Metro Bank Holdings PLC
Pillar 3 2023

Contents

Forward–looking statements

This Pillar 3 contains statements that are, or may be deemed to be, forward–looking statements. Forward–looking statements typically use terms such as ‘believes’, ‘projects’, ‘anticipates’, ‘expects’, ‘intends’, ‘plans’, ‘may’, ‘will’, ‘would’, ‘could’ or ‘should’ or similar terminology. Any forward–looking statements in this Pillar 3 are based on our current expectations and, by their nature, forward–looking statements are subject to a number of risks and uncertainties, many of which are beyond our control, that could cause our actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward–looking statements. As a result, you are cautioned not to place undue reliance on such forward–looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance. No assurances can be given that the forward–looking statements in this Pillar 3 will be realised. We undertake no obligation to release the results of any revisions to any forward– looking statements in this Pillar 3 that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement and we disclaim any such obligation.

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1. Executive Summary

This Pillar 3 disclosure complements and expands on information disclosed in Metro Bank Holding PLC's ("Metro Bank" or "the Group") 2023 Annual Report and Accounts ('ARA'). It provides information on Metro Bank and its subsidiaries' 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 Capital Requirements Regulations ('CRR'). Articles 431 to 455 of CRR specify the requirements of the Pillar 3 framework. The regulations came into force on 1 January 2022 and were implemented by the Prudential Regulation Authority ('PRA') through the PRA Rulebook.

In May 2023, Metro Bank completed the implementation of its holding company marking an important milestone in meeting the requirements of the Bank of England's resolution framework.

In October 2023, the Group secured a £925 million capital package, comprising of £150 million of new equity, £175 million of new MREL–eligible debt and £600 million of debt refinancing. As a result, our year end position for CET1, Tier 1 and MREL ratios were 13.1%, 13.1% and 22.0% respectively (December 2022 10.3%, 10.3% and 17.7%).

Common Equity Tier ('CET1') Ratio

13.1%

(2022: 10.3%)

Tier 1 Capital Ratio

13.1%

(2022: 10.3%)

Total Capital Ratio ('TCR')

15.1%

(2022: 13.4%)

UK Leverage Ratio

5.3%

(2022: 4.2%)

Liquidity Coverage Ratio ('LCR')

332%[1]

(2022: 213%)

Risk Weighted Assets ('RWAs')

(£'million)

7,533

(2022: 7,990)

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

22,245

(2022: 22,119)

[1] LCR position as at 31 December 2023

1. Executive Summary continued

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 Holdings PLC has four subsidiaries, of which one is dormant. Metro Bank Holdings PLC is regulated by the Prudential Regulatory Authority ('PRA'). In October 2023 Metro Bank PLC reapplied for, and was 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 Group's subsidiaries can be found in note 3 of the Company financial statements within the 2023 ARA.

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 Holdings PLC is a UK based banking group that provides services to retail and commercial clients. It is authorised and regulated by the PRA and is required to comply with regulatory rules implemented by the PRA. 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 PRA Rulebook.

This document sets out our 2023 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 based on 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 2023, our financial year end, with comparative figures for 31 December 2022 where relevant. Comparative figures are those for Metro Bank PLC.

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 2023 we used the Standardised Approach to credit risk and market risk and operational risk.

Frequency of disclosures

The Group's Pillar 3 disclosures are published semi–annually in conjunction with the date of publication of our financial statements.

Exemption from disclosure

1. Materiality

In accordance with CRR Article 432 on materiality, confidentiality and proprietary and on disclosure frequency, 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:

Abbreviation	Template name	Reason for ommission
UK CR2a	Changes in the stock of non–performing loans and advances and related net accumulated recoveries	NPE <5% therefore threshold to disclose not met
UK CQ2	Quality of forbearance	NPE <5% therefore threshold to disclose not met
UK CQ4	Quality of non–performing exposures by geography	Non–UK exposures <10%
UK CQ6	Collateral valuation – loans and advances met	NPE <5% therefore threshold to disclose not met
UK CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown	NPE <5% therefore threshold to disclose not met
UK CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Materiality, less than 1% of total RWAs
UK CCR5	Composition of collateral for CCR exposures	Materiality, less than 1% of total RWAs
UK MR1	Market risk under the standardized approach	Threshold to disclose not met

1. Executive Summary continued

2 Proprietary or confidential information

In accordance with CRR Article 432 on materiality, confidentiality and proprietary and on disclosure frequency, 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

Abbreviation	Template Name	Reason for ommission
UK INS1	Insurance participations	The Bank does not hold any insurance undertakings and hold any RWA or Capital
UK INS2	Financial conglomerates information on own funds and capital adequacy ratio	The Bank does not hold any insurance undertakings and hold any RWA or Capital
UK PV1	Prudent valuation adjustments (PVA)	The Bank adopts simple method
UK CQ7	Collateral obtained by taking possession and execution processes	The Bank does not take possession of collateral and recognise as an asset
UK CR6	Credit risk exposures by exposure class and PD range	The Bank uses Standardised Approach for all exposures
UK CR6–A	Scope of the use of IRB and SA approaches	The Bank uses Standardised Approach for all exposures
UK CR7	Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank uses Standardised Approach for all exposures
UK CR7–A	Disclosure of the extent of the use of CRM techniques	The Bank uses Standardised Approach for all exposures
UK CR8	RWEA flow statements of credit risk exposures under the IRB approach	The Bank uses Standardised Approach for all exposures
UK CR9	Back–testing of PD per exposure class (fixed PD scale)	The Bank uses Standardised Approach for all exposures
UK CR9.1	Back–testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)	The Bank uses Standardised Approach for all exposures
UK CR10	Specialised lending and equity exposures under the simple risk weighted approach	The Bank uses Standardised Approach for all exposures

Abbreviation	Template Name	Reason for ommission
UK CCR4	IRB approach – CCR exposures by exposure class and PD scale	The Bank uses Standardised Approach for all exposures
UK CCR6	Credit derivatives exposures	The Bank does not transact credit derivatives.
UK CCR7	RWEA flow statements of CCR exposures under the IMM	The Bank uses Standardised Approach for all exposures
UK SEC2	Securitisation exposures in the trading book	The Bank does not have a trading book
UK SEC3	Securitisation exposures in the non–trading book and associated regulatory capital requirements – institution acting as originator or as sponsor	The Bank does not originate or sponsor
UK SEC5	Exposures securitised by the institution – Exposures in default and specific credit risk adjustments	The Bank does not originate or sponsor
UK MR2–A	Market risk under the internal Model Approach (IMA)	The Bank does not use an Internal Model Approach for Market risk
UK MR2–B	RWA flow statements of market risk exposures under the IMA	The Bank does not use an Internal Model Approach for Market risk
UK MR3	IMA values for trading portfolios	The Bank does not use an Internal Model Approach for Market risk
UK MR4	Comparison of VaR estimates with gains/losses	The Bank does not use an Internal Model Approach for Market risk

1. Executive Summary continued

Comparatives

Comparatives are as at 31 December 2022 unless otherwise stated. Comparative figures are those for Metro Bank PLC.

Regulatory considerations

Non–performing exposures capital deduction

In November 2023 the PRA released PS14/23 which finalised the PRAs decision to remove the CET1 deduction requirement for non–performing exposures (‘NPE’s) that are treated as insufficiently covered by firms’ accounting provisions and related reporting requirements for CRR firms. The policy came into effect the same month.

Basel 3.1

The PRA has published the first of two near-final policy statements covering the implementation of the Basel 3.1 standards for market risk, credit valuation adjustment risk, counterparty credit risk, and operational risk, with remaining elements of the standards expected to be published in Q2 2024.

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

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

Summary of risk profile and governance

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

Further details on our approach to risk management can be found on pages 32 to 41.

The Risk Oversight Committee (‘ROC’) meet throughout the year. Details can be found in the Board Activities and stakeholder engagement section of ARA on pages 57 to 61.

AIRB delay

With the announcement from the PRA in September 2023 that we should not expect to receive Advanced Internal Ratings-Based (‘AIRB’) approval in 2023 for residential mortgages, no decision has been made regarding the Group’s AIRB application. Forward plans are not predicated on accreditation and the work performed on the application to date remains beneficial to the Group.

Our focus going forward will be to dominate in niche parts of the mortgage market where our manual underwriting capacity is a competitive advantage.

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 across the three lines of defence and are reviewed by the 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 ARA.

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

Daniel Frumkin
Chief Executive Officer

Kirsten McLeod
Chief Risk Officer
16 April 2024

2. Scope of Application

Table 1: UK LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

This table outlines the differences in the basis of consolidation for accounting and regulatory purposes. It provides an allocation of the balance sheet line items reported under the scope of regulatory consolidation between the different regulatory risk frameworks.

		31 December 2023						
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
		£'million	£'million	£'million	£'million	£'million	£'million	£'million
	Assets							
1	Cash and balances with the Bank of England	3,891	3,891	3,891	–	–	–	–
2	Loans and advances to customers	12,297	12,297	12,297	–	–	–	–
3	Investment securities held at FVOCI	476	476	476	–	–	–	–
4	Investment securities held at amortised cost	4,403	4,403	3,261	–	1,142	–	–
5	Financial assets held at fair value through profit and loss	–	–	–	–	–	–	–
6	Derivative financial assets	36	36	–	36	–	–	–
7	Property, plant and equipment	723	723	723	–	–	–	–
8	Intangible assets	193	193	–	–	–	–	193
9	Prepayments and accrued income	118	118	118	–	–	–	–
10	Assets classified as held for sale	–	–	–	–	–	–	–
11	Other assets	108	108	108	–	–	–	–
12	**Total assets**	22,245	22,245	20,874	36	1,142	–	193
	Liabilities							
13	Deposits from customers	15,623	15,623	–	–	–	–	15,623
14	Deposits from central banks	3,050	3,050	–	–	–	–	3,050
15	Debt securities	694	694	–	–	–	–	694
16	Repurchase agreements	1,191	1,191	–	1,191	–	–	–
17	Derivative financial liabilities	–	–	–	–	–	–	–
18	Lease liabilities	234	234	–	–	–	–	234
19	Deferred grants	16	16	–	–	–	–	16
20	Provisions	23	23	–	–	–	–	23
21	Deferred tax liability	13	13	–	–	–	–	13
22	Other liabilities	267	267	–	–	–	–	267
23	**Total liabilities**	21,111	21,111	–	1,191	–	–	19,920

There are no differences between carrying values as reported in published financial statements and carrying values under the scope of regulatory consolidation. No entities are derecognised from the accounting balance sheet for regulatory purposes.

2. Scope of Application continued

		31 December 2022						
		Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to own funds requirements or subject to deduction from own funds
		£'million	£'million	£'million	£'million	£'million	£'million	£'million
	Assets							
1	Cash and balances with the Bank of England	1,956	1,956	1,956	–	–	–	–
2	Loans and advances to customers	13,102	13,102	13,102	–	–	–	–
3	Investment securities held at FVOCI	571	571	533	–	38	–	–
4	Investment securities held at amortised cost	5,343	5,343	4,081	–	1,262	–	–
5	Financial assets held at fair value through profit and loss	1	1	1	–	–	–	–
6	Derivative financial assets	23	23	–	23	–	–	–
7	Property, plant and equipment	748	748	748	–	–	–	–
8	Intangible assets	216	216	–	–	–	–	216
9	Prepayments and accrued income	85	85	85	–	–	–	–
10	Assets classified as held for sale	1	1	1	–	–	–	–
11	Other assets	73	73	58	15	–	–	–
12	**Total assets**	22,119	22,119	20,564	38	1,301	–	216
	Liabilities							
13	Deposits from customers	16,014	16,014	–	–	–	–	16,014
14	Deposits from central banks	3,800	3,800	–	–	–	–	3,800
15	Debt securities	571	571	–	–	–	–	571
16	Repurchase agreements	238	238	–	238	–	–	–
17	Derivative financial liabilities	26	26		26			
18	Lease liabilities	248	248	–	–	–	–	248
19	Deferred grants	17	17	–	–	–	–	17
20	Provisions	7	7	–	–	–	–	7
21	Deferred tax liability	12	12	–	–	–	–	12
22	Other liabilities	230	230	–	–	–	–	230
23	**Total liabilities**	21,163	21,163	–	264	–	–	20,899

2. Scope of Application continued

Table 2: UK LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

This table provides a reconciliation between assets carrying values under the regulatory scope of consolidation as per Table 1 and the exposures used for regulatory purposes, split as per the regulatory risk framework.

		31 December 2023				
			Items subject to			
		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
		£'million	£'million	£'million	£'million	£'million
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)**	22,052	20,874	1,142	36	–
2	**Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)**	1,191	–	–	1,191	–
3	**Total net amount under the regulatory scope of consolidation**	20,861	20,874	1,142	(1,155)	–
4	**Off–balance–sheet amounts**	718	718	–	–	
5	*Differences in valuations*	–	–	–	–	
6	*Differences due to different netting rules, other than those already included in row 2*	–	–	–	–	
7	*Differences due to consideration of provisions*	–	–	–	–	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	*1,129*	*67*	*(67)*	*1,129*	
9	*Differences due to credit conversion factors*	*(598)*	*(598)*	–	–	
10	*Differences due to Securitisation with risk transfer*	–	–	–	–	
11	*Other differences*	*220*	*53*	–	*167*	
12	**Exposure amounts considered for regulatory purposes**	22,330	21,114	1,075	141	–

Exposure amounts considered for regulatory purposes as a starting point for risk–weighted asset calculations shown in Table 2 differ to the carrying values under the regulatory scope of consolidation for the following reasons:

- As shown in row 8 of Table 2, off–balance sheet amounts are reduced by applicable credit risk mitigation techniques;
- As shown in row 9 of Table 2, off–balance sheet amounts are reduced by applicable credit conversion factors;
- As shown in row 11, other differences are primarily driven by transitional arrangements in relation to IFRS 9 (credit risk framework) and exposures to Central Clearing Party ('CCP') (CCR framework).

2. Scope of Application continued

		31 December 2022				
			Items subject to			
		Total	Credit risk framework	Securitisation framework	CCR framework	Market risk framework
		£'million	£'million	£'million	£'million	£'million
1	Assets carrying value amount under the scope of regulatory consolidation (as per template LI1)	21,903	20,564	1,301	38	–
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template LI1)	264	–	–	264	–
3	Total net amount under the regulatory scope of consolidation	21,639	20,564	1,301	(226)	–
4	Off–balance–sheet amounts	1,120	1,120	–	–	
5	*Differences in valuations*	–	–	–	–	
6	*Differences due to different netting rules, other than those already included in row 2*	79	79	–	–	
7	*Differences due to consideration of provisions*	–	–	–	–	
8	*Differences due to the use of credit risk mitigation techniques (CRMs)*	232	78	(78)	232	
9	*Differences due to credit conversion factors*	(868)	(868)	–	–	
10	*Differences due to Securitisation with risk transfer*	–	–	–	–	
11	*Other differences*	129	89	–	40	
12	Exposure amounts considered for regulatory purposes	22,332	21,064	1,222	46	–

Table 3: UK LI3 – Outline of the differences in the scopes of consolidation (entity by entity)

	31 December 2023						
		Method of regulatory consolidation					
Name of entity	Method of accounting consolidation	Full consolidation	Proportional consolidation	Equity method	Neither consolidated nor deducted	Deducted	Description of the entity
Metro Bank Holdings PLC	Full consolidation	X					Holding company
Metro Bank PLC	Full consolidation	X					Banking
RDM Factors Limited	Full consolidation	X					Dormant
SME Invoice Finance Limited	Full consolidation	X					Invoice financing
SME Asset Finance Limited	Full consolidation	X					Asset financing

3. Key Metrics and Risk Weighted Assets

Table 4: UK KM1 – Key metrics

This table below provides a summary of the main prudential regulation ratios and measures.

		31 December 2023 £'million	30 June 2023 £'million	31 December 2022 £'million
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital	985	813	819
2	Tier 1 capital	985	813	819
3	Total capital	1,135	1,030	1,069
	Risk–weighted exposure amounts			
4	Total risk–weighted exposure amount	7,533	7,802	7,990
	Capital ratios (as a percentage of risk–weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	13.1%	10.4%	10.3%
6	Tier 1 ratio (%)	13.1%	10.4%	10.3%
7	Total capital ratio (%)	15.1%	13.2%	13.4%
	Additional own funds requirements based on SREP (as a percentage of risk–weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	0.2%	0.2%	0.3%
UK 7b	Additional AT1 SREP requirements (%)	0.1%	0.1%	0.1%
UK 7c	Additional T2 SREP requirements (%)	0.1%	0.1%	0.1%
UK 7d	Total SREP own funds requirements (%)	8.4%	8.4%	8.5%
	Combined buffer requirement (as a percentage of risk–weighted exposure amount)			
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%
9	Institution specific countercyclical capital buffer (%)	2.0%	1.0%	1.0%
11	Combined buffer requirement (%)	4.5%	3.5%	3.5%
UK 11a	Overall capital requirements (%)	12.9%	11.9%	12.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	8.4%	5.7%	5.5%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks	18,420	18,550	19,348
14	Leverage ratio excluding claims on central banks (%)	5.3%	4.4%	4.2%
	Liquidity Coverage Ratio[1]			
15	Total high–quality liquid assets (HQLA) (Weighted value – average)	5,056	5,063	6,051
UK 16a	Cash outflows – Total weighted value	2,335	2,568	2,729
UK 16b	Cash inflows – Total weighted value	256	258	264
16	Total net cash outflows (adjusted value)	2,079	2,310	2,465
17	Liquidity coverage ratio (%)	244%	219%	246%
	Net Stable Funding Ratio[2]			
18	Total available stable funding	18,277	18,564	18,903
19	Total required stable funding	13,442	13,790	13,225
20	NSFR ratio (%)	136%	135%	143%

[1] LCR is based on 12–month average.

[2] NSFR is based on 4–quarter average.

3. Key Metrics and Risk Weighted Assets continued

Table 5: UK KM2 – Key metrics: MREL

This table below shows the key metrics for the bank's capital resources and eligible liabilities.

		31 December 2023 £'million	31 December 2022 £'million
1	Total capital resources	1,135	1,069
2	Eligible senior unsecured instruments issued	520	347
3	Total MREL resources	1,655	1,416
4	Total risk–weighted assets	7,533	7,990
5	Total MREL resources as a percentage of total risk–weighted assets (%)	22.0%	17.7%
6	UK leverage exposure measure	18,420	19,348
7	Total MREL resources as a percentage of UK leverage exposure measure (%)	9.0%	7.3%

3. Key Metrics and Risk Weighted Assets continued

Table 6: UK OV1 – Overview of risk weighted exposure amounts

This table below shows a breakdown of RWAs and minimum capital requirement by risk type and approach.

		RWAs		Minimum capital requirements	
		31 December 2023 £'million	31 December 2022 £'million	31 December 2023 £'million	31 December 2022 £'million
1	Credit risk (excluding counterparty credit risk (CCR))	6,667	7,071	533	566
2	*Of which the standardised approach*	*6,667*	*7,071*	*533*	*566*
6	Counterparty credit risk	26	9	2	1
7	*Of which the standardised approach*	*26*	*7*	*2*	*0*
8b	*Of which CVA*	*0*	*2*	*0*	*0*
16	Securitisation exposures in the banking book (after the cap)	129	166	10	13
18	*Of which SEC–ERBA (including IAA)*	*129*	*166*	*10*	*13*
20	Market Risk	–	–	–	–
21	*Of which foreign currency risk*	–	–	–	–
23	Operational risk	703	739	56	59
23a	*Of which basic indicator approach*	–	*739*	–	*59*
23b	*Of which standardised approach*	*703*	–	*56*	–
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	8	5	1	–
29	**Total**	7,533	7,990	602	639

The Internal Capital Adequacy Assessment Process (ICAAP)

We manage our capital risk via our Prudential Risk Framework which includes policies, strategy, limit setting, continuous monitoring and stress testing. Our ICAAP is a key component of this framework and provides an internal assessment of the bank's capital requirements and adequacy. This includes Pillar 2 assessments, which cover risks unique to the bank and not adequately covered by Pillar 1. In addition, the ICAAP considers our capital adequacy in various stressed conditions which informs the sizing of our internal capital management buffer.

Metro Bank's Pillar 2A requirement as at 31 December 2023 remained at 0.36% of RWAs bringing the bank's Total Capital Requirement ('TCR') to 8.36% (12.86% including CRD IV buffers) of RWAs.

4. Own Funds

Required levels of Own Funds

CRR Article 92 describes the calculation of capital ratios and the use of different tiers of capital resource. On 30 November 2023 Metro Bank announced completion of the Capital Raise which consisted of £150 million equity, £600 million of debt refinancing and £175 million of new MREL debt. The capital raise secured the balance sheet, extended the debt instrument maturities to 2028 or beyond and provided sufficient capital resources to enable the Group to meet all minimum regulatory requirements including CRD IV buffers.

Tier 1 Capital

As at 31 December 2023, our capital base was made up of £985 million (31 December 2022: £819 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 Rulebook, and audited reserves.

Tier 2 Capital

Tier 2 capital is £150 million (31 December 2022: £250 million). Tier 2 capital consists of Fixed Rate Reset Callable Subordinated Notes due in 2034.

4. Own Funds continued

Table 7: UK CC1 – Composition of regulatory own funds

The table below summarises the composition of regulatory capital.

		Reference to UK CC2	31 December 2023 £'million	31 December 2022 £'million
	Capital Resources			
1	Capital instruments and the related share premium accounts	**a**	144	1,964
	of which: ordinary shares		–	–
2	Retained earnings	**b**	978	(942)
3	Accumulated other comprehensive income (and other reserves)	**c**	12	7
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		–	–
6	**Statutory Total Equity per Financial Statements**		1,134	1,029
	Regulatory Capital adjustments			
7	Additional value adjustments (negative amount)		(0)	(1)
8	Intangible assets (net of related deferred tax liability)	**d**	(189)	(210)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**e**	(14)	(12)
25a	Losses for the current financial year (negative amount)	**b**	–	(73)
27a	Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant)		54	85
28	Total regulatory adjustments to CET1		(149)	(209)
29	Total Regulatory CET1 capital		985	819
45	**Tier 1 capital**		985	819
	Tier 2 capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	**f**	150	250
51	Tier 2 capital before regulatory adjustments		150	250
58	Tier 2 capital		150	250
59	**Total capital**		1,135	1,069
60	**Total risk weighted assets**		7,533	7,990
	Capital ratios and buffers			
61	CET1		13.1%	10.3%
62	Tier 1		13.1%	10.3%
63	Total capital		15.1%	13.4%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)		9.2%	8.3%
65	*of which: capital conservation buffer requirement*		*2.5%*	*2.5%*
66	*of which: countercyclical buffer requirement*		*2.0%*	*1.0%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		7.4%	4.5%
	Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		84	89

4. Own Funds continued

Table 8: UK CC2 – Reconciliation of regulatory own funds to balance sheet in the audited financial statements

The following table shows the Group's consolidated accounting and regulatory balance sheets as at 31 December 2023, with references to show linkages to Table 7.

		Reference to UK CC1	31 December 2023		31 December 2022	
			Balance sheet as in published financial statements	Under regulatory scope of consolidation	Balance sheet as in published financial statements	Under regulatory scope of consolidation
			£'million	£'million	£'million	£'million
	Assets					
1	Cash and balances with the Bank of England		3,891	3,891	1,956	1,956
2	Loans and advances to customers		12,297	12,297	13,102	13,102
3	Investment securities held at FVOCI		476	476	571	571
4	Investment securities held at amortised cost		4,403	4,403	5,343	5,343
5	Financial assets held at fair value through profit and loss		–	–	1	1
6	Derivative financial assets		36	36	23	23
7	Property, plant and equipment		723	723	748	748
8	Intangible assets	d	193	193	216	216
9	Prepayments and accrued income		118	118	85	85
10	Assets classified as held for sale		–	–	1	1
11	Other assets		108	108	73	73
12	**Total assets**		22,245	22,245	22,119	22,119
	Liabilities					
13	Deposits from customers		15,623	15,623	16,014	16,014
14	Deposits from central banks		3,050	3,050	3,800	3,800
15	Debt securities	f	694	694	571	571
16	Repurchase agreements		1,191	1,191	238	238
17	Derivative financial liabilities		–	–	26	26
18	Lease liabilities		234	234	248	248
19	Deferred grants		16	16	17	17
20	Provisions		23	23	7	7
21	Deferred tax liability	e	13	13	12	12
22	Other liabilities		267	267	230	230
23	**Total liabilities**		21,111	21,111	21,163	21,163
	Equity					
24	Called–up share capital		–	–	–	–
25	Share premium	a	144	144	1,964	1,964
26	Retained earnings	b	978	978	(1,015)	(1,015)
27	Other reserves	c	12	12	7	7
28	**Total shareholders' equity**		1,134	1,134	956	956

4. Own Funds continued

Metro Bank elected to apply IFRS 9 transitional arrangements, however for 2023 the rules allowed for no relief 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, fell to 75% on 1 January 2022 and subsequently 50% and 25% in the two years following.

Table 9: IFRS 9 – Impact of IFRS 9 transitional arrangements and temporary treatment

The table below is a comparison of the bank's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs in accordance with CRR Article 468.

		31 December 2023 £'million	31 December 2022 £'million
	Available capital (amounts)		
1	CET1 capital	985	819
2	CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	932	730
3	Tier 1 capital	985	819
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	932	730
5	Total capital	1,135	1,069
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,082	980
	Risk–weighted assets (amounts)		
7	Total risk–weighted assets	7,533	7,990
8	Total risk–weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied1	7,481	7,901
	Capital ratios		
9	CET1 (as a percentage of risk exposure amount)	13.1%	10.3%
10	CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.5%	9.2%
11	Tier 1 (as a percentage of risk exposure amount)	13.1%	10.3%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.5%	9.2%
13	Total capital (as a percentage of risk exposure amount)	15.1%	13.4%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.5%	12.4%
	Leverage ratio		
15	Leverage ratio total exposure measure	18,420	19,348
16	Leverage ratio	5.3%	4.2%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	5.1%	3.8%

4. Own Funds continued

Table 10: UK CCA – Main features of regulatory own funds instruments and eligible liabilities instruments

The table below shows details of the main features of these capital and eligible liability instruments.

	Capital Instruments main features			
1	Issuer	Metro Bank Holdings PLC	Metro Bank Holdings PLC	Metro Bank Holdings PLC
2	Unique identifier	GB00BMX3W479	XS2720121131/XS2720120919	XS2720120596/XS2720120679
2a	Public or private placement	Public	Public	Public
3	Governing law(s) of the instrument	English	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	Yes	Yes
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Tier 2	Eligible Liabilities
5	Post–transitional CRR rules	Common Equity Tier 1	Tier 2	Eligible Liabilities
6	Eligible at solo/(sub–)consolidated/solo and (sub–)consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Fixed Rate Reset Callable Subordinated Notes	Fixed Rate Reset Callable Notes
8	Amount recognised in regulatory capital (£)	144,372,335	150,000,000	519,933,381
9	Nominal amount of instrument (£)	672.68	150,000,000	525,000,000
9a	Issue price	Various	Par value	Par value
9b	Redemption price	n/a	100%	100%
10	Accounting classification	Equity	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	Various	30/11/2023	30/11/2023
12	Perpetual or dated	Perpetual	Dated	Dated
13	Original maturity date	n/a	30/04/2034	30/04/2029
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	30/04/2029	30/04/2028
16	Subsequent call dates, if applicable	n/a	None	None
	Coupons/dividends			
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed
18	Coupon rate and any related index	n/a	14.00%	12.00%
19	Existence of a dividend stopper	n/a	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory

4. Own Funds continued

20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No
22	Non–cumulative or cumulative	Non–cumulative	Non–cumulative	Non–cumulative
	Capital Instruments main features			
23	Convertible or non–convertible	n/a	Convertible	Convertible
24	If convertible, conversion trigger(s)	n/a	Statutory bail–in by the UK Resolution Authority	Statutory bail–in by the UK Resolution Authority
25	If convertible, fully or partially	n/a	Fully or Partially	Fully or Partially
26	If convertible, conversion rate	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a
29	If convertible, specify issuer of instrument in converts into	n/a	n/a	n/a
30	Write–down features	n/a	Yes	Yes
31	If write–down, write–down trigger(s)	n/a	Statutory bail–in by the UK Resolution Authority	Statutory bail–in by the UK Resolution Authority
32	If write–down, full or partial	n/a	Fully or Partially	Fully or Partially
33	If write–down, permanent or temporary	n/a	n/a	n/a
34	If temporary write–down, description of write–up mechanism	n/a	n/a	n/a
34a	Type of subordination (only for eligible liabilities)	n/a	Contractual	Structural subordination
34b	Ranking of the instrument in normal insolvency proceedings		Dated Subordinated Debt	Unsecured and Unsubordinated Debt
35	Position in subordination hierarchy in liquidation	n/a	Dated Subordinated Debt	Preferred Liabilities
36	Non–compliant transitioned features	n/a	n/a	n/a
37	If yes, specify non–compliant features	n/a	n/a	n/a
37a	Link to the full term and conditions of the instrument (signposting)	https://www. metrobankonline.co.uk/investor–relations/	https://www. metrobankonline.co.uk/investor–relations/	https://www. metrobankonline.co.uk/investor–relations/

5. Countercyclical Buffer

Table 11: UK CcyB1 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer[1]

The below table shows the geographical distribution of credit exposures relevant to the calculation of the countercyclical buffer in line with CRR Article 440.

31 December 2023

		General credit exposures	Securitisation exposures	Total exposure value	Own funds requirements			Risk–weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
		Exposure value under the standardised approach	Exposure value for non–trading book		Relevant credit risk exposures – Credit Risk	Securitisation	Total			
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	(%)	(%)
1	United Kingdom	13,462	1,028	14,490	530	10	540	6,746	99.2%	2.0%
2	Other Countries	61	48	109	4	0	4	54	0.8%	0–1%
3	**Total**	13,523	1,076	14,599	534	10	544	6,800	100.0%	

31 December 2022

		General credit exposures	Securitisation exposures	Total exposure value	Own funds requirements			Risk–weighted exposure amounts	Own fund requirements weights	Countercyclical buffer rate
		Exposure value under the standardised approach	Exposure value for non–trading book		Relevant credit risk exposures – Credit Risk	Securitisation	Total			
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	(%)	(%)
1	United Kingdom	14,008	1,200	15,208	562	13	575	7,193	99.3%	1.0%
2	Other Countries	62	23	85	4	0	4	49	0.7%	0.0%
3	Total	14,070	1,223	15,293	566	13	579	7,242	100.0%	

[1] Note that exposures in the below table are prepared in accordance with CRD Article 140 and as such exclude exposures to central governments/banks, regional governments, local authorities, public sector entities, multilateral development banks, international organisations and institutions

Table 12: UK CcyB2 – Amount of institution–specific countercyclical capital buffer

This table shows an overview of institution specific countercyclical exposure and buffer requirements.

		31 December 2023	31 December 2022
		£'million	£'million
1	Total risk exposure amount	7,533	7,990
2	Institution specific countercyclical capital buffer rate	2%	1.0%
3	Institution specific countercyclical capital buffer requirement	151	79

6. Leverage

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 2023 was 5.3% (31 December 2022: 4.2%). Tables 13 to 15 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 PRA.

The movement in the leverage ratio in the year reflected an increase in Tier 1 capital due to actively managing the balance sheet and securing a capital package in October 2023.

Table 13: UK LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

This table is a summary of the total leverage exposures and comprises total IFRS assets used for statutory purposes, regulatory consolidation and other leverage adjustments.

		31 December 2023 £'million	31 December 2022 £'million
1	**Total assets as per published financial statements**	22,246	22.119
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	–	–
4	Adjustment for exemption of exposures to central banks	(4,126)	(1,774)
8	Adjustments for derivative financial instruments	78	22
9	Adjustments for securities financing transactions ('SFTs')[1]	55	4
10	Adjustments for off–balance sheet items	141	270
12	Other adjustments	27	(1,292)
13	**Total leverage ratio exposure**	18,421	19,348

[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.

6. Leverage continued

Table 14: UK LR2 – LRCom: Leverage ratio common disclosure

This table shows the leverage ratio calculation and includes additional breakdowns for the leverage exposure measure.

		31 December 2023 £'million	31 December 2022 £'million
	On–balance sheet exposures (excluding derivative and SFTs)		
1	On–balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	22,422	20,942
6	(Asset amounts deducted in determining Tier 1 capital)	(150)	(137)
7	**Total on–balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	22,271	20,805
	Derivative Exposures		
8	Replacement cost associated with SA–CCR derivatives transactions (i.e. net of eligible cash variation margin)	51	30
9	Add–on amounts for potential future exposure associated with SA–CCR derivatives transactions	28	13
13	**Total derivatives exposures**	79	43
	Securities financing transaction (SFT) exposures		
16	Counterparty credit risk exposure for SFT assets	55	4
18	**Total securities financing transaction exposures**	55	4
	Other off–balance sheet exposures		
19	Off–balance sheet exposures at gross notional amount	719	1,120
20	(Adjustments for conversion to credit equivalent amounts)	(577)	(850)
22	**Off–balance sheet exposures**	141	270
	Capital and total exposure measure		
23	Tier 1 capital	985	819
24	Total exposure measure including claims on central banks	22,546	21,123
UK 24a	(–) Claims on central banks excluded	(4,126)	(1,774)
UK24b	**Total exposure measure excluding claims on central banks**	18,420	19,348
	Leverage ratio		
25	Leverage ratio excluding claims on central banks (%)	5.3%	4.2%
UK–25a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	5.1%	3.8%
UK–25c	Leverage ratio including claims on central banks (%)	4.4%	3.9%

6. Leverage continued

Table 15: UK LR3 – LRSpl: Split of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

The table shows a breakdown of the on-balance sheet exposures excluding derivatives, SFTs and exempted exposures, by regulatory asset class.

		31 December 2023 UK leverage ratio exposures £'million	31 December 2022 UK leverage ratio exposures £'million
1	**Total on–balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:**	18,145	19,031
3	Banking book exposures, of which:	18,145	19,031
4	Covered bonds	706	693
5	Exposures treated as sovereigns	1,149	1,023
6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	1,614	1,663
7	Institutions	7	7
8	Secured by mortgages of immovable property	9,031	9,326
9	Retail exposures	2,088	2,556
10	Corporate	956	1,000
11	Exposures in default	278	280
12	Other exposures (e.g. equity, securitisations and other non–credit obligation assets)	2,316	2,483

7. Liquidity

The Bank considers the effective and prudent management of liquidity to be fundamental to the ongoing strength and viability of the Bank. The Board has overall responsibility for establishing and maintaining an adequate risk management framework, including risk appetites that enable the management of the bank's Liquidity Risks and Funding Risks. Metro Bank is committed to ensuring that it has, at all times, sufficient liquidity resources – in terms of both quantity and quality – to ensure it can meet payments as they fall due.

The purpose of the bank's Internal Liquidity Adequacy Assessment Process (ILAAP), as defined by the bank's Liquidity Policy, is to fulfil the following objectives:

- Ensure the Bank has adequate liquidity now and over the horizon of its forecast
- Identify the bank's material liquidity risks
- Articulate the management of material liquidity risks
- Determine the Board's risk appetite.

The ILAAP represents an overview of the firm's approach to liquidity risk management, confirmation of the firm's prudent funding profile, and the Board's assessment of the prudent level of liquidity resources that the bank should hold in order to meet the bank's liquidity risk appetite, which is deemed necessary to ensure that the Bank holds liquidity resources that are adequate in terms of both quantity and quality.

The Board is responsible for ensuring that the Bank meets the regulatory Overall Liquidity Adequacy Rule. ALCO has been established as the executive management committee which is responsible for managing the bank's balance sheet and all associated balance sheet risks therein, including Liquidity and Funding Risk.

Treasury is responsible for managing the liquidity position of the Bank on a day–to–day basis to ensure compliance with the PRA's overall liquidity adequacy rule and any Metro Bank specific limits and risk appetites and is the first line of defence at Metro Bank. The Bank operates a Three Lines of Defence model to provide challenge, oversight, and assurance of the management of liquidity by Treasury.

The Group manages liquidity through the Operating Company; Metro Bank PLC. There are no impediments (legal or otherwise) to the transferability of liquidity and funding between Group entities as and when required. All of the Group's liquidity resources reside within the single operating entity, Metro Bank PLC, with MREL–eligible debt exclusively provided from Metro Bank Holdings PLC.

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. A cost of funds model is used to help colleagues account for liquidity, capital and interest rate risk when making product pricing decisions. The bank's liquidity position is reported to the PRA on a regular basis, in line with regulatory requirements, using the regulatory reporting system.

The bank's liquidity risk appetite stress scenario ensures that a quantum of high–quality liquid assets is maintained to meet internal and regulatory (i.e. LCR) requirements over 30 days. To meet its internal 90–day liquidity requirement, the bank also uses additional assets that can be pre–positioned in the Bank of England Sterling Monetary Framework. The Bank has also identified additional recovery options, set out in its Recovery Plan which generate additional liquidity, and has demonstrated its ability to execute them.

The bank's contingency funding plans are contained within the bank's Recovery Plan.

The Recovery Plan defines the set of indicators which if triggered, activates the Recovery Plan which includes a set of management actions approved by the Board that could be invoked by the Recovery committee, to manage a wide range of potential or actual liquidity or capital stress events. The Recovery Plan is supported by scenario analysis to test recovery capacity and calibrate recovery indicators.

7. Liquidity continued

Stress testing and scenario analysis are integral components of the bank's ILAAP and are used as key tools to ensure the adequacy of the bank's liquidity resources. The objectives of bank's liquidity stress testing process are to:

- Determine the quantum of liquidity the bank requires for severe stress events
- Support bank wide liquidity planning and management
- Explore funding sensitivities in the long–term plan
- Assess how the bank's liquidity needs might change over time

The primary objective is to determine the quantum of liquidity that the Bank should hold to withstand an extreme but plausible stress scenario – which is the basis the Board's Risk Appetite stress. The ILAAP is supported by a firm –wide stress testing framework.

The Bank considers that it has established a robust approach to liquidity management, defined by the Board's Liquidity Policy, which ensures that the Bank adheres to the PRA's Overall Liquidity Adequacy Rule, by linking the bank's Liquidity Objectives – which contains the Board's appetites for liquidity, funding and encumbrance – to the bank's ILAAP. Through the annual ILAAP exercise, the Bank has determined that it has adequate liquidity resources, both short–term and throughout its forecast.

The Bank aims to survive a combined name–specific and market–wide liquidity stress event for at least three months, at a level of severity determined by ILAAP stress testing, utilising our Liquidity Pool of high–quality liquid assets. Equally, the Bank aims to maintain a prudent funding profile by using stable funding to fund illiquid assets, without undue reliance on wholesale funding markets, whilst ensuring that funding is not inappropriately concentrated by customer, sector, or term, as identified during our liquidity stress testing. Finally, the Bank considers that encumbrance of assets be monitored closely and maintained at levels sufficient to support additional secured funding that may be required during a liquidity stress.

The bank's liquidity risk and related appetites are monitored and controlled by a range of regulatory and internal liquidity and funding metrics which measure liquidity adequacy, funding concentration and encumbrance.

7. Liquidity continued

Table 16: UK LIQ1 – Quantitative information of LCR

This table shows the level and components of the Liquidity Coverage Ratio (LCR).

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	31 December 2023	30 September 2023	31 June 2023	31 March 2023	31 December 2023	30 September 2023	30 June 2023	31 March 2023
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	High–quality liquid assets	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	Total high–quality liquid assets (HQLA)					5,056	4,983	5,063	5,548
	Cash – outflows								
2	Retail deposits and deposits from small business customers, of which:	12,188	12,419	12,547	12,689	920	955	969	978
3	*Stable deposits*	*6,758*	*6,977*	*7,142*	*7,277*	*338*	*349*	*357*	*364*
4	*Less stable deposits*	*4,851*	*5,016*	*5,049*	*5,060*	*581*	*605*	*611*	*614*
5	Unsecured wholesale funding	2,971	3,144	3,248	3,359	1,223	1,286	1,339	1,393
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*905*	*1,033*	*1,104*	*1,158*	*226*	*258*	*276*	*290*
7	*Non–operational deposits (all counterparties)*	*2,066*	*2,110*	*2,114*	*2,201*	*997*	*1,028*	*1,063*	*1,103*
8	*Unsecured debt*	–	–	–	–	–	–	–	–
9	*Secured wholesale funding*					*0*	*0*	–	*1*
10	Additional requirements	65	82	103	132	16	14	16	19
11	*Outflows related to derivative exposures and other collateral requirements*	*10*	*7*	*6*	*7*	*10*	*7*	*6*	*7*
12	*Outflows related to loss of funding on debt products*	–	–	–	–	–	–	–	–
13	*Credit and liquidity facilities*	55	76	97	125	6	7	10	12
14	Other contractual funding obligations	79	77	96	89	21	18	19	12
15	Other contingent funding obligations	752	860	965	1,046	155	190	226	256
16	**Total cash outflows**					2,335	2,463	2,569	2,658
	Cash – inflows								
17	Secured lending (e.g. reverse repos)	–	–	–	–	–	–	–	–
18	Inflows from fully performing exposures	253	247	255	260	197	190	197	202
19	Other cash inflows	284	292	298	296	59	60	61	60
UK–19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non–convertible currencies)					–	–	–	–
UK–19b	(Excess inflows from a related specialised credit institution)					–	–	–	–
20	Total cash inflows	536	539	553	555	256	250	258	262
UK–20a	*Fully exempt inflows*	–	–	–	–	–	–	–	–
UK–20b	*Inflows subject to 90% cap*	–	–	–	–	–	–	–	–
UK–20c	*Inflows subject to 75% cap*	*536*	*539*	*553*	*555*	*256*	*250*	*258*	*262*
	Total adjusted value								
UK–21	**Liquidity buffer**					5,056	4,983	5,063	5,548
22	**Total net cash outflows**					2,079	2,213	2,311	2,396
23	**Liquidity coverage ratio**					244%	226%	219%	231%

7. Liquidity continued

		Total unweighted value (average)				Total weighted value (average)			
UK 1a	Quarter ending on	31 December 2022	30 September 2022	31 June 2022	31 March 2022	31 December 2022	30 September 2022	30 June 2022	31 March 2022
UK 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	High–quality liquid assets	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	Total high–quality liquid assets (HQLA)					6,051	6,454	6,687	6,897
	Cash – outflows								
2	Retail deposits and deposits from small business customers, of which:	12,816	12,874	12,920	12,979	978	969	955	937
3	*Stable deposits*	*7,395*	*7,462*	*7,486*	*7,486*	*370*	*373*	*374*	*374*
4	*Less stable deposits*	*5,003*	*4,887*	*4,759*	*4,611*	*608*	*595*	*580*	*561*
5	Unsecured wholesale funding	3,431	3,415	3,333	3,254	1,433	1,443	1,429	1,424
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*1,111*	*1,021*	*904*	*787*	*278*	*255*	*226*	*197*
7	*Non–operational deposits (all counterparties)*	*2,320*	*2,394*	*2,429*	*2,468*	*1,155*	*1,188*	*1,204*	*1,228*
8	*Unsecured debt*	—	—	—	—	—	—	—	—
9	*Secured wholesale funding*					*2*	*2*	*2*	*1*
10	Additional requirements	137	142	146	148	20	22	23	23
11	*Outflows related to derivative exposures and other collateral requirements*	*7*	*8*	*10*	*9*	*7*	*8*	*10*	*9*
12	*Outflows related to loss of funding on debt products*	–	–	–	–	–	–	–	–
13	*Credit and liquidity facilities*	*130*	*134*	*137*	*139*	*13*	*13*	*14*	*14*
14	Other contractual funding obligations	87	95	80	77	11	12	11	11
15	Other contingent funding obligations	1,130	1,036	849	735	284	255	202	165
16	**Total cash outflows**					2,729	2,703	2,622	2,561
	Cash – inflows								
17	Secured lending (e.g. reverse repos)	–	–	–	–	–	–	–	–
18	Inflows from fully performing exposures	256	249	235	218	200	196	187	177
19	Other cash inflows	312	321	280	219	63	70	62	49
UK–19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non–convertible currencies)					–	–	–	–
UK–19b	(Excess inflows from a related specialised credit institution)					–	–	–	–
20	Total cash inflows	568	570	515	437	264	266	249	226
UK–20a	*Fully exempt inflows*	–	–	–	–	–	–	–	–
UK–20b	*Inflows subject to 90% cap*	–	–	–	–	–	–	–	–
UK–20c	*Inflows subject to 75% cap*	*568*	*570*	*515*	*437*	*264*	*266*	*249*	*226*
	Total adjusted value								
UK–21	**Liquidity buffer**					6,051	6,454	6,687	6,897
22	**Total net cash outflows**					2,465	2,437	2,373	2,334
23	**Liquidity coverage ratio**					246%	266%	282%	296%

7. Liquidity continued

The LCR is driven by the size and composition of high–quality liquid assets and the liquidity requirement generated by net stressed outflows. The bank's high–quality liquid assets are primarily Level 1–eligible in LCR. The primary source of liquidity requirement is deposits from retail and SME customers for which outflows are calculated based on regulatory LCR rules. Additional outflows include committed lending to customers and other lending facilities. Outflows are offset by inflows such as customer loan repayment, leading to net stressed outflows.

At the start of October 2023, speculative media reports contributed to uncertainty around the bank's capital negotiations and led to an increased outflow of customer deposits. Our strong levels of liquidity and prudent approach meant these outflows were manageable and, indeed, as at 31 December 2023 we had returned to broadly the same customer deposit levels as we reported for the third quarter, with strong liquidity and funding regulatory ratios. As at December 2023: 332%; 2023 12–month average: 244% (December 2022: 213%; 2022 12–month average: 246%).

In line with the bank's strategy to be a leading community bank, Metro Bank is a deposit funded Bank concentrated in retail and business current account and instant access deposits. The Bank has drawn £3.05 billion from the Bank of England TFSME scheme after repaying £0.75 billion during the year; the bank's next TFSME repayments are not due until 2025 onwards. The Bank monitors metrics which ensure that concentration of funding sources and maturity concentration remain within risk appetite.

The bank's liquidity buffer, known internally as its Liquidity Pool, is primary comprised of Level 1–eligible securities and cash reserve. Level 1 securities held consist of Gilts, AAA–rated covered bonds, and sovereign, supranational and agency (SSA) bonds. The remaining portfolio is predominantly Level 2 UK RMBS which are senior tranche and AAA–rated.

The Bank actively manages its derivative exposures and potential collateral calls and assesses exposure management through the ILAAP. Derivative outflows are captured within the Historical Look Back Approach, which considers the impact of market movements on derivative exposures. Potential contractual collateral calls under a 3–notch credit rating downgrade, including the impacts on derivative initial margin requirements, are also captured. The Bank has no contractual downgrade triggers.

The LCR is calculated and reported in GBP as no other currencies are significant in accordance with the PRA Rulebook. There are no other relevant items identified in the LCR calculated that are not captured in Table 16.

7. Liquidity continued

Table 17: UK LIQ2 – Net Stable Funding Ratio

This table shows the net stable funding ratio that the bank requires to maintain a stable funding profile in relation to their on- and certain off-balance sheet activities.

		31 December 2023				
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	> 1 yr	
		£'million	£'million	£'million	£'million	£'million
	Available stable funding (ASF) Items					
1	Capital items and instruments	1,057	–	–	225	1,282
2	*Own funds*	*1,057*	–	–	*225*	*1,282*
3	*Other capital instruments*		–	–	–	–
4	Retail deposits		11,788	392	162	11,480
5	*Stable deposits*		*6,919*	*209*	*91*	*6,863*
6	*Less stable deposits*		*4,868*	*183*	*71*	*4,617*
7	Wholesale funding:		3,760	41	3,635	5,124
8	*Operational deposits*		*784*	–	–	*392*
9	*Other wholesale funding*		*2,975*	*41*	*3,635*	*4,732*
10	Interdependent liabilities		–	–	–	–
11	Other liabilities:	*35*	*459*	–	*391*	*391*
12	*NSFR derivative liabilities*	*35*				
13	*All other liabilities and capital instruments not included in the above categories*		*459*	–	*391*	*391*
14	**Total available stable funding (ASF)**					18,277
15	Total high–quality liquid assets (HQLA)					1,528
1K–15a	Assets encumbered for more than 12m in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	—
17	Performing loans and securities:		535	331	12,188	10,499
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		–	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*145*	*6*	*76*	*93*
20	*Performing loans to non– financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*288*	*215*	*3,721*	*3,415*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		–	–	*0*	*0*
22	*Performing residential mortgages, of which:*		*94*	*110*	*8,066*	*6,694*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*89*	*103*	*7,781*	*6,445*
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange–traded equities and trade finance on–balance sheet products*		*8*	–	*325*	*297*
25	Interdependent assets		–	–	–	–
26	Other assets:	–	103	16	1,294	1,379
27	*Physical traded commodities*				–	–
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		*10*	–	–	*8*
29	*NSFR derivative assets*		–			–
30	*NSFR derivative liabilities before deduction of variation margin posted*		*35*			*2*
31	*All other assets not included in the above categories*		*59*	*16*	*1,294*	*1,369*
32	Off–balance sheet items		745	–	–	37
33	**Total RSF**					13,442
34	**Net Stable Funding Ratio (%)**					136%

7. Liquidity continued

		31 December 2022				
		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	> 1 yr	
		£'million	£'million	£'million	£'million	£'million
	Available stable funding (ASF) Items					
1	Capital items and instruments	894	–	–	249	1,144
2	*Own funds*	*894*	–	–	*249*	*1,144*
3	*Other capital instruments*		–	–	–	–
4	Retail deposits		12,698	147	66	12,010
5	*Stable deposits*		*7,545*	*116*	*51*	*7,330*
6	*Less stable deposits*		*5,153*	*31*	*15*	*4,680*
7	Wholesale funding:		3,453	37	3,832	5,407
8	*Operational deposits*		*1,107*	–	–	*554*
9	*Other wholesale funding*		*2,346*	*37*	*3,832*	*4,853*
10	Interdependent liabilities		–	–	–	–
11	Other liabilities:	20	597	–	343	343
12	*NSFR derivative liabilities*	20				
13	*All other liabilities and capital instruments not included in the above categories*		*597*	–	*343*	*343*
14	**Total available stable funding (ASF)**					18,903
15	Total high–quality liquid assets (HQLA)					1,637
1K–15a	Assets encumbered for more than 12m in cover pool		–	–	–	–
16	Deposits held at other financial institutions for operational purposes		–	–	–	–
17	Performing loans and securities:		510	400	12,063	10,423
18	*Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut*		–	–	–	–
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*178*	*9*	*87*	*109*
20	*Performing loans to non– financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*205*	*212*	*3,630*	*3,294*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*0*	–	*0*	*0*
22	*Performing residential mortgages, of which:*		*107*	*130*	*7,912*	*6,593*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*97*	*102*	*7,446*	*6,167*
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange–traded equities and trade finance on–balance sheet products*		–	*49*	*435*	*428*
25	Interdependent assets		–	–	–	–
26	Other assets:	–	925	23	592	1,105
27	*Physical traded commodities*				–	–
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		*1*	–	–	*0*
29	*NSFR derivative assets*		–			–
30	*NSFR derivative liabilities before deduction of variation margin posted*		*20*			*1*
31	*All other assets not included in the above categories*		*904*	*23*	*592*	*1,104*
32	Off–balance sheet items		1,186	–	–	59
33	**Total RSF**					13,225
34	**Net Stable Funding Ratio (%)**					143%

8. Risk Management

Risk overview summary

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

Approach to risk management

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

Further information on our Enterprise Risk Management Framework can be found on page 37.

Risk environment in 2023

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

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

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

Principle risk exposures

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

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

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

Further details of these principal risk including our risk appetite, exposures and response to each is set out on pages 130 to 157 of the ARA.

Amongst these, certain risks have been considered most material to the Bank over the course of the year. Our Capital risk position has improved following the successful refinancing in late 2023, but oversight remains heightened as we continue to monitor the implementation of our strategy and our financial performance closely. Credit risk has been subject to continued close scrutiny in light of the challenging macroeconomic environment and management of Financial Crime risk remains a priority, aligned to regulatory focus. Strategic risk including reputational risk has also been subject to more active management in light of the risks prior to, and following, the capital restructuring and associated media speculation. This risk is anticipated to stabilise and improve in line with our planned return to sustained profitability. Further details on these four risks are set out on pages 33 and 34.

8. Risk Management continued

Principle risks

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

8. Risk Management continued

Principle risks continued

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

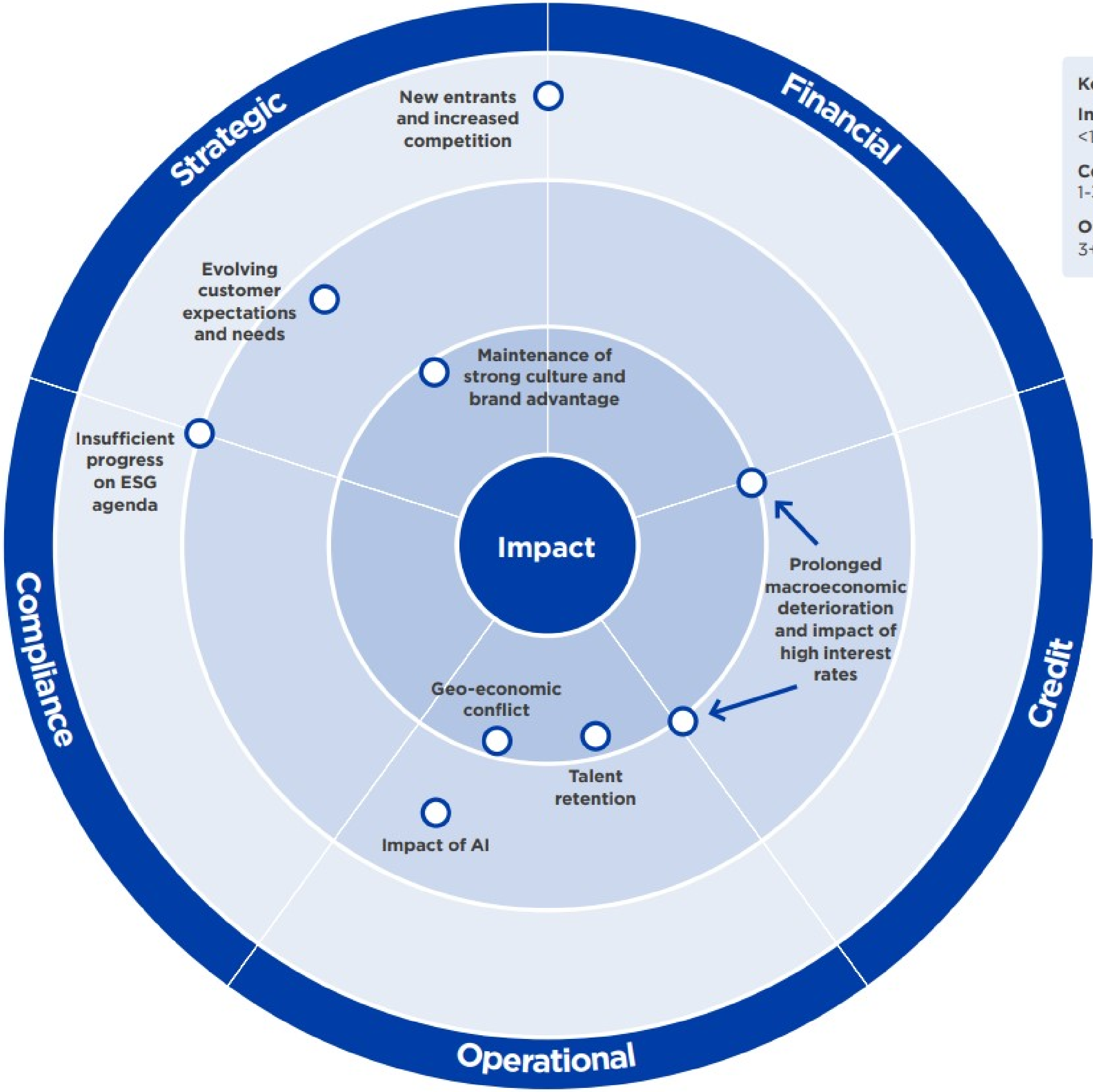
8. Risk Management continued

Emerging risks

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

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

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



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

8. Risk Management continued

Emerging risks and time horizon

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

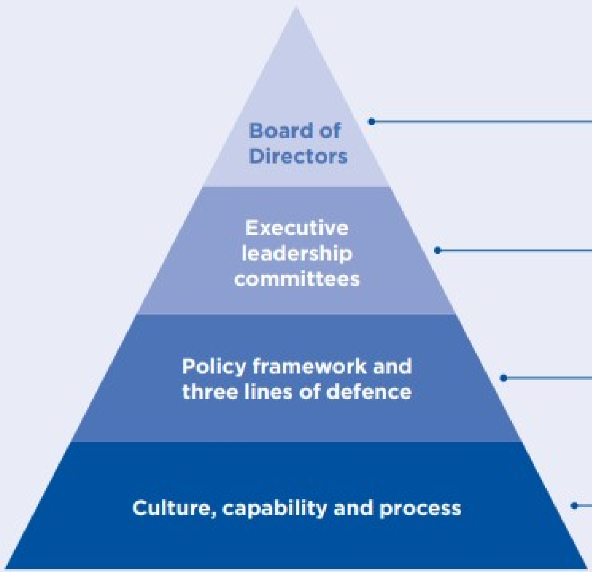
8. Risk Management continued

This section sets out the Group's approach to risk management approach (OVA) and disclosure on governance arrangements (OVB) as required by Policy Statement 22/21.

Risk management framework

Approach to risk management

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



The Board sets the risk appetite, approves the risk management framework policies and maintains an appropriate control environment.

The Executive leadership committees over see the risk management framework and policies, and the Bank's strategy for managing its risks.

The Bank operates a 'three lines of defence' model for risk management. Policies are aligned with the Bank's principal risks and risk appetite.

The Bank fosters a strong risk culture enabled by procedures, standard and training, and operates a robust control environment with collective responsibility for managing risk.

Risk management process

Our risk management process comprises the following key stages that enable the Board to fulfil its obligations under the Corporate Governance Code 2018:

1. **Identification** of the risks we are exposed to at various levels, making use of the Bank's established Risk Taxonomy.
2. **Assessment** or measurement of the identified risks using suitable risk management tools.
3. **Response** to the risk exposures, applying and operating appropriate controls to mitigate the risks to acceptable levels.
4. **Monitoring and reporting** of these risks to ensure they remain within risk appetite.

8. Risk Management continued

Risk governance and oversight

All of our colleagues are risk managers, in accordance with our 'Three Lines of Defence' risk model, which is based on the overriding principle that risk capability must be embedded within the first line of defence (business) teams, overseen by our central Risk and Internal Audit teams in the second and third lines respectively.

Effective operation of the three lines of defence results from:

- Colleagues being equipped with the necessary skills and experience to manage risks and responsibilities being well understood.
- Proactive and transparent collaboration between colleagues across the lines, working with a common objective.
- Well-defined governance structures and processes that promote accountability and action.

	Risk management framework		
	First line	**Second line**	**Third line**
Lines of defence	• Own and manage the risks we face and agree, establish, embed and comply with appropriate frameworks, policies and standards (key executives). • Design, implement and maintain effective controls. • Align strategy with, and monitor exposure against, appetite. • Ensure adequate resources, tools and training are in place. • Promote and maintain an appropriate risk culture.	• Establish and communicate the framework, governance structure and underlying policies and standards. • Provide oversight and challenge the first line via review, enquiry and discussion. • Report/escalate to executive management and the Board. • Facilitate the development of risk appetite, tools and training.	• Independently verify that the framework is operating effectively. • Validate the first and second line approach to risk management. • Assess against regulatory developments and leading practices.
Risk governance committees	• Executive Committee. • Business Risk Committees.	• Risk Oversight Committee. • Executive Risk Committee. • Other executive-level risk committees.	• Audit Committee.

Stress testing

We use stress testing as a key part of our risk management, strategic, capital and liquidity planning. It provides insight into the impact of severely adverse events and provides confidence of our financial stability. We use stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

8. Risk Management continued

Board

Sets risk appetite and strategy

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

Risk Oversight Committee (ROC)

Oversees risk governance and management

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

Audit Committee

Oversees financial reporting

• Reviews our annual and half-year financial statements and accounting policies.	• Reviews the effectiveness of the internal audit, audit controls, whistleblowing and fraud systems in place.	• Advises on the appointment of external auditors.	• Reviews internal and external audits and controls, monitors the scope of the annual audit and the extent of the non-audit work undertaken by external auditors.

Executive-level committees

Oversee the risk management framework

Executive Risk Committee (ERC)
- Endorses the risk appetite for approval by the Board and monitors performance against risk appetite.
- Reviews and recommends risk frameworks for approval by ROC (and Board as appropriate).
- Oversees the quality and composition of the credit risk portfolio, and recommends strategies to adjust the portfolio.
- Oversees and advises on financial and non-financial risk matters, including those escalated from oversight committees.

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

Credit Approval Committee (CAC)
- Approves higher value lending requests.

Impairment Committee (ICOM)
- Reviews and approves monthly portfolio-level impairment results.

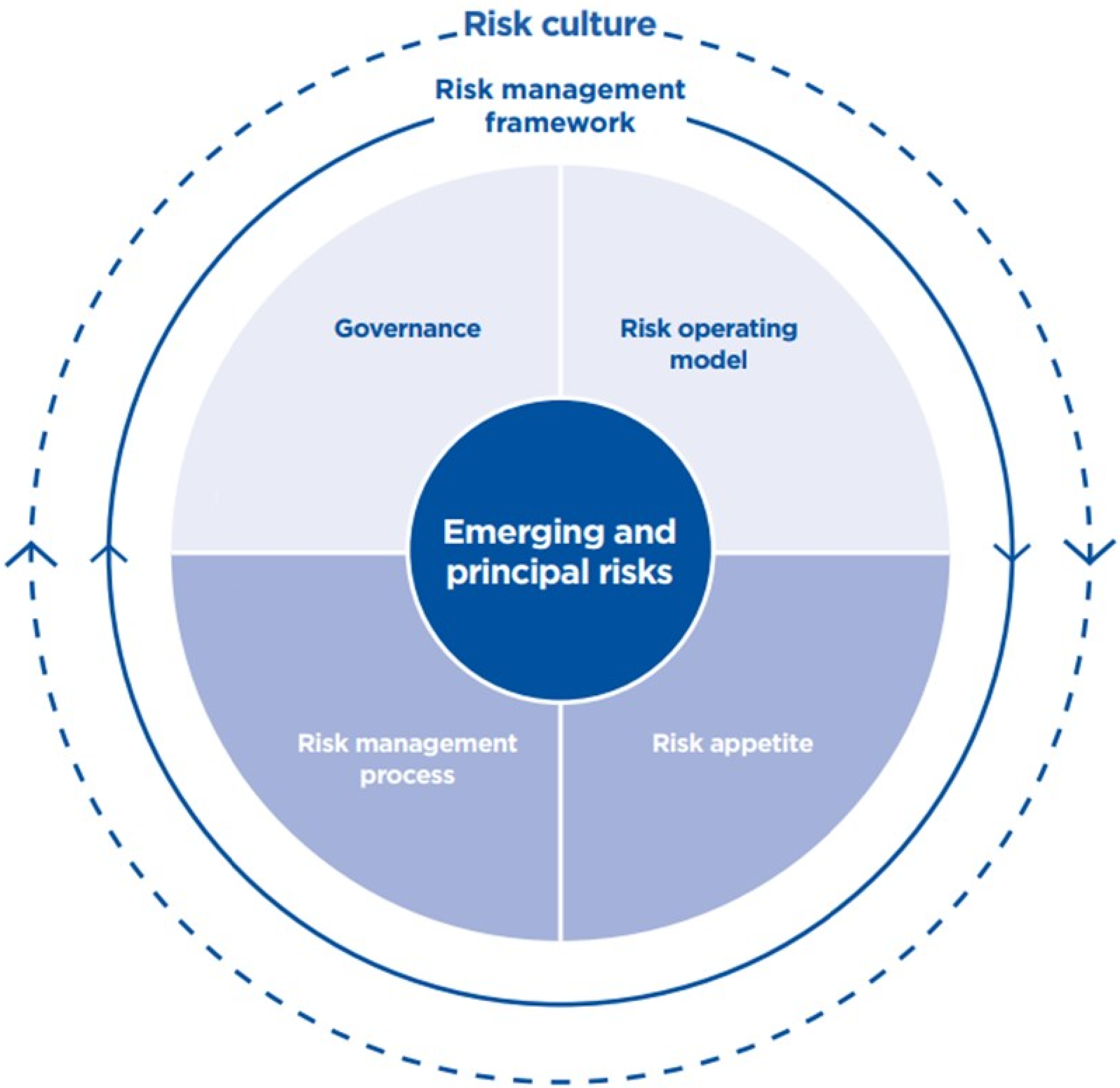
8. Risk Management continued

Risk culture

We know that a culture that truly focuses on creating FANS by exceeding customers' expectations will reduce the risk of customer harm and deliver consistently good outcomes. We value open and honest feedback from our customers which allows us to identify problems, put them right and ensure we are consistently delivering the high level of service we expect. Managing risk is a key part of our AMAZEING values, which are at the heart of everything we do, and we continually seek to enhance our risk management framework to ensure effective risk ownership and management within risk appetite, in turn enabling delivery of our strategic plan.

Our risk culture is shaped by our executive team, which leads by example with consistent and clear communication of our commitment to managing risk at all levels of the organisation. Enabled through operation of the Senior Managers and Certification Regime and its principals of personal accountability, we encourage open and effective challenge and work to create an environment in which colleagues are encouraged and able to raise concerns.

Risk management is a key aspect of every colleague's objectives and is embedded within our scorecard, against which performance is measured. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they develop and maintain the required levels of competence. This supports colleagues in making decisions and judgements with risk in mind.



8. Risk Management continued

Risk appetite

We define risk appetite as the aggregate level and types of risk that we are willing to accept in our pursuit of our business objectives. Qualitative statements are in place which articulate our risk appetite to stakeholders and provide a view on the risk-taking activities with which the Board is comfortable, guiding our decision-makers in their strategic and business decisions.

The risk appetite statements detail the risk parameters within which we seek to operate, promoting good customer outcomes and protecting us from excessive risk exposures. The Board-owned statements are reviewed at least annually and include quantitative metrics which inform strategies, targets, policies, procedures and other controls.

We actively monitor exposure against our stated risk appetite on an ongoing basis. Key risk indicators are in place for all principal risks and these are reported regularly to Executive and Board committees together with actions and assessment of the adequacy of response. Business areas supplement monitoring of risk appetite with additional key risk indicators that are set within the overall parameters of those reported to the Board. Our overall risk appetite statement is set out below.

Overall risk appetite statement

Metro Bank has a clear goal: to be the UK’s best community bank, offering a superior level of service, whilst consistently delivering good customer outcomes and operating on an inclusive and socially responsible basis. It strives to achieve this by creating FANS, digitally and via its network of stores and AMAZE Direct, creating sustainable growth for its stakeholders, living by its AMAZEING values and taking active steps to reduce any negative impact on the climate and environment as a whole. We seek to balance risk and return as articulated in risk appetite statements which are separately defined for the bank’s principal risks, operating robust controls and processes and remaining within its impact tolerances at all times.

Policies and procedures

To support our colleagues in managing our key risks and operating within our risk appetite, a suite of policies and procedures is in place. These articulate our stance and approach to managing each of our key risk exposures and define the minimum control requirements that must be observed to achieve compliance. Policy documents are in place covering each of the bank’s principal risks and include policy documents defined and operated to meet legal and regulatory requirements such as those for Financial Crime and Conduct Risk.

8. Risk Management continued

Governance arrangements

Details of the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise can be on pages 64 to 69 of the ARA.

Details on the policy on diversity regarding selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved on pages 80 to 81 of the ARA.

Number of Directorships

The table below shows total number of directorships held by members of the management body.

		31 December 2023	
		Executive	Non–executive
Name[1]	Position	Appointments	Appointments
Robert Sharpe	Chairman	0	3
Daniel Frumkin	Chief Executive Officer	0	0
James Hopkinson	Chief Financial Officer	0	0
Catherine Brown	Independent Non–executive Director	0	3
Anne Grim	Independent Non–executive Director	0	3
Ian Henderson	Independent Non–executive Director	0	2
Monique Melis	Independent Non–executive Director	1	1
Paul Thandi	Independent Non–executive Director	0	3
Michael Torpey	Independent Non–executive Director	0	3
Nick Winsor	Independent Non–executive Director	0	3
Dorita Gilinski	Shareholder–Nominated Non–executive Director	1	1

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

9. Credit Risk

Standardised approach

Metro Bank applies the standardised approach to calculate regulatory capital requirements for all exposures across all portfolios.

This section provides breakdown of exposures under standardised approach by asset class pre and post credit conversion factor (CCF) and credit risk mitigation (CRM), and by risk weight in tables 18 and 19.

Metro Bank uses Moody's and Fitch as External Credit Assessment Institutions ('ECAI'). The external ratings from these institutions are mapped to a prescribed credit quality step assessment scale as per the CRR mappings and in turn produces standard risk weightings. ECAI is applied to the following exposure classes: Central governments and central banks, Multilateral development banks, Covered bonds and Securitisation.

Ratings from the ECAI are mapped across to the Credit Quality Step requirements in the UK CRR using European Banking Authority mappings.

Table 18: UK CR4 – Standardised approach – Credit risk exposure and CRM effects

The table below shows impact of pre and post credit conversion factors and credit risk mitigation techniques on standardised exposures by asset class.

		31 December 2023					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On–balance sheet exposures	Off–balance sheet exposures	On–balance sheet exposures	Off–balance sheet amount	RWAs	RWAs density
		£'million	£'million	£'million	£'million	£'million	%
1	Central governments or central banks	5,074	–	5,993	–	8	0%
2	Regional government or local authorities	0	0	0	0	–	–
3	Public sector entities	–	–	–	–	–	–
4	Multilateral development banks	1,614	–	1,614	–	–	0%
5	International organisations	–	–	–	–	–	–
6	Institutions	7	5	7	2	2	20%
7	Corporates	956	130	673	29	615	88%
8	Retail	2,088	422	1,587	52	1,167	71%
9	Secured by mortgages on immovable property	9,031	154	9,031	31	3,634	40%
10	Exposures in default	278	3	210	0	214	102%
11	Exposures associated with particularly high risk	8	4	8	4	19	150%
12	Covered bonds	706	–	706	–	71	10%
13	Institutions and corporates with a short–term credit assessment	133	–	133	–	43	32%
14	Collective investment undertakings	58	–	58	–	–	0%
15	Equity	–	–	–	–	–	–
16	Other items	973	–	973	–	903	93%
17	**Total**	20,926	718	20,993	118	6,676	32%

9. Credit Risk continued

		31 December 2022					
		Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On–balance sheet exposures	Off–balance sheet exposures	On–balance sheet exposures	Off–balance sheet amount	RWAs	RWAs density
		£'million	£'million	£'million	£'million	£'million	%
1	Central governments or central banks	4,024	–	5,326	–	5	0%
2	Regional government or local authorities	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–
4	Multilateral development banks	1,663	–	1,663	–	–	0%
5	International organisations	–	–	–	–	–	–
6	Institutions	7	7	7	3	2	20%
7	Corporates	1,000	251	622	81	623	89%
8	Retail	2,556	359	1,813	57	1,342	72%
9	Secured by mortgages on immovable property	9,326	488	9,326	98	3,851	41%
10	Exposures in default	280	2	178	1	189	106%
11	Exposures associated with particularly high risk	5	13	5	13	27	150%
12	Covered bonds	693	–	693	–	69	10%
13	Institutions and corporates with a short–term credit assessment	97	–	97	–	32	33%
14	Collective investment undertakings	59	–	59	–	–	0%
15	Equity	–	–	–	–	–	–
16	Other items	1,021	–	1,021	0	936	92%
17	**Total**	20,731	1,120	20,810	253	7,076	34%

9. Credit Risk continued

Table 19: UK CR5 – Standardised approach

The table below shows standardised exposures post CCF and CRM by asset class across different risk weights.

		31 December 2023															
		Risk weight															Total
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	Central governments or central banks	5,990	–	–	–	–	–	–	–	–	–	–	3	–	–	–	5,993
2	Regional government or local authorities	0	–	–	–	–	–	–	–	–	–	–	–	–	–	–	0
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	1,614	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,614
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	–	–	9	–	–	–	–	–	–	–	–	–	–	9
7	Corporates	–	–	–	–	–	–	–	–	–	702	–	–	–	–	–	702
8	Retail exposures	0	–	–	–	–	–	–	–	1,639	–	–	–	–	–	–	1,639
9	Exposures secured by mortgages on immovable property	–	–	–	–	–	8,114	–	–	–	948	–	–	–	–	–	9.062
10	Exposures in default	–	–	–	–	–	–	–	–	–	203	7	–	–	–	–	210
11	Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	12	–	–	–	–	12
12	Covered bonds	–	–	–	706	–	–	–	–	–	–	–	–	–	–	–	706
13	Exposures to institutions and corporates with a short –term credit assessment	–	–	–	–	78	–	55	–	–	–	–	–	–	–	–	133
14	Units or shares in collective investment undertakings	58	–	–	–	–	–	–	–	–	–	–	–	–	–	–	58
15	Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	70	–	–	–	–	–	–	–	–	901	–	–	–	–	2	973
17	**Total**	7,732	–	–	706	87	8,114	55	–	1,639	2,754	19	3	–	–	2	21,111

9. Credit Risk continued

		31 December 2022															
		Risk weight															Total
		0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	Central governments or central banks	5,324	–	–	–	–	–	–	–	–	–	–	2	–	–	–	5,326
2	Regional government or local authorities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	1,663	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,663
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	–	–	–	10	–	–	–	–	–	–	–	–	–	–	10
7	Corporates	–	–	–	–	–	–	–	–	–	703	–	–	–	–	–	703
8	Retail exposures	–	–	–	–	–	–	–	–	1,870	–	–	–	–	–	–	1,870
9	Exposures secured by mortgages on immovable property	–	–	–	–	–	8,296	–	–	–	1,128	–	–	–	–	–	9,424
10	Exposures in default	–	–	–	–	–	–	–	–	–	157	21	–	–	–	–	178
11	Exposures associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	18	–	–	–	–	18
12	Covered bonds	–	–	–	693	–	–	–	–	–	–	–	–	–	–	–	693
13	Exposures to institutions and corporates with a short –term credit assessment	–	–	–	–	58	–	38	–	–	1	–	–	–	–	–	97
14	Units or shares in collective investment undertak-ings	59	–	–	–	–	–	–	–	–	–	–	–	–	–	–	59
15	Equity exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
16	Other items	84	–	–	–	–	–	–	–	–	935	–	–	–	–	1	1,021
17	**Total**	7,130	–	–	693	68	8,296	38	–	1,870	2,925	39	2	–	–	1	21,061

9. Credit Risk continued

Credit risk mitigation

The core objective of the eligible collateral policy, is to ensure the effective management of collateral. It provides the basis for establishing operational requirements regarding the capture and storage of collateral information, including types of valuations and how they are used, and the principles by which collateral is allocated against facilities.

The main types of collateral taken by the Bank are:

- residential and commercial property
- cash
- government guarantees (CBILs and BBLs)

Information about market or credit risk concentrations within the credit mitigation taken can be found in the Risk Report section of the ARA. The bank does not make use of financial on or off balance sheet netting.

Table 20: UK CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

The table below shows a breakdown of on–balance sheet unsecured and secured credit risk exposures by different credit risk mitigation techniques.

		31 December 2023				
		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		£'million	£'million	£'million	£'million	£'million
1	Loans and advances	6,132	10,204	9,442	762	–
2	Debt securities	4,871	67	–	67	
3	**Total**	11,003	10,271	9,442	829	**–**
4	*Of which non–performing exposures*	*115*	*273*	*205*	*68*	–
5	*Of which defaulted*	*95*	*265*			

		31 December 2022				
		Unsecured carrying amount	Secured carrying amount	Of which secured by collateral	Of which secured by financial guarantees	Of which secured by credit derivatives
		£'million	£'million	£'million	£'million	£'million
1	Loans and advances	5,476	11,007	9,616	1,391	–
2	Debt securities	5,975	–	–	–	
3	**Total**	11,451	11,007	9,616	1,391	**–**
4	*Of which non–performing exposures*	*154*	*172*	*171*	*1*	–
5	*Of which defaulted*	*154*	*172*			

9. Credit Risk continued

Credit quality

Table 21: UK CR1–A – Maturity of exposures

The table below shows a breakdown of net exposures split by maturity.

		31 December 2023					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£'million	£'million	£'million	£'million	£'million	£'million
1	Loans and advances	100	1,516	3,368	8,267	–	13,251
2	Debt securities	–	633	3,105	1,141	59	4,938
3	**Total**	100	2,249	6,473	9,408	59	18,189

		31 December 2022					
		Net exposure value					
		On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
		£'million	£'million	£'million	£'million	£'million	£'million
1	Loans and advances	132	1,760	3,508	9,019	–	14,419
2	Debt securities	–	1,070	3,484	1,362	59	5,975
3	Total	132	2,830	6,992	10,381	59	20,394

9. Credit Risk continued

Table 22: UK CR1 – Performing and non–performing exposures and related provisions

This table provides an overview of the credit quality of on and off balance sheet non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class.

		31 December 2023														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions								
		Performing exposures			Non–performing exposures			Performing exposures – accumulated impairment and provisions			Non–performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write–off	Collateral and financial guarantees received	
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		On performing exposures	On non–performing exposures
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	**Cash balances at central banks and other demand deposits**	3,794	3,794	–	–	–	–	–	–	–	–	–	–	–	–	–
010	**Loans and advances**	12,148	10,637	1,514	385	7	378	(104)	(63)	(41)	(96)	–	(95)	–	9,931	273
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	*5*	*5*	–	–	–	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*134*	*129*	*6*	–	–	–	*(1)*	*(1)*	–	–	–	–	–	*33*	–
060	*Non–financial corporations*	*3,060*	*2,653*	*407*	*154*	–	*154*	*(47)*	*(27)*	*(20)*	*(22)*	–	*(22)*	–	*2,242*	*123*
070	*Of which SMEs*	*2,400*	*2,047*	*353*	*142*	–	*142*	*(38)*	*(20)*	*(17)*	*(21)*	–	*(21)*	–	*1,749*	*113*
080	*Households*	*8,949*	*7,851*	*1,101*	*231*	*7*	*225*	*(55)*	*(34)*	*(21)*	*(74)*	–	*(74)*	–	*7,657*	*150*
090	**Debt securities**	4,937	4,937	–	–	–	–	(1)	(1)	–	–	–	–	–	67	–
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	–	–	–	–	–	–
110	*General governments*	*1,474*	*1,474*	–	–	–	–	–	–	–	–	–	–	–	*67*	–
120	*Credit institutions*	*2,322*	*2,322*	–	–	–	–	*(1)*	*(1)*	–	–	–	–	–	–	–
130	*Other financial corporations*	*1,134*	*1,134*	–	–	–	–	–	–	–	–	–	–	–	–	–
140	*Non–financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
150	**Off–balance–sheet exposures**	715	709	6	3	–	3	1	1	–	–	–	–	–	–	–
160	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
180	*Credit institutions*	*5*	*5*	–	–	–	–	–	–	–	–	–	–		–	–
190	*Other financial corporations*	*22*	*22*	–	–	–	–	–	–	–	–	–	–		–	–
200	*Non–financial corporations*	*339*	*335*	*4*	*1*	–	*1*	*1*	*1*	–	–	–	–		–	–
210	*Households*	*350*	*347*	*3*	*2*	–	*2*	–	–	–	–	–	–		–	–
220	**Total**	21,594	20,077	1,520	388	7	381	(104)	(63)	(41)	–	–	(95)	–	9,998	273

9. Credit Risk continued

		31 December 2022														
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write–off	Collateral and financial guarantees received	
		Performing exposures			Non–performing exposures			Performing exposures – accumulated impairment and provisions			Non–performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non–performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	**Cash balances at central banks and other demand deposits**	1,882	1,1882	–	–	–	–	–	–	–	–	–	–	–	–	–
010	**Loans and advances**	12,947	10,860	2,087	352	–	352	(118)	(67)	(51)	(69)	–	(69)	–	9,790	172
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*110*	*104*	*7*	*0*	–	*0*	*(2)*	*(2)*	*(0)*	*(0)*	–	*(0)*	–	*26*	–
060	*Non–financial corporations*	*3,812*	*3,325*	*487*	*187*	–	*187*	*(65)*	*(37)*	*(28)*	*(25)*	–	*(25)*	–	*2,227*	*63*
070	*Of which SMEs*	*3,812*	*3,040*	*479*	*187*	–	*187*	*(61)*	*(34)*	*(26)*	*(25)*	–	*(25)*	–	*1,989*	*62*
080	*Households*	*9,025*	*7,432*	*1,593*	*164*	–	*164*	*(52)*	*(29)*	*(23)*	*(44)*	–	*(44)*	–	*7,537*	*109*
090	**Debt securities**	5,975	5,975	–	–	–	–	(1)	(1)	–	–	–	–	–	–	–
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	*8*	–	–	–	–	–
110	*General governments*	*2,319*	*2,319*	–	–	–	–	*(0)*	*(0)*	–	*0*	–	–	–	–	–
120	*Credit institutions*	*2,366*	*2,366*	–	–	–	–	*(1)*	*(1)*	–	*0*	–	–	–	–	–
130	*Other financial corporations*	*1,281*	*1,281*	–	–	–	–	*(0)*	*(0)*	–	*0*	–	–	–	–	–
140	*Non–financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
150	**Off–balance–sheet exposures**	1,120	1,120	–	–	–	–	1	1	0	0	–	0	–	–	–
160	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
170	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–		–	–
180	*Credit institutions*	*0*	*0*	–	–	–	–	–	–	–	–	–	–		–	–
190	*Other financial corporations*	*35*	*35*	–	–	–	–	*0*	*0*	–	–	–	–		–	–
200	*Non–financial corporations*	*397*	*397*	–	–	–	–	*1*	*1*	*0*	–	–	–		–	–
210	*Households*	*688*	*688*	–	–	–	–	*0*	*0*	*0*	*0*	–	*0*		–	–
220	**Total**	21,924	17,955	2,087	352	–	352	(118)	(67)	(51)	(69)	–	(69)	–	9,790	172

9. Credit Risk continued

Table 23: UK CR2 – Changes in the stock of non–performing loans and advances

This table shows information on changes in the stock of on balance sheet non-performing loans and advances.

		31 December 2023	31 December 2022
		Gross carrying amount	Gross carrying amount
		£'million	£'million
010	**Initial stock of non–performing loans and advances**	352	462
020	Inflows to non–performing portfolios	232	213
030	Outflows from non–performing portfolios	(196)	(323)
040	Outflows due to write–offs	(26)	(21)
050	Outflow due to other situations	(169)	(302)
060	**Final stock of non–performing loans and advances**	388	352

9. Credit Risk continued

Table 24: UK CQ3 – Credit quality of performing and non–performing exposures by past due days

This table provides an overview of the credit quality of performing and non-performing exposures by past due days.

		31 December 2023											
		Gross carrying amount/nominal amount											
		Performing exposures			Non–performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 year s	Of which defaulted
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	**Cash balances at central banks and other demand deposits**	3,794	3.794	–	–	–	–	–	–	–	–	–	–
010	Loans and advances	12,148	12,094	54	385	180	62	49	35	58	1	–	385
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	*5*	*5*	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*134*	*134*	*0*	*0*	*0*	*0*	–	–	–	–	–	*0*
060	*Non–financial corporations*	*3,060*	*3,033*	*27*	*154*	*96*	*36*	*15*	*4*	*3*	–	–	*154*
070	*Of which SMEs*	*2,400*	*2,376*	*25*	*142*	*86*	*35*	*14*	*4*	*3*	*1*	*0*	*142*
080	*Households*	*8,949*	*8,922*	*27*	*231*	*83*	*27*	*34*	*31*	*55*	–	–	*231*
090	**Debt securities**	4,937	4,937	–	–	–	–	–	–	–	–	–	–
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	–	–	–
110	*General governments*	*1,474*	*1,474*	–	–	–	–	–	–	–	–	–	–
120	*Credit institutions*	*2,322*	*2,322*	–	–	–	–	–	–	–	–	–	–
130	*Other financial corporations*	*1,134*	*1,134*	–	–	–	–	–	–	–	–	–	–
140	*Non–financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
150	**Off–balance–sheet exposures**	718			3								3
160	*Central banks*	–			–								–
170	*General governments*	–			–								–
180	*Credit institutions*	*5*			–								–
190	*Other financial corporations*	*22*			–								–
200	*Non–financial corporations*	*340*			–								–
210	*Households*	*352*			–								–
220	**Total**	21,594	20,825	54	388	180	62	49	35	58	1	0	388

9. Credit Risk continued

		31 December 2022											
		Gross carrying amount/nominal amount											
		Performing exposures			Non–performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 30 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 year ≤ 5 years	Past due > 5 year ≤ 7 years	Past due > 7 year s	Of which defaulted
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	Cash balances at central banks and other demand deposits	1,882	1,882	–	–	–	–	–	–	–	–	–	–
010	Loans and advances	12,947	12,896	51	352	152	96	68	25	10	0	0	352
020	*Central banks*	–	–	–	–	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–	–	–	–	–
050	*Other financial corporations*	*110*	*110*	*0*	*0*	–	*0*	–	–	–	–	–	*0*
060	*Non–financial corporations*	*3,812*	*3,777*	*35*	*187*	*89*	*46*	*46*	*6*	*1*	*0*	–	*187*
070	*Of which SMEs*	*3,519*	*3,486*	*34*	*187*	*89*	*46*	*45*	*6*	*1*	*0*	–	*187*
080	*Households*	*9,026*	*9,008*	*17*	*164*	*63*	*24*	*22*	*20*	*9*	*0*	*0*	*164*
090	Debt securities	5,975	5,975	–	–	–	–	–	–	–	–	–	–
100	*Central banks*	*8*	*8*	–	–	–	–	–	–	–	–	–	–
110	*General governments*	*2,319*	*2,319*	–	–	–	–	–	–	–	–	–	–
120	*Credit institutions*	*2,366*	*2,366*	–	–	–	–	–	–	–	–	–	–
130	*Other financial corporations*	*1,281*	*1,281*	–	–	–	–	–	–	–	–	–	–
140	*Non–financial corporations*	–	–	–	–	–	–	–	–	–	–	–	–
150	Off–balance–sheet exposures	1,120			–								–
160	*Central banks*	–			–								–
170	*General governments*	–			–								–
180	*Credit institutions*	0			–								–
190	*Other financial corporations*	35			–								–
200	*Non–financial corporations*	397			–								–
210	*Households*	688			–								–
220	Total	21,924	20,779	51	352	152	70	68	25	10	0	0	352

9. Credit Risk continued

Table 25: UK CQ5 – Credit quality of loans and advances to non–financial corporations by industry[1]

This table shows the credit quality of loans and advances on balance sheet exposure to non-financial corporations by industry types.

		31 December 2023					
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non–performing exposures
			Of which non–performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		£'million	£'million	£'million	£'million	£'million	£'million
010	Agriculture, forestry and fishing	14		1		(0)	–
020	Mining and quarrying	3		–		(0)	–
030	Manufacturing	78		3		(2)	–
040	Electricity, gas, steam and air conditioning supply	5		0		(0)	–
050	Water supply	6		0		(0)	–
060	Construction	172		13		(5)	–
070	Wholesale and retail trade	329		21		(9)	–
080	Transport and storage	123		4		(3)	–
090	Accommodation and food service activities	415		36		(10)	–
100	Information and communication	39		5		(1)	–
110	Financial and insurance activities	313		14		(5)	–
120	Real estate activities	1,101		32		(14)	–
130	Professional, scientific and technical activities	49		1		(1)	–
140	Administrative and support service activities	100		10		(6)	–
150	Public administration and defence, compulsory social security	1		0		(0)	–
160	Education	23		1		(0)	–
170	Human health services and social work activities	320		10		(11)	–
180	Arts, entertainment and recreation	92		1		(1)	–
190	Other services	30		2		(1)	–
200	**Total**	3,214		154		(69)	–

[1] Only Large Institutions (with NPL >5%) are required to populate UK CQ5 columns b and d

9. Credit Risk continued

		31 December 2022					
		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non–performing exposures
			Of which non–performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		£'million	£'million	£'million	£'million	£'million	£'million
010	Agriculture, forestry and fishing	16	2	2	16	(0)	–
020	Mining and quarrying	0	–	–	0	(0)	–
030	Manufacturing	80	4	4	80	(2)	–
040	Electricity, gas, steam and air conditioning supply	6	0	0	6	(0)	–
050	Water supply	18	1	1	18	(0)	–
060	Construction	200	21	21	200	(3)	–
070	Wholesale and retail trade	292	14	14	292	(4)	–
080	Transport and storage	73	6	6	73	(2)	–
090	Accommodation and food service activities	518	44	44	518	(19)	–
100	Information and communication	82	7	7	82	(1)	–
110	Financial and insurance activities	–	–	–	–	–	–
120	Real estate activities	1,849	43	43	1,849	(30)	–
130	Professional, scientific and technical activities	214	14	14	214	(3)	–
140	Administrative and support service activities	32	3	3	32	(0)	–
150	Public administration and defence, compulsory social security	1	0	0	1	(0)	–
160	Education	31	2	2	31	(0)	–
170	Human health services and social work activities	415	15	15	415	(15)	–
180	Arts, entertainment and recreation	172	14	14	172	(9)	–
190	Other services	–	–	–	–	–	–
200	Total	3,999	187	187	3,999	(89)	–

9. Credit Risk continued

Table 26: UK CQ1 – Credit quality of forborne exposures

This table provides an overview of the quality of on- and off-balance sheet forborne exposures.

31 December 2023

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non–performing forborne						
				Of which defaulted	Of which impaired	On performing forborne exposures	On non–performing forborne exposures		Of which collateral and financial guarantees received on non–performing exposures with forbearance measures
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	Cash balances at central banks and other demand deposits	–	–	–	–	–	–	–	–
010	Loans and advances	18	109	100	100	(0)	(10)	115	97
020	*Central banks*	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–
050	*Other financial corporations*	–	–	–	–	–	–	–	–
060	*Non–financial corporations*	*1*	*30*	*30*	*30*	*(0)*	*(6)*	*24*	*23*
070	*Households*	*18*	*78*	*70*	*70*	*(0)*	*(4)*	*91*	*74*
080	Debt Securities	–	–	–	–	–	–	–	–
090	Loan commitments given	–	–	–	–	–	–	–	–
100	**Total**	18	109	100	100	(0)	(10)	115	97

31 December 2022

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non–performing forborne						
				Of which defaulted	Of which impaired	On performing forborne exposures	On non–performing forborne exposures		Of which collateral and financial guarantees received on non–performing exposures with forbearance measures
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
005	Cash balances at central banks and other demand deposits	–	–	–	–	–	–	–	–
010	Loans and advances	25	92	92	92	(0)	(14)	99	75
020	*Central banks*	–	–	–	–	–	–	–	–
030	*General governments*	–	–	–	–	–	–	–	–
040	*Credit institutions*	–	–	–	–	–	–	–	–
050	*Other financial corporations*	–	–	–	–	–	–	–	–
060	*Non–financial corporations*	*0*	*32*	*32*	*32*	*(0)*	*(8)*	*23*	*23*
070	*Households*	*25*	*60*	*60*	*60*	*(0)*	*(7)*	*76*	*52*
080	Debt Securities	–	–	–	–	–	–	–	–
090	Loan commitments given	–	–	–	–	–	–	–	–
100	Total	25	92	92	92	(0)	(14)	99	75

10. 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 a central counterparty.

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 SA–CRR method, which is a more risk sensitive approach.

Minimum capital requirements for counterparty credit risk are disclosed in Tables 28 and 29. The other component of counterparty credit risk is the credit valuation adjustment capital charge which is disclosed separately.

Table 27: UK CCR1 – Analysis of CCR exposure by approach

This table provides a comprehensive view of the methods used to calculate CCR regulatory requirements (excluding central clearing counterparties) and the main parameters used within each method.

		31 December 2023							
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre–CRM	Exposure value post–CRM	Exposure value	RWA
		£'million	£'million	£'million		£'million	£'million	£'million	£'million
UK1	Original Exposure Method (for derivatives)	–	–		1.4	–	–	–	–
UK2	Simplified SA–CCR (for derivatives)	–	–		1.4	–	–	–	–
1	SA–CCR (for derivatives)	1	1		1.4	2	2	2	1
2	IMM (for derivatives and SFTs)			–	–	–	–	–	–
2a	*of which securities financing transactions netting sets*			–		–	–	–	–
2b	*of which derivatives and long settlement transactions netting sets*			–		–	–	–	–
2c	*of which from contractual cross–product netting sets*			–		–	–	–	–
3	Financial collateral simple method (for SFTs)					–	–	–	–
4	Financial collateral comprehensive method (for SFTs)					1,191	62	62	25
5	VaR for SFTs					–	–	–	–
6	**Total**					1,193	64	64	26

10. Counterparty Credit Risk continued

		31 December 2022							
		Replacement cost (RC)	Potential future exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre–CRM	Exposure value post–CRM	Exposure value	RWA
		£'million	£'million	£'million		£'million	£'million	£'million	£'million
UK1	Original Exposure Method (for derivatives)	–	–		1.4	–	–	–	–
UK2	Simplified SA–CCR (for derivatives)	–	–		1.4	–	–	–	–
1	SA–CCR (for derivatives)	0	1		1.4	1	1	1	0
2	IMM (for derivatives and SFTs)			–	–	–	–	–	–
2a	*of which securities financing transactions netting sets*			–		–	–	–	–
2b	*of which derivatives and long settlement transactions netting sets*			–		–	–	–	–
2c	*of which from contractual cross–product netting sets*			–		–	–	–	–
3	Financial collateral simple method (for SFTs)					–	–	–	–
4	Financial collateral comprehensive method (for SFTs)					238	6	6	6
5	VaR for SFTs					–	–	–	–
6	**Total**					239	7	7	7

10. Counterparty Credit Risk continued

Metro Bank uses the standardised approach to calculate CVA capital charge: This approach takes account of the external credit rating of each counterparty, EAD from the calculation of the CCR and the effective maturity.

Table 28: UK CCR2 – Transactions subject to own funds requirements for CVA risk

		31 December 2023		31 December 2022	
		Exposure value	RWA	Exposure value	RWA
		£'million	£'million	£'million	£'million
1	Total transactions subject to the Advanced method	–	–	–	–
2	(i) VaR component (including the 3× multiplier)		–		–
3	(ii) stressed VaR component (including the 3× multiplier)		–		–
4	Transactions subject to the Standardised method	2	0	7	2
UK4	Transactions subject to the Alternative approach (Based on the Original Exposure Method)	–	–	–	–
5	Total transactions subject to own funds requirements for CVA risk	2	0	7	2

10. Counterparty Credit Risk continued

Table 29: UK CCR8 – Exposures to CCPs

		31 December 2023		31 December 2022	
		Exposure value	RWA	Exposure value	RWA
		£'million	£'million	£'million	£'million
1	**Exposures to QCCPs (total)**		2		1
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	76	2	40	1
3	(i) OTC derivatives	76	2	40	1
4	(ii) Exchange–traded derivatives	–	–	–	–
5	(iii) SFTs	–	–	–	–
6	(iv) Netting sets where cross–product netting has been approved	–	–	–	–
7	Segregated initial margin	–		–	
8	Non–segregated initial margin	–	–	–	–
9	Prefunded default fund contributions	–	–	–	–
10	Unfunded default fund contributions		–		–

11. Market Risk

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

Risk appetite statement
Our market risk appetite is determined by reference to a number of sub-risk appetites:

Earning sensitivity — We have a low appetite for earnings risk, with the Board determining a limit calibrated to ensure net interest income does not exceeding an amount recommended and scrutinised by the ALCO and approved by ROC. The limit is calibrated using a 2% instantaneous shock in both directions.

Economic value sensitivity — We have a low appetite for economic value risk, with the Board determining a limit calibrated to ensure that a change to the present value of our balance sheet does not exceed an amount as recommended and scrutinised by ALCO and approved by ROC. The limit is calibrated by calculating the impact of a 2% instantaneous shock in both directions.

Revaluation risk — We have a low appetite for revaluation risk, with the Board prescribing that we should avoid situations where the potential losses caused by changes in market prices shall not exceed capital held under standard risk weights, taking account of any offsets, determined by our Revaluation Risk stress scenario.

Foreign exchange risk — We have no appetite for foreign exchange risk, with the Board determining that exposures in foreign currencies should not represent a material portion of our capital resources

Exposure and assessment
We do not have a trading book and we do not actively seek to create value through taking interest rate positions. While we support our customers in marking payments or hold accounts in foreign currency, we actively avoid exposing our own balance sheet to foreign exchange risk.

The primary source of our market risk exposure is structural interest rate risk in the banking book mismatch between the fixed rate assets and liabilities and any differences in bases. Interest rate risk in the banking book crystallises in, and is measured through, the sensitivity of our current and future net interest income and our economic value to movements in market interest rates. During 2023, we reached the peak of the current interest rate cycle and at year end remain well within our risk appetite and supervisory outlier tests.

The Board is responsible for setting market risk appetite. Market risk is mitigated through a risk management framework that allows it to be monitored and managed by first line management and second line risk, with oversight from ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control the interest rate risk in the banking book in line with the approved strategies and policies.

Management limits are set at the ALCO for economic value and net interest income sensitivity to ensure prompt action and escalation. Limits and the relevant metrics are also reported to ROC and the Board.

The Treasury function has responsibility for managing within our market risk policy and strategy. We have a dedicated prudential risk team who independently monitor our market risk daily including ensuring compliance with the policies we have developed. The Prudential risk function runs additional interest rate risk simulations monthly to assess other threats that may not be evident in the standard parallel shock metrics or supervisory outlier tests

Response
We have a low appetite for those market risks which we do take, with clear limits set for net interest income and economic value. These limits are sufficient to allow proper management of operational and financial hedging, but low enough to prevent active use of open positions.

Interest rate risk
We benefit from natural offsetting between certain assets and liabilities, which may be based on both the contractual and behavioural characteristics of these positions. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of derivatives. We enter into derivatives only for hedging purposes and not as part of customer transactions or for speculative purposes. Our treasury and prudential risk teams work closely together to ensure that risks are identified and managed appropriately — and that we are well-positioned to avoid losses outside our appetite, in the event of unexpected market moves.

Foreign exchange exposure
We have very limited exposure to foreign exchange risk. Foreign currency denominated assets and liabilities are matched off closely in each of the currencies we operate, and we eliminate our foreign exchange exposure as far as is practical on a daily basis. In any event the risk is strictly capped at 2% of our capital base. We offer business current accounts in foreign currency and foreign exchange facilities to facilitate customer requirements only.

11. Market Risk continued

Monitoring/reporting

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

- Interest rate gaps: calculating the net difference between total assets and total liabilities across a range of time buckets.
- Economic value sensitivity: calculating repricing mismatches across our assets and liabilities over the horizon of our balance sheet and then evaluating the change in value arising from an instantaneous 2% change in the yield curve in both directions, taking into consideration any embedded customer optionality. Our economic value sensitivity risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. Additionally, we evaluate the PRA's outlier test in line with regulatory requirements.
- Net interest income sensitivity: calculating repricing mismatches across our assets and liabilities over a one-year horizon and then evaluating the change in net income arising from an instantaneous 2% change in the yield curve in both directions. Our net interest income risk appetite scenario is based on an instantaneous parallel rate movement of 2% at all maturities, which is widely considered severe but plausible. We also assess basis risk by considering divergences between the Bank of England base rate and the Sterling Overnight Index Average ('SONIA'), which replaced the London Inter-Bank Offered Rate ('LIBOR') from January 2022.

12. 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 and Moody's (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 30 shows the exposure value of purchased securitisations by asset type.

Table 30: UK SEC1 – Securitisation exposures in the non–trading book

This table shows the non-trading book securitisation exposure split by exposure type and associated regulatory capital requirements.

		31 December 2023			31 December 2022		
		Institution acts as investor			Institution acts as investor		
		Traditional			Traditional		
		STS	Non–STS	Total	STS	Non–STS	Total
		£'million	£'million	£'million	£'million	£'million	£'million
1	**Total exposures**	862	213	1,075	893	408	1,301
2	Retail (total)	862	213	1,075	893	408	1,301
3	*residential mortgage*	*675*	*213*	*888*	*726*	*408*	*1,133*
5	*other retail exposures*	*188*	–	*188*	*168*	*0*	*168*

Table 31: UK SEC4 – Securitisation exposures in the non–trading book and associated regulatory capital requirements – institution acting as investor

This table shows the non-trading book securitisation exposures.

		31 December 2023					31 December 2022				
		Exposure values (by RW bands/ deductions)		Exposure values (by regulatory approach)	RWA (by regulatory approach)	Capital charge after cap	Exposure values (by RW bands/ deductions)		Exposure values (by regulatory approach)	RWA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	SEC–ERBA (including IAA)	SEC–ERBA (including IAA)	SEC–ERBA (including IAA)	≤20% RW	>20% to 50% RW	SEC–ERBA (including IAA)	SEC–ERBA (including IAA)	SEC–ERBA (including IAA)
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	**Total exposures**	1,075	–	1,075	129	10	1,259	42	1,301	166	13
2	Traditional securitisation	1,075	–	1,075	129	10	1,259	42	1,301	166	13
3	Securitisation	1,075	–	1,075	129	10	1,259	42	1,301	166	13
4	Retail underlying	1,075	–	1,075	129	10	1,259	42	1,301	166	13
5	*Of which STS*	*862*	–	*862*	*86*	*7*	*893*	*0*	*893*	*89*	*7*

13. 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.

During the year, following notification to the PRA, the Bank changed its approach to the calculation of Operational risk RWAs from Basic Indicator Approach ('BIA') to the Standardised Approach ('TSA'). The Standardised Approach is based on a three–year annual average of the relevant income indicator, multiplied by a conversion percentage factor specific to business lines in accordance with the regulatory requirements.

Table 32: UK OR1 – Operational risk own funds requirements and risk–weighted exposure amounts

		31 December 2023				
		Relevant indicator				
		Year–3	Year–2	Last year	Own funds requirements	Risk weight exposure amount
	Banking activities	£'million	£'million	£'million	£'million	£'million
1	Banking activities subject to standardised approach (TSA)	359	409	523	56	703

		31 December 2022				
		Relevant indicator				
		Year–3	Year–2	Last year	Own funds requirements	Risk weight exposure amount
	Banking activities	£'million	£'million	£'million	£'million	£'million
1	Banking activities subject to basic indicator approach (BIA)	414	359	409	59	739

14. 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 (including TFSME, of which the bank repaid £0.75 billion in 2023 of £3.8 billion initially drawn), 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 £3,033 million of mortgage loans as at 31 December 2023 (31 December 2022: £4,519 million), which could provide secured funding as central bank–eligible collateral or as part of a securitisation. The Bank had £916 million of fixed and intangible assets as at 31 December 2023 (31 December 2022: £964 million) which cannot be encumbered for funding purposes.

We have pledged £6,110 million (2022: £5,286 million) of the financial assets above as encumbered collateral which can be called upon in the event of default. Of this, £1,311 million (2022: £2,131 million) is made up of high–quality securities and £4,799 million (2022: £3,141 million) is from our own loan portfolio.

Tables 33, 34 and 35 provide breakdown of the encumbered and unencumbered assets based on 4–quarter median over the last 12 months.

Table 33: UK AE1 – Encumbered and unencumbered assets

		31 December 2023							
		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 EHQLA and HQLA		of which EHQLA and HQLA
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
010	**Assets of the reporting institution**	5,712	1,940			16,134	5,516		
030	Equity instruments	–	–	–	–	–	–	–	–
040	Debt securities	1,928	1,808	1,829	1,710	3,239	3,093	3,060	2,907
050	*of which: covered bonds*	*482*	*482*	*475*	*255*	*448*	*448*	*444*	*444*
060	*of which: securitisations*	*569*	*569*	*568*	*435*	*669*	*520*	*658*	*510*
070	*of which: issued by general governments*	*835*	*835*	*797*	*797*	*698*	*695*	*657*	*651*
080	*of which: issued by financial corporations*	*1,136*	*384*	*1,107*	*978*	*2,382*	*2,269*	*2,261*	*2,153*
090	*of which: issued by non–financial corporations*	–	–	–	–	–	–	–	–
120	Other assets[1]	3,737	133			12,887	2,523		

14. Asset Encumbrance continued

		31 December 2022							
		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 EHQLA and HQLA		of which EHQLA and HQLA
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
010	Assets of the reporting institution	5,568	1,800			16,919	4,250		
030	Equity instruments	–	–	–	–	–	–	–	–
040	Debt securities	1,889	1,661	1,856	1,629	4,085	3,844	3,928	3,686
050	*of which: covered bonds*	*547*	*548*	*542*	*542*	*132*	*132*	*131*	*131*
060	*of which: securitisations*	*956*	*729*	*954*	*727*	*1,480*	*1,271*	*1,477*	*1,263*
070	*of which: issued by general governments*	*351*	*347*	*335*	*335*	*1,809*	*1,809*	*1,763*	*1,763*
080	*of which: issued by financial corporations*	*1,537*	*1,310*	*1,520*	*1,293*	*1,852*	*1,608*	*1,743*	*1,502*
090	*of which: issued by non–financial corporations*	–	–	–	–	–	–	–	–
120	Other assets[1]	3,680	138			12,833	406		

[1] Consists of all remaining regulatory balance sheet assets, predominately loans and advances.

14. Asset Encumbrance continued

Table 34: UK AE2 – Collateral received and own debt securities issued

		31 December 2023				31 December 2022			
				Unencumbered				Unencumbered	
				Fair value of collateral received or own debt securities issued available for encumbrance				Fair value of collateral received or own debt securities issued available for encumbrance	
			of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which notionally eligible EHQLA and HQLA		of which EHQLA and HQLA
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
130	Collateral received by the reporting institution	–	–	–	–	–	–	–	–
240	Own debt securities issued other than own covered bonds or securitisations	–	–	–	–	–	–	–	–
241	Own covered bonds and asset–backed securities issued and not yet pledged			–	–			–	–
250	Total assets, collateral received and own debt securities issued	5,712	1,940			5,568	1,800		

Table 35: UK AE3 – Sources of encumbrance

		31 December 2023		31 December 2022	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered
		£'million	£'million	£'million	£'million
10	Carrying amount of selected financial liabilities	4,233	5,557	4,030	5,412

15. Interest Rate Risk in the Banking Book

Interest rate risk in the banking book ('IRRBB') arises from changes in market interest rates and customer behaviour that could adversely affect the financial performance of the Bank through earnings volatility or economic value. This is driven by exposures to duration risk, optionality risk, credit spread risk and basis risk. The Bank has a low appetite for IRRBB and takes a prudent approach to the measurement and management of IRRBB.

The Board is responsible for setting IRRBB risk appetite. IRRBB is mitigated through a risk management framework that allows IRRBB to be monitored and managed by first line management and second line risk, with oversight from senior management and ALCO. Accordingly, ALCO ensures that steps are taken to identify, measure, monitor and control IRRBB consistent with the approved strategies and policies. These include:

- **Appropriate limits on IRRBB**, including the definition of specific procedures and approvals necessary for exceptions, and ensuring compliance with those limits e.g., risk appetites for earnings risks and economic value risk
- **Adequate systems** and standards for measuring and reporting IRRBB
- **Policies for measuring IRRBB**, valuing positions and assessing performance, including procedures for updating interest rate shock and stress scenarios and key underlying assumptions driving the institution's IRRBB analysis
- **A comprehensive IRRBB reporting and review process** including daily reporting of key metrics and other analysis reported to ALCO monthly
- **Active hedging strategies**, including both natural hedging (i.e. without interest rate swaps through natural off–sets of assets and liabilities) and hedging with swaps (i.e. through the purchase of interest rate swaps to reduce time bucket mismatches causing otherwise significant Economic value of equity ('EVE') / Non Interest Income ('NII') exposure), in order to ensure risk is managed within aforementioned limits.

Additionally, the bank's third line Internal Audit function perform regular reviews of IRRBB management, including external benchmarking of key assumptions to peer group firms.

ALCO is responsible for overseeing the management of IRRBB within the limits approved by Board. Day–to–day management of IRRBB is delegated to Treasury. The Bank benefits from natural offsetting between assets and liabilities, which may be based on both contractual and behavioural characteristics of certain products. Where natural hedging is insufficient, we hedge net interest rate risk exposures appropriately, including, where necessary, with the use of interest rate derivatives.

Specific risk measures that the Bank uses to manage IRRBB include:

- NII sensitivity is performed daily and assesses changes to earnings over a 12–month time horizon caused by a range of interest rate shocks and scenarios
- EVE sensitivity caused by a range of interest rate shocks and scenarios is performed daily and measured against internal limits
- EVE sensitivity is also measured in line with PRA requirements against six rate shocks assessed on a monthly basis
- Credit Spread Risk in the Banking Book (CSRBB) is assessed daily through historic VaR applied to the bank's liquid asset portfolio. CSRBB is measured at a 99.9% confidence level based on daily spread movements with a three–month holding period.

The Bank assesses EVE and NII sensitivity using +/– 200 bps and +/– 250 bps parallel interest rate shocks and various non–parallel interest rate shock scenarios, including those prescribed by the PRA. The scenarios take account of customer behaviour including optionality embedded in products.

Metro Bank makes the following assumptions:

ΔEVE

The ΔEVE calculations are produced in accordance with PRA requirements and include the following key assumptions:

- The balance sheet is modelled on a run–off basis
- The EVE measures are calculated using ALCO–approved behavioural assumptions, including assumptions on customer prepayment rates and duration of non–maturing deposits
- Commercial margins and interest flows are removed from cash flows and discounting is performed using the Sterling risk–free rate.

15. Interest Rate Risk in the Banking Book continued

ΔNII

The ΔNII calculations are produced in accordance with PRA requirements and include the following key assumptions:

- NII sensitivity is based on a constant balance sheet with assets and liabilities rolling over into average maturities
- Interest rate changes are passed on to administered rate products using ALCO–approved assumptions
- Non–maturing administered rate deposits are excluded from NII sensitivity if they are insensitive to interest rate movements, based on ALCO–approved assumptions (i.e. they do not reprice within the 12–month NII sensitivity scenario horizon).

Key assumptions utilised by EVE and NII metrics in Table 36 are consistent with internal EVE and NII metrics aside from the following assumptions:

- A portion of equity is included in the cashflow profile for the internal EVE calculation. This equity is modelled with a behavioural life agreed at ALCO. The exclusion of equity in the PRA EVE calculation in Table 36 (following PRA calculation guidelines), creates a position which has negative value as rates rise but positive if rates fall since the hedges associated with equity are no longer offset (as equity is excluded), and therefore no longer hedges certain assets
- Administered rate deposit products are modelled with contractual interest rate floors, not behavioural floors
- Interest rate shocks for internal risk management for both EVE and NII sensitivity are based upon +/– 200 bps parallel shifts in interest rates, in line with Board risk appetite, instead of +/– 250 bps in Table 36.

The bank’s balance sheet is predominantly naturally hedged, due to offsets that occur between assets and liabilities driven by customer behaviour. However, the Bank can utilise derivatives (interest rate swaps) to manage IRRBB as/if required.

Where we are using interest rate swaps to hedge the changes in **fair value** attributable to the interest rate risk of a recognised asset or liability that could affect profit or loss, we apply **fair value hedge accounting**.

The Bank does not currently use interest rate swaps to hedge the **exposure to variability in cash flows** attributable to interest rate risk (but has the ability to do so). Where the variability in cash flows on a recognised asset or liability could affect profit or loss, the Bank has the ability to apply **cash flow hedge accounting**.

As measured by the Group’s NII shock scenario (see table 36), the Group is positively positioned for falling rates over the short–term.

15. Interest Rate Risk in the Banking Book continued

The average repricing maturity assigned to non–maturing deposits (NMDs) is 1.5 years. This includes both rate sensitive balances that reprice overnight and stable rate insensitive balances profiled on a behavioural term agreed at ALCO.

The longest repricing maturity assigned to NMDs is 7 years.

Table 36: UK IRRBB1 – Quantitative information on IRRBB

		∆EVE		∆NII		Tier 1 capital	
		31 December 2023	31 December 2022	31 December 2023	31 December 2022	31 December 2023	31 December 2022
		£'million	£'million	£'million	£'million	£'million	£'million
010	Parallel shock up	(28)	(39)	(17)	(10)		
020	Parallel shock down	23	38	18	11		
030	Steepener shock	52	34				
040	Flattener shock	(55)	(40)				
050	Short rates shock up	(58)	(48)				
060	Short rates shock down	61	50				
070	Maximum	(58)	(48)	(17)	(10)		
080	Tier 1 capital					985	819

16. 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.

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 to the shareholder needs. Colleague reward is aligned to their performance rating (AMAZEING review); 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 & Accounts ('the DRR'). The DRR includes information on the role of the People & Remuneration Committee ('the Committee').

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 59 members of staff as material risk takers in 2023 (2022: 45). This figure includes joiners and leavers.

The following groups of individuals have been identified as meeting the criteria for MRTs:
Members of the **Supervisory Function** i.e. Executive Directors and Non–Executive Directors ('NEDs') of Metro Bank Holdings PLC.
Members of the **Management Function** i.e. Senior Managers who sit on the Executive Committee.
Other colleagues who are either **Senior Managers** or **Other MRTs** (also referred to as 'other identified staff') i.e. individuals 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.

Approach to remuneration

The approach taken for our MRT 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 MRT population with those of our shareholders, we may deliver a portion of variable reward in retained shares, deferred cash, deferred shares, and where appropriate, awards under the long–term incentive plan ('LTIP') or restricted shares.

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 MRTs. Variable remuneration for any MRT 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 DRR.

Base salary

Salaries are paid to all MRTs (except for NEDs who receive fees reviewed annually against external market information). Salaries are reviewed annually, taking into account individual performance and experience and market information.

Variable remuneration

All Material Risk Takers (excluding NEDs) 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 Committee and are reflected in our corporate 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 (see 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 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. Subject to the achievement of any performance conditions, awards will vest according to timetables designed to meet with regulatory requirements.

16. Remuneration continued

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 MRTs receiving a variable remuneration award in respect of 2023 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 shares, through a combination of retained shares, deferred shares, restricted shares and/or LTIP; and
- vested shares are subject to retention periods.

The Committee considers input from the Chief Risk Officer (‘CRO’) before any deferred awards are released. 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 ten 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 Bank and/or the business unit for which the colleague works suffers a material downturn in its business performance;
- The Bank and/or the business unit for which the colleague works suffers a significant failure in risk management;
- There has been a material misstatement in the Bank’s financial results or an error in assessing any applicable performance condition;
- The Bank 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 Bank 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 MRTs across the Bank.

The Committee has 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 and regulatory
- Customers
- People and Communities

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.

16. Remuneration continued

Remuneration for Material Risk Takers

The following tables display the 2023 fixed and variable remuneration for Metro Bank's MRT population. The Bank is not structured in such a way to break down the data by business area. In addition, to preserve the anonymity of individual's remuneration, some tables do not shown the breakdown between each distinct MRT category.

Table 37: UK REM1 – Remuneration awarded for the financial year

			31 December 2023			
			MB Supervisory function	MB Management function	Other senior management	Other MRT (or other identified staff)[2]
1	Fixed Remuneration[1]	Number of identified staff	11	13	2	34
2		Total fixed remuneration £'million	2.4	3.0	0.4	4.6
3		Of which: cash–based £'million	2.4	3.0	0.4	4.2
7		Of which: other £'million[3]	0.1	0.1	0.0	0.3
9	Variable remuneration	Number of identified staff	–	1		25
10		Total variable remuneration £'million	–	0.2		0.4
11		Of which: cash–based £'million	–	0.1		0.4
12		Of which: deferred £'million[4]	–	0.0		–
UK–13b		Of which: shares or equivalent ownership interests £'million	–	0.1		–
UK–14b		Of which: deferred £'million	–	0.1		–
17	**Total remuneration £'million**		2.4	3.2		5.3

			31 December 2022			
			MB Supervisory function	MB Management function	Other senior management	Other MRT (or other identified staff)[2]
1	Fixed Remuneration[1]	Number of identified staff	13	12	3	18
2		Total fixed remuneration £'million	2.1	3.4	0.6	2.8
3		Of which: cash–based £'million	2.1	3.3	0.5	2.6
7		Of which: other £'million	0.0	0.1	0.1	0.2
9	Variable remuneration	Number of identified staff	2	10		12
10		Total variable remuneration £'million	1.8	1.9		0.8
11		Of which: cash–based £'million	–	0.5		0.4
12		Of which: deferred £'million	–	–		0.1
UK–13b		Of which: shares or equivalent ownership interests £'million	1.8	1.4		0.4
UK–14b		Of which: deferred £'million	1.4	0.9		0.2
17	Total remuneration £'million		3.9	5.3		4.8

[1] Fixed remuneration is predominantly delivered in cash and relates to the period for which the individual was an MRT. Other fixed remuneration includes employer pension contributions and non–cash benefits such as medical cover. NED fees are included as fixed remuneration under the Supervisory Body column.

[2] The number of Material Risk Takers increased compared to 2022 due identifying several additional roles that should be classed as MRT's throughout the year. There is one MRT who was classified as an Other Senior Manager at the outset of the year but became part of the Management Function on an interim basis later in the year.

[3] The other fixed remuneration for Other Senior Management is £36,385.

[4] The amount of deferred variable remuneration for the MB Management function is £8,526.

16. Remuneration continued

Table 38: UK REM2 – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		31 December 2023		
		MB Supervisory function	MB Management function	Other senior management or other identified staff
	Guaranteed variable remuneration awards			
1	Guaranteed variable remuneration awards – Number of identified staff	–	1	–
2	Guaranteed variable remuneration awards –Total amount £'million[1]	–	0.088	–
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap £'million	–	–	–
	Severance payments awarded in previous periods, that have been paid out during the financial year			
4	Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	–	–	–
5	Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount £'million	–	–	–
	Severance payments awarded during the financial year			
6	Severance payments awarded during the financial year – Number of identified staff	–	4	4
7	Severance payments awarded during the financial year – Total amount £'million[2]	–	0.361	0.183
8	Of which paid during the financial year £'million	–	0.038	–
9	Of which deferred £'million	–	–	–
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap £'million	–	0.361	0.183
11	Of which highest payment that has been awarded to a single person £'million	–	0.140	0.057

		31 December 2022		
		MB Supervisory function	MB Management function	Other senior management or other identified staff
	Guaranteed variable remuneration awards			
1	Guaranteed variable remuneration awards – Number of identified staff	–	–	–
2	Guaranteed variable remuneration awards –Total amount £'million	–	–	–
3	Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap £'million	–	–	–
	Severance payments awarded in previous periods, that have been paid out during the financial year			
4	Severance payments awarded in previous periods, that have been paid out during the financial year – Number of identified staff	–	–	–
5	Severance payments awarded in previous periods, that have been paid out during the financial year – Total amount £'million	–	–	–
	Severance payments awarded during the financial year			
6	Severance payments awarded during the financial year – Number of identified staff	–	–	1
7	Severance payments awarded during the financial year – Total amount £'million	–	–	0.046
8	Of which paid during the financial year £'million	–	–	0.046
9	Of which deferred £'million	–	–	–
10	Of which severance payments paid during the financial year, that are not taken into account in the bonus cap £'million	–	–	–
11	Of which highest payment that has been awarded to a single person £'million	–	–	0.046

[1] This award is in relation to a loss of opportunity awarded for a new hire classified as MB Management function.

[2] The severance payments awarded during the financial year are in relation to redundancy. No performance linked awards are being made to colleagues exiting by redundancy as aligned to our plan rules

16. Remuneration continued

Table 39: UK REM3 – Deferred variable remuneration[1,2,3]

		31 December 2023							
		Total amount of deferred remunera-tion awarded for previous perfor-mance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of perfor-mance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of perfor-mance adjustment made in the financial year to deferred remuneration that was due to vest in future performance	Total amount of adjustment during the financial year due to ex post implic-it adjustments (i.e. changes of value of deferred remunera-tion due to the changes of prices of instruments)	Total amount of deferred remunera-tion awarded before the financial year actually paid out in the financial year	Total of amount of deferred remunera-tion awarded for previous perfor-mance period that has vested but is subject to retention periods
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	MB Supervisory function								
2	– cash based	–	–	–	–	–	–	–	–
3	– share based[4]	4.0	0.4	3.5	–	–	(2.9)	0.0	0.4
7	MB Management function								
8	– cash based[5]	0.0	0.0	0.0	–	–	–	0.0	–
9	– share based	4.5	1.1	3.4			(2.9)	0.5	0.6
19	Other senior management and other identified staff								
20	– cash based[6]	0.1	0.0	0.1	–	–	–	0.0	–
21	– share based	0.6	0.3	0.3	–	–	(0.3)	0.1	0.2
25	**Total Amount**	9.2	1.8	7.4	–	–	(6.1)	0.6	1.2

1 Includes awards for any colleague identified as a Material Risk Taker during 2023.

2 Values based on the face value of awards at time of grant.

3 Since 2021 deferred share awards granted as nominal price options and prior to that were mainly market price share options.

4 The number of deferred shares for MRTs in the MB Supervisory function awarded before the financial year actually paid out in the financial year is the value of £18,559.

5 The amount of deferred cash for MRTs in the MB Management function that's deferred from previous performance periods is £13,335 all of which £2,444 vested in the financial year and £10,891 will vest in subsequent financial years. The amount awarded before the financial year actually paid out in the financial year is also £2,444.

6 The amount of deferred cash awarded before the financial year that vested and was actually paid out in the financial year for MRTs in the Other senior management and other identified staff category is £9,613

16. Remuneration continued

		31 December 2022[1]							
		Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance	Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. changes of value of deferred remuneration due to the changes of prices of instruments)	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
		£'million	£'million	£'million	£'million	£'million	£'million	£'million	£'million
1	MB Supervisory function								
2	– cash based	–	–	–	–	–	–	–	–
3	– share based	2.7	0.5	2.2	–	–	0.5	–	0.5
7	MB Management function								
8	– cash based[2]	0.0	–	0.0	–	–	–	–	–
9	– share based	4.8	1.4	3.4	–	–	0.8	0.6	0.7
19	Other senior management and other identified staff								
20	– cash based[3]	0.0	–	0.0	–	–	–	–	–
21	– share based[4]	0.3	0.1	0.2	–	–	0.1	0.0	0.1
25	**Total Amount**	7.9	2.0	5.8	–	–	1.4	0.7	1.4

[1] The UK REM3 table was not a mandatory disclosure in 2022 but is for 2023. As such we have reviewed the methodology for how it is completed against the guidance. The outcome has uncovered an error in the template we were using to calculate the table. The submission for 2023 rectifies this error and as such, we felt appropriate to restate our 2022 figures for reference.

[2] The amount of deferred cash awarded for previous performance periods to the MB Management function is £9,775, all of which is due to vest in subsequent financial years.

[3] The amount of deferred cash awarded for previous performance periods to Other senior management and other identified staff is £40,955, all of which is due to vest in subsequent financial years

[4] The amount of deferred shares awarded before the financial year actually paid out in the financial year for Other senior management and other identified staff is £38,982

16. Remuneration continued

Table 40: UK REM4 – Remuneration of 1 million EUR or more per year

	Total remuneration in respect of the performance year	31 December 2023 Identified staff that are high earners as set out in Article 450(i) CRR[1]	31 December 2022 Identified staff that are high earners as set out in Article 450(i) CRR
1	€1,000,000 – €1,500,000	–	–
2	€1,500,000 – €2,000,000	–	–
3	€2,000,000 – €2,500,000	–	1
4	€2,500,000 and above	–	–

[1] Remuneration converted to Euros using the exchange rate £1 = €1. 1.15574 (exchange rate for December 2023 per European Commission exchange rates website).

Table 41: UK REM5 – Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		31 December 2023				
		Management body remuneration				
		MB Supervisory function	MB Management function	Total MB	All other MRTs[1]	Total
1	**Total number of identified staff**					59
2	Of which: members of the MB	11	13	24		
3	Of which: other senior management				2	
4	Of which: other identified staff				34	
5	**Total remuneration of identified staff £'million**	2.4	3.2	5.6	5.3	
6	Of which: variable remuneration £'million	–	0.2	0.2	0.4	
7	Of which: fixed remuneration £'million	2.4	3.0	5.4	4.9	

		31 December 2022				
		Management body remuneration				
		MB Supervisory function	MB Management function	Total MB	All other MRTs[2]	Total
1	Total number of identified staff					45
2	Of which: members of the MB	13	12	25		
3	Of which: other senior management					
4	Of which: other identified staff					
5	Total remuneration of identified staff £'million	3.9	5.3	9.2	4.2	
6	Of which: variable remuneration £'million	1.8	1.9	3.7	0.8	
7	Of which: fixed remuneration £'million	2.1	3.4	5.5	3.4	

[1] There is one MRT who was classified as an Other Senior Manager at the outset of the year but became part of the Management Function on an interim basis later in the year.

[2] There was one MRT who was classified as an Other MRT at the outset of the year but became a Senior Manager later in the year .

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