to ensure that the Bank adheres to the regulatory Overall Financial Adequacy Rule. The Bank's Overall Capital Adequacy Framework ensures that the Bank adheres to the Overall Financial Adequacy Rule by linking the Bank's Capital Objectives – which requires a Board appetite for capital – to the Bank's ICAAP, creating a feedback loop. The Board considers that the Bank adheres to the PRA's Overall Financial Adequacy Rule, and Overall Pillar 2 rule.

The purpose of the Metro Bank ICAAP is to:

- ensure the Bank has adequate capital now and over the horizon of its forecast;
- determine the Board's capital risk appetite;
- identify the Bank's material risks that impact capital;
- articulate the management of those material risks.

The Bank assesses capital adequacy over the horizon of its forecast by utilising stress testing.

The objectives of Metro Bank's stress testing process are to:

- determine the quantum of capital the Bank requires for severe stress events;
- support Bank-wide capital planning and management;
- explore capital sensitivities in the long-term plan; and
- assess how the Bank's capital needs might change over time.

The primary objective is to determine the quantum of capital that the Bank should hold to withstand an extreme but plausible stress scenario.

4.3.3 Capital buffers
In addition to the minimum capital requirements, Metro Bank is required to hold capital buffers that can be utilised to absorb losses in stressed conditions.

Capital conservation buffer (CCB)
The CCB is designed to ensure that institutions build up capital buffers outside of times of stress that can be drawn upon if required. As at 31 December 2021, the capital conservation buffer was 2.5%. This is the highest level required under the current rules.

Countercyclical capital buffer (CCyB)
The CCyB requires financial institutions to hold additional capital to reduce the build-up of systemic risk in a credit boom by providing additional loss absorbing capacity and acting as an incentive to limit further credit growth.

The Financial Policy Committee is responsible for setting the UK CCyB rate for credit exposures located in the UK. As at 31 December 2021 the UK CCyB was set to 0.0%. The figures shown in Table 13 (2021: 0.0%, 2020: 0.0%) represent the weighted average of CCyB's issued by various national bodies and exposures in those countries.

The Bank of England have announced that the UK countercyclical buffer will return to 1.0% from 13 December 2022.

The geographical distribution of our credit exposures relevant for the calculation of its countercyclical capital buffer is disclosed in the tables 12 and 13.

Table 12: Countercyclical Capital Buffer

31 December 2021	General credit exposures: Exposure value for SA £'million	Securitisation exposure: Exposure value for SA £'million	Own funds requirements: Of which: General credit exposures £'million	Own funds requirements: Of which: Securitisation exposures £'million	Own funds requirements: Total £'million	Own funds requirement weights	Countercyclical capital buffer rate %
	010	050	070	090	100	110	120
UK	12,486	1,804	513	21	534	0.998	0%
North America	–	–	–	–	–	0.000	0%
Other European Countries	82	–	1	–	1	0.002	0–1%
Rest of the World	3	–	–	–	–	0.000	0–1%
Total	**12,571**	**1,804**	**514**	**21**	**535**	**1.000**	

31 December 2020	General credit exposures: Exposure value for SA £'million	Securitisation exposure: Exposure value for SA £'million	Own funds requirements: Of which: General credit exposures £'million	Own funds requirements: Of which: Securitisation exposures £'million	Own funds requirements: Total £'million	Own funds requirement weights	Countercyclical capital buffer rate %
	010	050	070	090	100	110	120
UK	13,050	1,611	517	19	536	0.998	0%
North America	–	–	–	–	–	0.000	0%
Other European Countries	101	–	1	–	1	0.002	0–1%
Rest of the World	4	–	–	–	0	0.001	0–1%
Total	**13,155**	**1,611**	**518**	**19**	**537**	**1.000**	

Table 13: Amount of institution-specific countercyclical capital buffer

		31 December 2021 £'million	31 December 2020 £'million
010	Total risk exposure amount	7,454	7,957
020	Institution specific countercyclical buffer rate	0.0%	0.0%
030	Institution specific countercyclical buffer requirement	–	–

G-SII buffer

Financial institutions that are considered to represent a higher risk to the global financial system, based on a number of key factors, are defined as G-SIIs. G-SIIs are categorised into buckets based on size, interconnectedness, substitutability, complexity and global activity. As a result of its bucket allocation, each G-SII's capital requirement is determined from within the range of 1% to 2.5% of RWAs.

This buffer is not applicable as we do not meet the definition of a G-SII.

O-SII buffer

The regulator has introduced an 'other' systemically important institutions (O-SII) buffer to replace the function currently performed by the systemic risk buffer (SRB). The O-SII capital requirement is specific to ring-fenced banks and building societies within its scope.

This buffer is not applicable as we do not meet the definition of an O-SII.

5. Credit Risk

5.1 Credit risk exposures

5.1.1 Credit risk exposures by exposure class

Our Pillar 1 capital requirement for credit risk is set out below. The Pillar 1 requirement in respect of credit risk is based on 8% of the RWAs for each of the following standardised exposure classes.

Total credit risk RWAs decreased due to the final tranche of the mortgage portfolio disposal from December 2020 and roll-off of transactional commercial real estate lending, offset by growth in organic and inorganic unsecured lending supported by the RateSetter business acquisition in September 2020 and the purchase of the RateSetter back book in April 2021.

Table 14 has been updated to align to the format as prescribed in EBA/GL/2016/11 Guidelines.

Table 14: EU CRB-B Total and average net amount of exposures

	31 December 2021			
Exposures subject to the Standardised Approach	Exposure Value at end of period £'million	Average net exposure over the period £'million	RWA £'million	Capital required £'million
Central governments or central banks	6,847	7,509	–	–
Institutions	167	191	33	3
Multilateral development banks	1,327	756	–	–
Corporates	507	461	437	35
Of which: SME	*432*	*408*	*364*	*29*
Retail	1,320	1,120	931	74
Of which: SME	*352*	*346*	*204*	*16*
Secured by mortgages on immovable property	8,898	9,151	3,808	305
Covered bonds	597	703	60	5
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–
Exposure at default	209	218	211	17
Items associated with particularly high risk	8	8	12	1
Other Exposures	1,032	1,063	956	76
Total	**20,912**	**21,180**	**6,448**	**516**

	31 December 2020			
Exposures subject to the Standardised Approach	Exposure Value at end of period £'million	Average net exposure over the period £'million	RWA £'million	Capital required £'million
Central governments or central banks	5,131	4,132	–	–
Institutions	2,767	846	553	44
Multilateral development banks	–	–	–	–
Corporates	521	713	406	33
Of which: SME	462	564	371	30
Retail	572	577	376	30
Of which: SME	301	370	174	14
Secured by mortgages on immovable property	9,895	12,132	4,338	347
Covered bonds	860	801	86	7
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–
Exposure at default	247	218	248	20
Items associated with particularly high risk	14	19	21	2
Other Exposures	1,045	1,006	987	79
Total	**21,053**	**20,443**	**7,011**	**561**

5. Credit Risk continued

5.1.2 Geographic distribution of credit risk exposures

Our credit risk exposures as at 31 December 2021 and 31 December 2020 by geography are detailed in the table below. The classification is based on the domicile of the counterparty.

Table 15 has been updated to align to the format as prescribed in EBA/GL/2016/11 Guidelines.

Table 15: EU CRB-C Geographical breakdown of exposures

	31 December 2021				
Standardised Credit Risk	UK £'million	North America £'million	Other European countries £'million	Rest of the world £'million	Total £'million
Central governments or central banks	6,523	119	205	–	6,847
Institutions	167	–	–	–	167
Multilateral development banks	5	630	328	364	1,327
Corporates	507	–	–	–	507
Retail	1,320	–	–	-	1,320
Secured by mortgages on immovable property	8,847	–	48	3	8,898
Covered bonds	597	–	–	–	597
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Exposure at default	175	–	34	–	209
Items associated with particularly high risk	8	–	–	–	8
Other exposures	1,032	–	–	–	1,032
Total	**19,181**	**749**	**615**	**367**	**20,912**

	31 December 2020				
Standardised Credit Risk	UK £'million	North America £'million	Other European countries £'million	Rest of the world £'million	Total £'million
Central governments or central banks	5,072	59	–	–	5,131
Institutions	2,767	–	–	–	2,767
Multilateral development banks					
Corporates	521	–	–	–	521
Retail	571	–	–	1	572
Secured by mortgages on immovable property	9,811	–	81	4	9,895
Covered bonds	860	–	–	–	860
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–
Exposure at default	228	–	19	–	247
Items associated with particularly high risk	14	–	–	–	14
Other exposures	1,045	–	–	–	1,045
Total	**20,889**	**59**	**101**	**4**	**21,053**

All exposures to individuals outside of the UK are secured on UK property. All other exposures outside the UK are to foreign currency denominated securities that are held for liquidity and interest rate risk purposes. We also have commercial exposures outside of the UK which are secured on UK property.

5.1.3 Residual contractual maturity of credit risk exposures

Our exposures as at 31 December 2021 and 31 December 2020 analysed by remaining contractual maturity are detailed in the table below.

Table 16 has been updated to align to the format as prescribed in EBA/GL/2016/11 Guidelines.

Table 16: EU CRB-E Residual Maturity of Exposures

	31 December 2021						
Standardised Credit Risk	On demand £'million	Up to 12 months £'million	1–5 years £'million	5–10 years £'million	More than 10 years £'million	Non-defined[1] £'million	Total £'million
Central governments or central banks	3,361	291	2,890	223	82	–	6,847
Institutions	167	–	–	–	–	–	167
Multilateral development banks	–	25	965	337	–		1,327
Corporates	148	54	203	82	20	–	507
Retail	70	135	942	55	118	–	1,320
Secured by mortgages on immovable property	–	271	1,079	1,593	5,955	–	8,898
Covered bonds	–	45	517	35	–	–	597
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–
Exposure at default	1	33	38	38	99	–	209
Items associated with particularly high risk	–	6	2	–	–	–	8
Other exposures	50	154	–	–	–	828	1,032
Total	**3,797**	**1,014**	**6,636**	**2,363**	**6,274**	**828**	**20,912**

	31 December 2020						
Standardised Credit Risk	On demand £'million	Up to 12 months £'million	1–5 years £'million	5–10 years £'million	More than 10 years £'million	Non-defined[1] £'million	Total £'million
Central governments or central banks	2,789	–	2,266	17	59	–	5,131
Institutions	199	2,568	–	–	–	–	2,767
Multilateral development banks	–	–	–	–	–	–	–
Corporates	135	87	140	81	78	–	521
Retail	60	239	123	26	124	–	572
Secured by mortgages on immovable property	6	193	1,246	1,804	6,646	–	9,895
Covered bonds	–	198	559	102	–	–	860
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–
Exposure at default	17	17	22	66	125	–	247
Items associated with particularly high risk	–	14	–	–	–	–	14
Other exposures	46	119	–	–	–	881	1,045
Total	**3,252**	**3,435**	**4,357**	**2,097**	**7,033**	**881**	**21,053**

1. Includes leases and all other fixed assets.

5.1.4 Industry distribution of credit risk exposures

Our exposures at 31 December 2021 and 31 December 2020 analysed by industry are detailed below.

The retail industry split includes exposures to corporates which meet the SME criteria. The central governments or central banks split includes parts of exposures which have been guaranteed (i.e. for BBLS, CBILS and RLS) and reflects the industry of the borrower.

Table 17 has been updated to align to the format as prescribed in EBA/GL/2016/11 Guidelines.

5. Credit Risk continued

Table 17: EU CRB-D Concentration of exposures by industry

	31 December 2021						
Standardised Credit Risk	Construction £'million	Education £'million	Health Social Work £'million	Hospitality £'million	Investment & Unit Trusts £'million	Legal, Accountancy & Consultancy £'million	Real estate (Management of) £'million
Central governments or central banks	221	17	58	165	–	352	23
Institutions	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–
Corporates	6	–	27	18	–	76	–
Retail	6	1	17	2	–	16	1
Secured by mortgages on immovable property	48	13	158	290	6	40	8
Covered bonds	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–
Exposure at default	1	–	2	7	–	–	1
Items associated with particularly high risk	3	–	–	1	–	–	–
Other exposures	–	–	–	–	–	–	–
Total	**285**	**31**	**262**	**483**	**6**	**484**	**33**

	31 December 2021							
Standardised Credit Risk	Real estate (rent, buy and sell) £'million	Recreation, cultural & sport £'million	Retail £'million	Personal £'million	Financial & insurance £'million	Public admin & finance £'million	Other £'million	Total £'million
Central governments or central banks	168	58	189	–	402	4,878	316	6,847
Institutions	–	–	–	–	167	–	–	167
Multilateral development banks	–	–	–	–	–	1,327	–	1,327
Corporates	87	9	14	20	134	–	115	507
Retail	25	1	8	950	22	–	271	1,320
Secured by mortgages on immovable property	1,646	39	69	6,514	10	–	57	8,898
Covered bonds	–	–	–	–	597	–	–	597
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–
Exposure at default	83	–	–	111	–	–	4	209
Items associated with particularly high risk	5	–	–	–	–	–	–	8
Other exposures	–	–	–	–	50	–	981	1,032
Total	**2,014**	**107**	**280**	**7,595**	**1,382**	**6,205**	**1,744**	**20,912**

5. Credit Risk continued

Table 17: EU CRB-D Concentration of exposures by industry continued

Standardised Credit Risk	Construction £'million	Education £'million	Health & Social Work £'million	Hospitality £'million	Investment & Unit Trusts £'million	Legal, Accountancy & Consultancy £'million	Real estate (Management of) £'million
	31 December 2020						
Central governments or central banks	213	16	49	146	–	353	25
Institutions	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–
Corporates	1	1	38	16	–	65	–
Retail	3	1	18	3	–	13	1
Secured by mortgages on immovable property	52	27	180	311	7	46	9
Covered bonds	–	–	–	–	–	–	–
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–
Exposure at default	1	–	6	18	–	7	–
Items associated with particularly high risk	11	–	–	–	–	–	–
Other exposures	–	–	–	–	–	–	–
Total	**281**	**45**	**292**	**494**	**8**	**484**	**36**

Standardised Credit Risk	Real estate (rent, buy and sell) £'million	Recreation, cultural & sport £'million	Retail £'million	Personal £'million	Financial & insurance £'million	Public admin & finance £'million	Other £'million	Total £'million
	31 December 2020							
Central governments or central banks	160	45	163	–	87	3,609	265	5,131
Institutions	–	–	–	–	2,767	–	–	2,767
Multilateral development banks	–	–	–	–	–	–	–	–
Corporates	102	8	13	19	179	–	78	521
Retail	19	2	4	271	2	–	234	572
Secured by mortgages on immovable property	2,056	35	80	6,979	31	–	82	9,895
Covered bonds	–	–	–	–	860	–	–	860
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–
Exposure at default	71	6	6	128	–	–	5	247
Items associated with particularly high risk	3	–	–	–	–	–	–	14
Other exposures	–	–	–	–	46	–	1,000	1,045
Total	**2,412**	**96**	**266**	**7,396**	**3,971**	**3,609**	**1,663**	**21,053**

5.2 Charges for specific credit risk adjustments

Our charges for specific credit risk adjustments at 31 December 2021 and 31 December 2020 analysed by portfolio are detailed below.

Table 18: Expected credit loss expense

	31 December 2021 £'million	31 December 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 and sale of assets	–	6
Held for sale assets	–	1
Write-offs and other movements	7	–
Total expected credit loss expense	**22**	**127**

Table 19: Staging approach under IFRS 9

Stage	Description	ECL recognised
Stage 1	Financial assets that have had no significant increase in credit risk since initial recognition or that have low credit risk (high quality investment securities only) at the reporting date.	**12-month expected credit losses** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is credit impaired when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit-impaired (POCI) assets	Financial assets that have been purchased and had objective evidence of being 'non-performing' or 'credit impaired' at the point of purchase.	**Lifetime expected credit losses** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognised as a loss allowance.

Following the adoption of IFRS 9 reporting, all provisions are classed as specific credit risk adjustments.

For details on IFRS 9 Expected Credit Losses, please refer to Note 30 of the Annual Report and Accounts.

At the end of 2021 we held an ECL provision of £169 million (31 December 2020: £154 million).

Table 20 has been updated to align to the format as prescribed in EBA/GL/2016/11 Guidelines.

Table 20: EU CR1-A: Credit Quality of exposures by exposure class

	31 December 2021			
Standardised Credit Risk	Defaulted Exposure (Gross carrying values) a £'million	Non-Defaulted Exposure (Gross carrying value) b £'million	Specific Credit Risk Adjustment c £'million	Net Values (a+b-c) £'million
Central governments or central banks	–	6,847	–	6,847
Institutions	–	167	–	167
Multilateral development banks	-	1,327	-	1,327
Corporates	–	563	56	507
Retail	–	1,344	24	1,320
Secured by mortgages on immovable property	–	8,912	14	8,898
Covered bonds	–	597	–	597
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–
Exposure at default[1]	284	–	75	209
Items associated with particularly high risk	–	8	–	8
Other exposures	–	1,032	–	1,032
Total	**284**	**20,797**	**169**	**20,912**

	31 December 2020			
Standardised Credit Risk	Defaulted Exposure (Gross carrying values) a £'million	Non-Defaulted Exposure (Gross carrying value) b £'million	Specific Credit Risk Adjustment c £'million	Net Values (a+b-c) £'million
Central governments or central banks	–	5,131	–	5,131
Institutions	–	2,767	–	2,767
Multilateral development banks	-	-	-	-
Corporates	–	624	103	521
Retail	–	597	25	572
Secured by mortgages on immovable property	–	9,921	26	9,895
Covered bonds	–	860	–	860
Claims on institutions and corporates with a short-term credit assessment	–	–	–	–
Exposure at default	247	–	–	247
Items associated with particularly high risk	–	14	–	14
Other exposures	–	1,045	–	1,045
Total	**247**	**20,959**	**154**	**21,053**

1. Defaulted exposures to BBLS have been reclassified to Central governments or central banks, under the terms of the guarantee.

5. Credit Risk continued

Table 21: Loss allowance under IFRS 9

Loss allowance	31 December 2021 Stage 1 £'million	 Stage 2 £'million	 Stage 3 £'million	 POCI £'million	 Total £'million
1 January	(30)	(69)	(55)	–	(154)
Transfer to/(from) stage 1	(16)	16	–	–	–
Transfer to/(from) stage 2	2	(3)	1	–	–
Transfer to/(from) stage 3	–	6	(6)	–	–
Net re-measurement due to transfers	11	(11)	(19)	–	(19)
New lending	(23)	(13)	(10)	–	(46)
Transfer to held for sale	–	–	–	–	–
Derecognitions	5	11	20	–	36
Changes to model assumptions	4	14	(4)	–	14
31 December	**(47)**	**(49)**	**(73)**	**–**	**(169)**

Loss allowance	31 December 2020 Stage 1 £'million	 Stage 2 £'million	 Stage 3 £'million	 POCI £'million	 Total £'million
1 January	(9)	(5)	(20)	–	(34)
Transfer to/(from) stage 1	(1)	1	–	–	–
Transfer to/(from) stage 2	1	(1)	–	–	–
Transfer to/(from) stage 3	–	2	(2)	–	–
Net re-measurement due to transfers	1	(43)	(34)	–	(76)
New lending	(11)	(16)	(3)	–	(30)
Transfer to held for sale	1	-	-	-	1
Derecognitions	4	2	4	–	10
Changes to model assumptions	(16)	(9)	-	–	(25)
31 December	**(30)**	**(69)**	**(55)**	**–**	**(154)**

Table 22: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying amount value defaulted exposures 31 December 2021 £'million	 31 December 2020 £'million
As at 1 January	257	115
Loans and debt securities that have defaulted or impaired since the last reporting period	312	185
Returned to non-defaulted status	(37)	(7)
Amounts written off	(72)	(36)
Other changes	2	–
As at 31 December	**462**	**257**

The increase in the gross carrying amount of defaulted exposures from FY 2020 to FY 2021 is primarily driven by BBLS and a small number of large commercial single names cases migrating to Stage 3.

5. Credit Risk continued

Table 23: Impaired exposures and past due exposures by industry

	31 December 2021		31 December 2020	
	Past due but not impaired £'million	Impaired £'million	Past due but not impaired £'million	Impaired £'million
Personal	67	142	68	133
Hospitality	7	29	7	28
Develop, Buy, Sell and Rent Real Estate	28	103	28	58
Health and Social Work	1	10	3	6
Construction	8	18	–	4
Legal, Accounting, Consultancy	4	12	1	–
Other	87	148	–	27
Total	**202**	**462**	**109**	**257**

Analysis by geography
Almost all (95%) of past due but not impaired loans and advances to customers and impaired loans and advances to customers are categorised as being in the UK.

The past due exposures and impaired exposures relating to other geographical areas are considered immaterial.

5.3 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.

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.

As at 31 December 2021 forborne exposures amounted to £149 million.

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.

5.4 Credit Risk Mitigation (CRM)

Credit Risk Mitigation techniques are used to reduce credit risk on an exposure. This involves the exposure being supported by eligible collateral as defined by CRR. Eligible collateral includes cash and certain securities used in the calculation of capital.

The Bank accepts a range of other security including personal guarantees, debentures and stocks and shares. Whilst these types of collateral are used in the lending decision process, they are not used when calculating regulatory exposure values.

The Bank also uses certain guarantees as part of its Credit Risk Mitigation techniques. These guarantees are restricted to:

- US government backed RMBS held as part of our treasury function. These securities have investment grade CQS1 both pre and post guarantee.
- UK government backed Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLS) and Recovery Loan Scheme (RLS).

The Bank does not make use of on- or off-balance sheet netting.

Table 24: Total exposures covered by credit risk mitigation

	31 December 2021		
	Exposure value covered by eligible financial collateral £'million	Exposure value covered by guarantees £'million	Total exposure value covered by credit risk mitigation £'million
Institutions	149	–	149
Corporate	–	280	280
Retail[1]	–	1,351	1,351
Secured by mortgages on immovable property	–	15	15
Exposures in default	–	175	175
Securitisation	–	81	81
Total credit risk mitigation	**149**	**1,902**	**2,051**

	31 December 2020		
	Exposure value covered by eligible financial collateral £'million	Exposure value covered by guarantees £'million	Total exposure value covered by credit risk mitigation £'million
Institutions	196	–	196
Corporate	–	79	79
Retail	–	1,388	1,388
Secured by mortgages on immovable property	–	–	–
Exposures in default	–	-	-
Securitisation	–	59	59
Total credit risk mitigation	**196**	**1,526**	**1,722**

1. Primarily related to BBLS covered by central governments or central banks.

5.5 Credit risk – liquidity portfolio and investment

Credit risk of bank and treasury counterparties is managed through our Treasury Dealing Policy (and the Bank's Credit Risk Policy) which limits the maximum exposure by entity where we can deposit or invest. All institutions need a sufficiently high credit rating, as detailed within the Policy.

We use Standard & Poor's (S&P), Moody's and Fitch as External Credit Assessment Institutions (ECAIs). The external ratings from these institutions are mapped to a prescribed credit quality step assessment scale that in turn produces standard risk weightings.

The exposure classes for which ECAI is used and the exposure values associated with each credit quality step are provided in Table 25.

Table 25: Exposure by credit quality step

	31 December 2021 £'million	31 December 2020 £'million
Central governments and central banks		
Credit quality step 1	3,667	2,345
Total	3,667	2,345
Institutions		
Credit quality step 3	–	2,568
Total	–	2,568
Multilateral development banks		
Credit quality step 1	1,327	–
Total	1,327	–
Corporates		
Credit quality step 1	–	63
Total	–	63
Covered bonds		
Credit quality step 1	597	860
Total	597	860
Securitisation		
Credit quality step 1	1,746	1,611
Credit quality step 4	58	–
Total	1,804	1,611

The Bank performs its internal stress testing to ensure that our Treasury credit risk exposures are in line with policy. Credit proposals are presented by Treasury and sent to Treasury Risk for challenge/approval and thereafter, ALCO members for credit approval.

6. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

We aim to accept a minimal level of operational risk and in doing so seek to minimise operational failures. Key Risk Indicators are used to provide an overview of the control environment and to assess performance against our operational risk appetite. As part of the ICAAP our key operational risks are evaluated and quantified through stress scenarios, which are then utilised in the Bank's operational risk capital assessment.

Each business area is required to conduct regular risk and control assessments which identify and analyse the core risks facing their business. These are maintained in conjunction with our Operational Risk team, who provide challenge and oversight of the process.

Business Continuity Plans are in place for all operational locations. These plans are updated and tested to ensure that they are robust and fit for purpose. We use external disaster recovery sites as back-up locations for both IT servers and staff.

Operational risk RWAs are calculated using the Basic Indicator Approach (BIA). This is based on a three-year average of net income.

Table 26: Operational risk RWAs

	2021 £'million	2020 £'million
As at 1 January	686	546
Movement	43	140
As at 31 December	**729**	**686**

7. Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction may default prior to the final settlement of the cash flows pertaining to that transaction. This may relate to financial derivatives, securities financing transactions and long settlement transactions. We are exposed to counterparty credit risk through derivative transactions.

We use derivative contracts to manage interest rate risk in the banking book and foreign exchange risk on foreign denominated investments. Policies and contracts are in place to transfer/receive cash collateral when derivative mark-to-market exposures exceed agreed minimum transfer values, documented under standard International Swaps and Derivatives Association (ISDA) master netting agreements, supported by Credit Support Annexes (CSA). The Bank clears interest rate swaps through the central counterparty London Clearing House (LCH).

We assign counterparty credit limits based on the credit assessment and rating of the counterparty and monitor exposures against these limits on a daily basis. Our exposure to counterparty credit risk is measured under the CRR mark-to-market method, representing the market value of derivative assets plus the potential future exposure.

The calculated exposures are risk weighted under the Standardised Approach for credit risk. Minimum capital requirements for counterparty credit risk are disclosed in tables 27 and 28.

The other component of counterparty credit risk is the credit valuation adjustment capital charge which is disclosed separately.

Table 27: EU CCR1 – Counterparty credit risk Mark-to-market method

Mark-to-market Method	Replacement cost/current market value £000's	Potential Future Credit Exposure £000's	Total Exposure Value £000's	RWA £000's	Capital Requirement £000's
31 December 2021	**270**	**4,875**	**10,485**	**3,332**	**267**
31 December 2020	6,950	7,095	25,569	5,114	409

Table 28: EU CCR2 – Credit Valuation Adjustment

Credit Valuation Adjustment	Total Exposure Value £000's	RWA £000's	Capital Requirement £000's
31 December 2021	**7,596**	**2,625**	**210**
31 December 2020	22,912	1,848	148

Wrong way risk
Wrong way risk is defined as the risk that occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty, occurring when default risk and credit exposure increase together. We are not currently exposed to wrong way risk.

Derivatives
We maintain control limits on net open derivative positions. The amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which, in relation to derivatives, may only be a small fraction of the contract or notional values used to express the volume of instruments outstanding.

Netting agreements
We restrict our exposure to credit losses by entering into netting arrangements with counterparties with whom we undertake derivative transactions. Netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, credit risk associated with the favourable contracts is reduced by a netting arrangement to the extent that, if any counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to ISDA master agreements, and CSAs, around collateral arrangements attached to those ISDA agreements. The Bank has entered into ISDA/FIA cleared derivatives execution agreements to facilitate the clearing of relevant derivatives with central counterparties.

8. Liquidity and Funding Risk

8.1 Liquidity risk management
Liquidity risk is the risk that we fail to meet our short-term obligations as they fall due. Funding risk is the risk that the Bank 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). The impact of the mortgage portfolio sale in December 2020 resulted in an overall improvement to the Bank's overall liquidity profile through investment of certain proceeds into liquid assets. The Bank refinanced its TFS drawings through the TFSME scheme during the year.

Risk Framework
We have established an Overall Liquidity Adequacy Framework in order to ensure that we adhere to the regulatory Overall Liquidity Adequacy Rule. We do this by linking our Liquidity Objectives – which contains our appetite for liquidity risk and funding risk – to our Internal Liquidity Adequacy Assessment Process (ILAAP), creating a link that allows us to:

- identify our material liquidity risks;
- articulate the management of those material liquidity risks; and
- determine the Board's risk appetite.

The Board sets our risk appetite and policy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. Our Treasury function manages the liquidity position on a day-to-day basis under the oversight of the CFO, CRO and ALCO.

Further details on our approach to mitigation, measurement, monitoring recovery plan and risk appetite can be found in the Risk Report starting on page 13.

8.2 Liquidity coverage ratio
Table 29 has been updated to align to the EBA/GL/2017/01 Guidelines and therefore shows the amount of high-quality liquid assets, total net cash outflows and the LCR, averaged over a 12-month period. The ratio at the period end was 281%.

Table 29: EU LIQ1 – Liquidity coverage ratio

	31 December 2021 £'million	31 December 2020 £'million
Total HQLA	6,900	3,973
Total net cash outflow	2,169	1,832
Liquidity coverage ratio	318%	217%

9. Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Our encumbered assets are used to support collateral requirements for central bank schemes (TFSME, which was utilised to refinance the Bank's TFS drawings during the year), third party repurchase agreements and to a lesser extent collateral for derivatives. The Bank has not issued any securitisations.

The Bank's sources of encumbrance and encumbered assets are mostly in GBP, with a small proportion in USD. The Bank considers all unencumbered debt securities and a significant proportion of loans to customers to be available to support additional secured borrowing or collateral requirements. The Bank has £2,715 million of mortgage loans as at 31 December 2021 (31 December 2020: £2,782 million), which could provide secured funding as central bank-eligible collateral or as part of a securitisation. The Bank had £1,008 million of fixed and intangible assets as at 31 December 2021 which cannot be encumbered for funding purposes.

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.

Tables 30 and 31 provide breakdown of the encumbered and unencumbered assets. The tables are prepared using the Pillar 3 asset encumbrance disclosure Template A and Template C, in accordance with PRA and EBA regulatory reporting requirements which require firms to disclose based on the median of each calendar quarter. Template B is not applicable as we do not have any received collateral.

Table 30: Encumbered and unencumbered assets (Template A)

		31 December 2021							
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
10	Assets of the reporting institution	5,719	1,061			17,119	7,381		
30	Equity instruments	–	–			–	–		
40	Debt securities	1,406	1,001	1,413	1,169	3,350	2,940	3,342	2,932
50	*Of which: covered bonds*	168	168	169	169	532	532	535	535
60	*Of which: Asset-backed securities*	1,005	403	1,009	743	841	371	836	344
70	*Of which: issued by general governments*	203	211	206	212	1,174	1,059	1,168	1,059
80	*Of which: issued by financial corporations*	1,227	781	1,232	980	2,173	875	2,171	880
120	Other assets[1]	4,333	60			13,733	4,429		

		31 December 2020							
		Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
10	Assets of the reporting institution	5,682	705			16,463	4,322		
30	Equity instruments	–	–			–	–		
40	Debt securities	984	665	979	663	2,176	1,441	2,180	1,449
50	*Of which: covered bonds*	–	–	–	–	744	744	741	741
60	*Of which: Asset-backed securities*	426	140	418	140	1,388	735	1,390	775
70	*Of which: issued by general governments*	211	211	215	215	201	196	202	201
80	*Of which: issued by financial corporations*	743	454	738	448	1,857	1,255	1,861	1,248
120	Other assets[1]	4,714	37			14,038	2,791		

1. Consists of all remaining regulatory balance sheet assets, predominantly loans and advances.

The carrying amount of assets only includes items on the Balance Sheet.

Table 31: Sources of encumbrance (Template C)

		31 December 2021		31 December 2020	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		10 £'million	30 £'million	10 £'million	30 £'million
10	Carrying amount of selected financial liabilities	4,054	5,719	4,038	5,682

10. Securitisation

We invest in highly rated securitisation issues in eligible, established asset classes to support regulatory liquidity requirements. External credit rating assessments are provided by Fitch, Moody's and S&P (where available) to assess the rating of the positions in which we invest. In line with our liquidity risk appetite, our Treasury Dealing Policy restricts investment activity to senior, high-quality liquid securities in a small number of established, low risk-sectors.

We do not act as a sponsor or originator in any securitisations.

In November 2018, the PRA published supervisory statement SS10/18 on simple, transparent and standardised (STS) securitisation requirements. A part of this paper required firms to make a decision under CRR Article 254(3) on the methodology used to calculate capital requirements for STS securitisation exposures. Applying the hierarchy of methods, the Bank has informed the PRA in applying the external ratings based approach (SEC-ERBA) to all of our rated securitisations.

Table 32 shows the exposure value of purchased securitisations by asset type.

Table 32: Exposure value of purchased securitisations

	31 December 2021			31 December 2020		
	Exposure £'million	Risk-weight	RWA £'million	Exposure £'million	Risk-weight	RWA £'million
Residential Mortgage Backed Securities – STS	985	10%	99	826	10%	83
Residential Mortgage Backed Securities – Non STS	658	22%	146	788	20%	157
Auto Asset Backed Securities – STS	161	10%	16	–	–	–
Total	**1,804**		**261**	**1,611**		**240**

We only operate within the UK and limit our focus on certain sectors; these sectors have been targeted due to our expertise and/or the security and other risk mitigants available.

Concentration risk of treasury assets is managed and controlled through the Dealing Policy by our Treasury function and overseen by Prudential Risk.

11. Other Matters

11.1 Economic value of equity sensitivity analysis

We use an integrated ALM system which consolidates all our positions and enables the measurement and management of interest rate repricing profiles for the entire Bank. The model takes into account behavioural assumptions as specified in our Market Risk Policy and reviewed at least annually through our Market Risk Assessment Process. 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 which are close to limit thresholds are escalated to Treasury in order to enable prompt action, and limit excesses are escalated to ALCO. A digest of interest rate risk measures and details of any excesses are presented monthly at ALCO and ROC.

Table 33 provides the increase or decrease in economic value of equity (EVE) for upward and downward interest rate shocks. Whilst the numbers shown in this table consolidate all currencies, the sum of all non-sterling currencies is immaterial.

Table 33: EVE Sensitivity analysis

	Sensitivity of economic value to parallel interest rate shock	
	200bps increase £'million	200bps decrease (not floored at 0) £'million
31 December 2021	**4.6**	**(6.9)**
31 December 2020	17.4	(19.0)

11.2 Insurance risk

We do not insure commercial risks such as credit, market or residual value exposures. We have insurance protection for standard business risks. These include professional indemnity, Directors' and Officers' insurance, and insurance for buildings and equipment.

11.3 Pension risk

We have a defined contribution scheme, which is expensed through the profit and loss account. We have no exposure to defined benefit pension schemes.

11.4 Residual value risk

We do not take residual value risk.

11.5 Credit ratings

Our current rating can be found on the Investor Relations section of our website.

12. Remuneration

Metro Bank's remuneration policies set out how colleagues are remunerated in a way that supports the strategic goals of the Bank whilst remaining compliant with regulations.

The Remuneration Committee ((the Committee) reviews the policies as part of its annual calendar of activities, ensuring they remain aligned with our long-term strategic goals and remain compliant with regulations. The Committee also considers feedback from investors and representative bodies. The Bank received strong support for our updated Directors' remuneration policy at the 2021 Annual General Meeting (AGM). The All Colleague remuneration policy mirrors the Directors' remuneration policy, while keeping remuneration relevant for the wider workforce, including Material Risk Takers.

Our approach to remuneration is one of simplicity, we offer colleagues a reward structure that supports our unique culture and long-term strategy as well as being aligned with shareholder needs. Colleague reward is aligned to their AMAZEING review rating; this shows how colleagues have behaved in line with our culture and values, and also how they have performed against objectives. The Bank's approach to remuneration, in particular variable remuneration, is underpinned by risk principles in our corporate scorecard which discourages unnecessary risk-taking.

This disclosure should be read in conjunction with the disclosures contained in the Directors' Remuneration Report of the Annual Report and Accounts.

Material Risk Takers

The Remuneration Code and European Regulatory Technical Standards require the Bank to identify its Material Risk Takers (MRTs). MRTs are those colleagues who operate in roles that are deemed to have, or potentially have, a material impact on the risk profile of the Bank. Metro Bank had classified 36 members of staff[1] as material risk takers in 2021 (2020: 32; 2019: 25).

The following groups of individuals have been identified as meeting the criteria for Material Risk Takers:

- Senior Management, Executive Directors, members of the Executive Committee
- Non-Executive Directors
- other colleagues whose activities could have an impact on the Bank's risk profile.

The Bank's remuneration policies are in place to inform the remuneration of these colleagues.

The Remuneration Committee

The Remuneration Committee consists of three members, in addition to the Chair and meet at least five times per year. Should the need arise, additional meetings are arranged and minuted. The Committee operates an annual calendar whereby recurring activities are discussed at the appropriate time of the year, for example, annual reward review outcomes are discussed in February.

Following a comprehensive tendering process, the Committee appointed Aon McLagan to be its independent advisors on executive remuneration from September 2021. The Committee requests Aon McLagan to attend meetings during the year and is satisfied that the advice it has received has been objective and independent.

The Committee ensures that we operate remuneration processes and implement our remuneration policies in a manner that is consistent with relevant regulatory guidance, aligns with the Bank's risk principles and is consistent with the Bank's strategy.

The Committee reviews the policies annually to ensure they remain aligned with the business strategy and regulatory requirements; any changes needed within three years would be subject to shareholder approval, where required. The policy is in line with wider market practice and provides transparency to all colleagues.

Reward decisions for Executive Directors and members of the wider Executive Committee will be reviewed by the Committee, along with any adjustments to the Non-Executive Director fee schedule.

Approach to remuneration

As already mentioned, we operate a simple approach to remuneration across the Bank. The approach taken for our Material Risk Taker population will differ from that of the wider colleague population.

We offer base salary, variable remuneration and a consistent benefit offering to all colleagues. To align the interests of our Material Risk Taker population with those of our shareholders, we deliver a portion of variable reward in retained shares, deferred cash, deferred shares, and where appropriate, awards under the long-term incentive plan.

The Bank aims for salaries to remain competitive against peers in the financial services sector and uses market data as a reference point. Variable remuneration is based on a mix of corporate performance and a colleague's achievement against their objectives. Risk is considered when determining variable remuneration for all colleagues, in particular Material Risk Takers.

1. This figure does not include external contractors performing a Material Risk Taker role on a temporary basis. During 2021 there were two external contractors, one of which later became a permanent member of staff.

Variable remuneration for Executive Directors is subject to a limit (capped at 2:1 variable to salary ratio) as approved by shareholders.

Further information relating to remuneration of our colleagues can be found in our Directors' Remuneration Report in our 2021 Annual Report and Accounts.

Base salary

Salaries are paid to all Material Risk Takers (except for Non-Executive Directors who receive fees). Base salaries are reviewed annually, taking into account individual performance and experience and market information. Non-Executive Director fees are reviewed annually against external market information.

Variable remuneration

All Material Risk Takers (excluding Non-Executive Directors) are eligible to be considered for an annual bonus. The annual bonus is awarded on a discretionary basis, taking into account colleagues' behaviours and performance based on their AMAZEING review as well as considering corporate performance. Corporate performance targets are agreed at the beginning of the year by the Remuneration Committee and are reflected in our Balanced Scorecard.

Where appropriate, and in line with regulatory requirements a proportion of any annual bonus may be delivered in shares and/or subject to deferral (as per the 'deferral and vesting' section below). Annual bonus deferrals will be made under the Deferred Variable Reward Plan (Deferral Plan). Deferral levels are set at the time of award and in line with regulatory requirements (see below) taking into account total remuneration for the financial year.

Long-term incentives

The Bank's Long-Term Incentive Plan (LTIP) is designed to align senior colleagues' remuneration with the long-term interests of the Bank and its shareholders. It rewards long-term delivery of the Bank's strategy and growth. Performance conditions may apply and are normally tested over a period of three financial years. The first grant of LTIP in 2021 had a four-year performance period 2021–2024 to align with the delivery of the strategic plan. Subject to the achievement of any performance conditions, awards will vest according to timetables designed to meet with regulatory requirements. Any performance conditions will be aligned to the Bank's long-term strategy.

All variable remuneration is subject to malus and clawback.

Guaranteed variable remuneration

Guarantees, such as new hire awards or buyout awards, are only offered in exceptional circumstances to new hires for the first year of service and in accordance with regulatory requirements. Any awards made to new hires to compensate them for unvested variable remuneration they forfeit on leaving their previous employment will be subject to appropriate retention, deferral, performance and clawback arrangements in accordance with applicable regulatory requirements.

Retention awards may be made to existing colleagues in limited circumstances and are subject to prior regulatory approval in line with applicable regulatory requirements.

Deferral and vesting

Variable remuneration is delivered in line with regulatory requirements. For Material Risk Takers receiving a variable remuneration award in respect of 2021 performance that exceeds the 'de minimis' level:

- at least 40% of total variable remuneration is deferred into cash or shares;
- at least 50% of variable remuneration is paid in retained or deferred shares; and
- vested shares are subject to retention periods.

The Committee considers input from the Chief Risk Officer before any deferred awards are released; they can apply both malus and clawback provisions either during or after any relevant performance period to adjust (including to nil) an award of variable remuneration, paid or deferred. Malus and clawback apply to all elements of variable remuneration. Cash bonus and Share Awards may be delayed or reduced before they are paid/before they vest (malus) or may be subject to clawback on or after payment should management or the Committee conclude that an adjustment needs to be made. Clawback may be applied up to seven years from the award date, or 10 years where an investigation has commenced.

While not exhaustive, the situations where malus and/or clawback may be applied are as follows:

- The colleague has participated in or is responsible for conduct that has resulted in significant losses to the Bank;
- The colleague has failed to meet appropriate standards of fitness and propriety;
- There is reasonable evidence of misconduct or serious error by a colleague;
- The Company and/or the business unit for which the colleague works suffers a material downturn in its business performance;
- The Company and/or the business unit for which the colleague works suffers a significant failure in risk management;

12. Remuneration continued

- There has been a material misstatement in the Company's financial results or an error in assessing any applicable performance condition;
- The Company has suffered an instance of corporate failure which has resulted in;
  - the conditions for use of the stabilisation powers under the special resolution regime in accordance with Part 1 to 3 of the Banking Act 2009 being satisfied;
  - the Company entering into a compromise or arrangement in accordance with sections 1 to 7 of the Insolvency Act 1986 for the purpose of repayment or restructuring of the Company's debts; or
  - the passing of a resolution or making of an order which is sanctioned by the Court for the appointment of a liquidator or administrator;
- The Company or any Group Member suffers substantial reputational damage to its business from an event to which the colleague made a material contribution as a result of their action or conduct or failure to act;
- The colleague is subject to a regulatory censure in respect of a material failure in control;
- The level of the award is not, in the opinion of the Board, sustainable when assessing the overall financial viability of the Company or any Group Member.

The above principles apply to all variable remuneration for all Material Risk Takers across the Bank.

The Committee has complete discretion to challenge the formulaic variable reward outcomes where it believes it is not appropriate.

The link between pay and performance

Variable reward payments require robust performance against challenging conditions. Performance conditions have been designed to drive the delivery of our business strategy and consist of a number of financial and non-financial metrics, as well as individual performance based on the colleague's AMAZEING review.

For the purposes of remuneration, colleagues' AMAZEING reviews occur annually, taking into account colleagues' behaviours and also their achievement against objectives.

The corporate scorecard is the same for all colleagues (including Material Risk Takers) and includes both financial and non-financial performance metrics; the latter including risk management.

The variable reward pool is based on the overall performance of the Bank in terms of culture and delivery in line with the corporate scorecard, which includes the following four categories:

- Financial
- Risk
- Customers
- People.

The Committee also considers inputs from the CRO who provides an independent review as to whether and to what extent the variable remuneration pool should be subject to an adjustment.

Remuneration for Material Risk Takers

The following tables display the 2021 fixed and variable remuneration for Metro Bank's Material Risk Taker population. This is broken down between Senior Management and Other Material Risk Takers. The Bank is not structured in such a way to break down the data by business area.

Table 34: Fixed and variable remuneration for Material Risk Takers
Analysis of remuneration between fixed and variable amounts

Remuneration £'million		Senior Manager[1]	Material Risk Taker[2]	Total
Fixed Remuneration	Number of colleagues	22	14	36
	Total fixed remuneration	**5.4**	**2.5**	**7.9**
Variable Remuneration	**Total variable remuneration**	**5.0**	**0.6**	**5.6**
	Of which: Upfront cash	0.7	0.3	1.0
	Of which: Retained Shares[3]	1.3	0.1	1.4
	Of which: Deferred Cash	0.0	0.0	0.0
	Of which: Deferred Shares[3]	1.1	0.2	1.3
	Of which: Long term incentive plan[3]	1.9	0.0	1.9
Total remuneration		**10.4**	**3.1**	**13.5**

Notes:
1. The number of Senior Managers reduced compared to 2020 due to a number of starters and leavers in the 2020 period.
2. The number of Material Risk Takers increased compared to 2020 due to the inclusion of additional roles in 2021.
3. Values for 2021 share awards and LTIP awards are based on the face value of award.

Table 35: Special payments in 2021
This table shows special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff).

Remuneration £'million		Senior Manager	Material Risk Taker
Awarded in relation to the 2021 performance year			
Commencement Awards – Buy-outs Awards	Number of awards made	0	0
	Total	0.00	0.00
Commencement Awards – New-hire Guarantee	Number of awards made	0	0
	Total	0.00	0.00
Retention Awards[1]	Number of awards made	1	0
	Total	0.04	0.00
Termination Awards	Number of awards made	0	0
	Total	0.00	0.00
Awarded in previous periods and paid out during the financial year			
Guaranteed Bonus	Number of awards made	1	1
	Total	0.04	0.02
Highest award made to a single person	**Total**	0.04	0.02

Note:
1. Awarded with prior approval from the PRA.

Table 36: Total outstanding deferred variable remuneration

Remuneration £'million		Senior Manager[1]	Material Risk Taker[2]	Total
Outstanding Deferred Variable Remuneration	**Number of colleagues**	13	2	15
	Total outstanding deferred variable remuneration[1, 2]	**12.01**	**0.04**	**12.05**
	Of which: Vested	7.09	0.01	7.10
	Of which: Unvested	4.92	0.03	4.95
	Of which: Awarded in the year	3.98	0.04	4.01
	Of which: Paid out in the year	0.00	0.00	0.00
	Of which: Reduced through performance adjustments	0.00	0.00	0.00

Notes:
1. Includes awards since the colleague was certified as a Senior Manager or Material Risk Taker.
2. Total outstanding value is based on the face value of the award at time of grant.

12. Remuneration continued

Table 37: Analysis of high earners by band

This table is based on the total remuneration awarded to Material Risk Takers in respect of the 2021 performance year.

Number of Material Risk Takers paid €1 million[1,2] or more	Senior Manager	Material Risk Taker
€2,500,000 – €3,000,000	1	0
€2,000,000 – €2,500,000	0	0
€1,500,000 – €2,000,000	0	0
€1,000,000 – €1,500,000	0	0

Notes:
1. Converted to Euros using the exchange rate £1 = €1.18227 (average exchange rate 1 December 2020 – 31 December 2021 based on the European Commission Budget exchange rates).
2. Values for share awards and the LTIP are based on face value at grant. An EBA discount factor has not been applied to awards made in 2022 in respect of performance year 2021.

13. Gender Diversity

In line with the Hampton-Alexander Review, we have continued to make progress with gender diversity on our Board. At the date of this report, 39% of Board members were female (2020: 33%; 2019: 30%). We actively recruit and promote females into positions of leadership with 43% of our Executive Committee (ExCo) and Senior Leadership Team (SLT) being female. With this, we have exceeded the Hampton-Alexander Review's target of 33% female representation on the ExCo and SLT (direct reports to the Executive Team).

We are also proud signatories of the Women in Finance Charter, which aims to achieve gender balance at all levels across financial services firms.

Publication of the 2020 gender pay gap was suspended in 2021 due to the continuing effect of the COVID-19 pandemic. During 2022, we will publish on our website our 2021 gender pay gap figures, in line with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Further information on our gender pay gap figures can be found in the Directors' Remuneration Report within the 2021 Annual Report and Accounts.

We have a range of initiatives focused on creating inclusion and diversity in our environment, which will in turn provide gender diversity in leadership roles.

The objectives of our 'Women on Work' Network (WOW) are to increase the reach of the network, particularly focusing on supporting women's careers. Over 2021, WOW delivered several initiatives including Mentoring Circles; sharing women's career stories; and educating all colleagues on women's health issues such as menopause. Each of these aims to remove the barriers that impede female progression.

Over the course of 2021, our Inclusion Committee (made up of the chairs of each network) have increased their alignment, with the aim of accelerating progress in areas common to all networks and/or relating to intersectionality. For example, supporting our LGBT network in their aim to raise awareness around transgender and the correct use of pronouns. Creating an inclusive environment in this way helps all those identifying as female to feel seen and supported.

Also, in 2021 we introduced the Opportunities Programme, Metro Bank's first talent programme aimed at supporting the progression of diverse talent into leadership roles. With 20 colleagues on the first cohort, from a range of diverse backgrounds, 65% are female, reflecting the intention to particularly support women's careers and representation in leadership.

To support development and recruitment of diverse talent, we provide diverse candidate shortlists to hiring managers, and hiring manager online learning content that increases awareness and skill in fair and unbiased hiring behaviours and decisions. In addition, we offer inclusive leadership online learning, mentoring circles that cover topics such as confidence and authenticity at work, and leadership seminars on key topics and career development.

We also have a number of policies that support gender diversity, we also offer flexible working arrangements and 14 weeks' parental leave for all new parents, regardless of gender.

Since signing the Investing in Women Code in 2019, we have remained committed to supporting the advancement of female entrepreneurship in the United Kingdom by improving female access to tools, resources and finance from the financial services sector.

We recently hired a Director of Colleague Experience and Inclusion who will launch our Diversity and Inclusion Strategy in 2022, with aims to make a difference to communities, colleagues and leaders across the business.

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