People-people banking

Metro Bank Holdings PLC

Interim report for the half year ended 30 June 2023

Contents

Forward-looking statements

This interim report contains statements that are, or may be deemed to be, forward-looking statements. Forward-looking statements typically use terms such as 'believes', 'projects', 'anticipates', 'expects', 'intends', 'plans', 'may', 'will', 'would', 'could' or 'should' or similar terminology. Any forward-looking statements in this interim report are based on Metro Bank Holdings PLC's ("the Group", "the Bank", "we" or "our") current expectations. 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 interim report will be realised. We undertake no obligation to release the results of any revisions to any forward-looking statements in this interim report 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.

Basis of preparation

Financial information in this interim report is prepared on a statutory (taken from our financial statements) and underlying basis (which we use to assess performance on a management basis).

Further details on how we calculate underlying performance, as well as our other alternative performance measures can be found on pages 47 to 49.

To meet Bank of England's resolution requirements, on 19 May 2023, Metro Bank Holdings PLC was inserted as the new ultimate holding company and listed entity of the Group. Prior to this date Metro Bank PLC was both a banking entity and the ultimate parent company of the Group but has subsequently become a 100% subsidiary of Metro Bank Holdings PLC. These financial statements are have been prepared as if Metro Bank Holdings PLC had been the parent company throughout the current and prior years, to treat the new structure as if it has always been in place. Further details on the insertion of Metro Bank Holdings PLC can be found in note 1 to the condensed consolidated interim financial statements.

Summarised interim results

	Half year to 30 Jun 2023	Half year to 31 Dec 2022	Change	Half year to 30 Jun 2022	Change
Profit and loss					
Underlying profit/(loss) before tax[1]	**£16.1m**	(£2.6m)	n/a	(£48.0m)	n/a
Statutory profit/(loss) before tax	**£15.4m**	(£10.5m)	n/a	(£60.2m)	n/a
Total income (statutory)	**£286.4m**	£287.0m	-	£236.5m	21%
Total operating expenses (statutory)	**£259.7m**	£275.5m	(6%)	£278.8m	(7%)
Net interest margin	**2.14%**	2.11%	3bps	1.73%	41bps
Cost of deposits	**0.66%**	0.25%	41bps	0.14%	52bps
Return on tangible equity	**2%**	(1%)	3pps	(8%)	10pps
	30 Jun 2023	**31 Dec 2022**	**Change**	**30 Jun 2022**	**Change**
Balance sheet					
Customer deposits	**£15,529m**	£16,014m	(3%)	£16,514m	(6%)
Customer loans	**£12,572m**	£13,102m	(4%)	£12,364m	2%
Loan to deposit ratio	**81%**	82%	(1pp)	75%	6pps
Total assets	**£21,747m**	£22,119m	(2%)	£22,566m	(4%)
Tangible book value per share	**£4.42**	£4.29	3%	£4.30	3%
Asset quality					
Coverage ratio	**1.54%**	1.41%	13bps	1.36%	18bps
Cost of risk	**0.18%**	0.33%	(15bps)	0.29%	(11bps)
Capital ratios					
Common Equity Tier 1 (CET1) ratio	**10.4%**	10.3%		10.6%	
Total capital ratio	**13.2%**	13.4%		13.8%	
Total regulatory capital plus MREL ratio	**18.1%**	17.7%		18.3%	
Regulatory leverage ratio	**4.4%**	4.2%		4.3%	
Customer metrics					
Customer accounts	**2.8m**	2.7m		2.6m	
Stores	**76**	76		76	

1. Underlying profit/(loss) before tax is an alternative performance measure and excludes items considered to distort period-on-period comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business. A reconciliation between our statutory and underlying results can be found on pages 48 and 49.

Officers and external auditors

As at 30 June 2023

Board of Directors

Executive Directors

Daniel Frumkin
Chief Executive Officer

James Hopkinson
Chief Financial Officer

Non-executive Directors

Robert Sharpe
Chair

Anna (Monique) Melis
Senior Independent Director

Catherine Brown
Independent Non-Executive Director

Dorita Gilinski
Shareholder-Nominated Non-Executive Director

Non-executive Directors

Anne Grim
Independent Non-Executive Director

Ian Henderson
Independent Non-Executive Director

Paul Thandi CBE
Independent Non-Executive Director

Michael Torpey
Independent Non-Executive Director

Nicholas Winsor MBE
Independent Non-Executive Director and Designated Non-Executive Director for Colleague Engagement

Company Secretary[1]

Stephanie Wallace
General Counsel and Company Secretary

Key to Committees: A Audit N Nomination P People and Remuneration R Risk Oversight

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

1. On 31 July 2023 Clare Gilligan joined as our new Company Secretary, taking over from Stephanie Wallace (our General Counsel) who was filling the role on a temporary basis following the departure of our previous Company Secretary, Melissa Conway in December 2022.

Business review

The first six months of 2023 mark our first set of results since we completed our turnaround at the end of 2022 and has seen us deliver our strongest financial performance in several years. I am pleased to report our first half year of statutory profitability, with a profit before tax of £15.4 million (half year to 31 December 2022: loss of £10.5 million; half year to 30 June 2022: loss of £60.2 million), as well as our third successive quarter of profitability on an underlying basis. This was delivered whilst retaining the top spot as the highest rated high street bank for overall service quality for personal customers in the CMA's latest Service Quality Survey, for the tenth time running.

This momentum is evidence that our business model works, and that combined with continued execution of our strategic priorities is seeing us deliver on our ambition to be the number one community bank.

Progress against our strategic priorities

We have always been clear that we are building a business for the long-term, that can meaningfully scale and unleash its full capabilities as and when we are able to access additional growth capital. Our return to profitability on a statutory basis is an important milestone in this journey.

Key to this has been the continued delivery of our strategic priorities. At the start of the year, we refreshed these to move our focus from fixing the problems of the past to leveraging the strengths of our business model for future growth, whilst keeping the headline priorities the same.

Revenue

Total revenue increased year-on-year to £286.4 million from £236.5 million, but remained flat compared to the second half of 2022 (£287.0 million). We continued to see increased momentum in interest income as rate rises continued to flow through to our variable rate and front book lending pricing, although net interest income was constrained by a rise in our cost of deposits, which was impacted by our return to the fixed term deposit market, as previously guided. Fixed term deposits increased to £1,205 million (31 December 2022: £625 million) and now represent 8% of balances (31 December 2022: 4%) and provide additional duration into our deposit base.

Overall, we saw our total deposits fall 3% to £15,529 million (31 December 2022: £16,014 million) as cost-of-living pressures saw customers draw down balances. Whilst the competitive savings environment put pressures on pricing, our service-led proposition continues to ensure we maintain a high-quality deposit position. In the second quarter of the year we saw balances stabilise with inflows in June, a trend that continued in July. Although average balances have reduced we continue to win customers, with new personal and business currents of 106,000 and 23,000 respectively, demonstrating our proposition continues to resonate in a competitive marketplace.

Costs

Our total operating expenses fell 7% year-on-year to £259.7 million (half year to 31 December 2022: £275.5 million; half year to 30 June 2022: £278.8 million), despite a backdrop of persistently high inflation. This helped drive positive jaws of 28% year-on-year and 6% half-on-half.

The cost reductions have been achieved through our continued focus on cost discipline and the successful implementation of initiatives that enable the Bank to scale appropriately. Operating costs were aided by roll-off of legacy issues as well as the ending of our transformation plan.

We incurred additional costs in the first half of the year from the insertion of our new holding company, Metro Bank Holdings PLC. We completed this in May and it marks another key step in delivering our requirements under the Bank of England Resolution Framework.

Balance sheet optimisation

Over the past three years we have built a suite of products that will allow us to compete in any interest rate environment, allowing us to appropriately react to market conditions. A clear example of this is our RateSetter capabilities, where we were able to appropriately scale this whilst interest rates were low. As rates have increased and the economic outlook remains uncertain, we have been able to moderate originations within this portfolio. This has seen the average borrower salary increase to £49,000 (half year to 30 June 2022: £46,000) ensuring we continue to maintain a strong level of credit quality.

Our continued discipline to focus on return on regulatory capital has instead seen us put a greater emphasis on building our mortgage pipeline as well as focus on the treasury portfolio, both of which provide meaningfully higher returns than at the start of the year. As part of this focus we also continue to progress our AIRB application for residential mortgages.

We continue to let balances in our commercial book attrite, particularly in the commercial real estate sector, where we have significantly reduced our exposure over the past few years. This combined with the run-off of COVID-related government backed lending has seen commercial lending as a proportion of the total book fall marginally to 30% of total loans as at 30 June 2023 (31 December 2022: 31%; 30 June 2022: 36%). Despite this fall we continue to remain committed to maintaining a strong commercial lending offering but are focused primarily on higher -quality relationship driven business. This includes the strengthening of our business overdraft product which we launched in 2022 and a new business credit card offering that we will launch in the second half of the year, which as well as supporting lending growth offers the potential for increased fee income.

Infrastructure

We maintain our focus on building out our digital and physical infrastructure to both ensure that we keep the Bank safe and secure today, and invest for the growth of tomorrow. The first half of the year has seen us lay the groundwork for the expansion of our store network in the North of England. Whilst competitors continue to shrink their branch numbers and reduce hours, we are continuing to see the benefits of being rooted in the communities we serve and believe this will continue to differentiate our proposition in the years ahead.

Alongside our physical offering we have worked to enhance our digital infrastructure. This included a major transformation of our mortgage origination platform, which will streamline the process for both mortgage intermediaries and customers.

Business review Continued

As well as being beneficial for customers it will allow us to be much more flexible in the markets we choose to operate in, including our upcoming products for shared ownership and limited company buy-to-let.

Alongside this we have continued our investment in automating customer journeys and working to deliver end-to-end digital products. This includes our auto-finance proposition which we launched at the end of 2022 and our soon to be launched business credit card. Ensuring this fully digital approach will allow us to scale these lending streams up as well as drive greater productivity and efficiency across the Bank.

In addition to our investment in our lending streams we are focused on enhancing our deposit proposition, to ensure we retain a competitive suite of products. This investment will improve our switching capabilities to better compete within the ISA market as well as offer a broader range of savings accounts including a savings-boost propositions and RateSetter branded savings account. Given earlier investment prioritisation elsewhere, our market share in these products is lower than for other core products and therefore represents an opportunity for growth.

Communications

We continue to focus on engaging our colleagues, communities and other stakeholders to push forward our story.

I am pleased that in the first half of the year we have seen record levels in colleague engagement scores. We continue to focus on our culture of promoting from within, with over 40% of the positions filled in the first half of the year, partly as a result of colleagues being promoted or moving around the business.

For the remaining hires we have amplified our community focus when recruiting talent, increased opportunities available for apprentices from disadvantaged backgrounds into new areas of the Bank, run a series of roadshows for professional returners trying to get back into the workplace, and engaged with later in career populations to support our diverse workforce. We have also introduced a new optional shift pattern, whereby store colleagues can now take a three-day break benefiting those colleagues who need more flexibility in their working week.

We have worked harder than ever for our local communities and become even more inclusive by rolling out our BSL Sign Language service which customers can now access in any of our 76 stores, or on the phone, in app or online.

Our financial education programme Money Zone has now been delivered to 2,800 schools and 250,000 children – we were even invited to deliver Money Zone to 1,100 children in just one day at the Hertfordshire Agricultural Society Food & Farming Day. Later this year we are extending the scheme with bespoke programmes for our armed forces' communities as well as to teenagers aged 16-18.

52 of our stores are now designated as Safe Spaces – places where those suffering domestic abuse can go to safely go to start the process of rebuilding their lives.

Our colleagues remain supportive of their local communities and have helped collect and donate thousands of items to local foodbanks. Colleagues have also volunteered to feed the homeless, care for abandoned dogs, walked up hill and down dale for charity, picked up litter, ran miles – sometimes over obstacle courses, celebrated Pride in London, Birmingham and Cardiff and even organised our first charity golf day.

We continue to provide support to our customers who are struggling and during the year we signed up to the government's recently announced Mortgage Charter.

I'm also delighted that Metro Bank has become the first ever champion partner of women's and girls' cricket. It represents a real partnership with purpose built on Metro Bank's commitments to local communities and diversity and inclusion and will help to deliver a lasting legacy for women's and girls' cricket.

Capital

I am pleased to say that in the first half of 2023, our return to profitability and our strategic management of risk-weighted assets (RWAs) both supported organic capital accretion. Whilst we continue to operate in capital buffers, we remain in close dialogue with the regulators regarding our future plans and also the ongoing work relating to our AIRB application.

The regulators remain supportive and on 1 January 2023 the Prudential Regulation Authority (PRA) reduced our Pillar 2A capital requirement from 0.50% to 0.36%. This was followed by a further extension to the pre-existing adjustment (announced 9 December 2022) with respect to the existing £250 million 9.139% Tier 2 Notes issued by Metro Bank PLC regarding minimum requirement for own funds and eligible liabilities (MREL) eligibility. The Bank of England's Resolution Directorate has agreed the adjustment now extends the MREL eligibility to the instrument's maturity date on 26 June 2028.

On 5 July 2023, however, the scheduled increase in the Bank of England's Countercyclical Buffer (CCyB) came into effect, increasing the level from 1% to 2%. Accordingly, our Tier 1 requirement, including the combined public buffers, increased from 9.8% to 10.8% and we are therefore now operating within buffers for Tier 1 capital as well as MREL, however we remain above all of our minimum capital requirements.

We continue to consider all options, across the capital stack, that could strengthen our capital base.

Outlook

Over the past few years we have built a stable business foundation, fixing issues of the past whilst positioning ourselves for the future. I am pleased our return to profitability in the first six months, the first since our transformation plan completed, demonstrates that our approach is working. We have delivered this despite challenging headwinds and I would like to acknowledge the dedication and unwavering hard work of each and every colleague who has helped us to get where we are today.

Our proposition continues to resonate with customers and is providing a force for good in UK banking. We have created the infrastructure and capability to enable us to provide a differentiated customer offering as well as meaningful alternative to further communities in the years ahead.

Daniel Frumkin
Chief Executive Officer
31 July 2023

Finance review

Our results for the first six months of 2023 mark an important milestone in our journey, as we report our first full half year of profitability since 2019. The statutory profit before tax of £15.4 million (half year to 31 December 2022: loss of £10.5 million; half year to 30 June 2022: loss of £60.2 million) reflects the improved performance of the business, driven by the actions taken as part of the turnaround plan and more recent measures to optimise the return on the balance sheet and mitigate the impact of cost inflation.

The Bank's return to profitability, combined with a reduction in RWAs, supported our capital ratios in the first half, although were impacted by a step down in the IFRS 9 transition relief on 1 January 2023. We ended the period with CET1 capital ratio of 10.4% and an MREL ratio of 18.1%. These compared to the regulatory minima including buffers as at 30 June 2023 (excluding any confidential buffer) of 8.2% for CET1 and 20.2% for MREL. We therefore continue to operate within our capital buffers, although remained above regulatory minima throughout the period.

The underlying business has continued to attract new customers, totalling 129,000 new business and personal current accounts in the first half of the year. This inflow of new customers has partially offset the market-wide reduction in average current account balances. We have started to see our deposits stabilise with increases in balances in June and July partially offsetting the outflows seen earlier in the year, aided by our return to the fixed-term deposit market.

Whilst the performance for the first six months of the year is positive, we remain cautious given the continued volatile external economic conditions, the impact of inflation on cost of living and the increasingly competitive deposit market as interest rates rise.

Income statement review

Net interest income

The continued increase in base rate over the past 18 months has driven growth in net interest income, which rose to £221.5 million, up 23% compared to a year ago (half year to 30 June 2022: £180.8 million) aided by a continued disciplined approach with respect to both pricing and mix. Half-on-half net interest income reduced marginally from £223.3 million, as a continued increase in asset yield was offset by increased deposit pricing, in part due to our decision to re-enter the fixed term deposit market, and the market-wide reduction in average current account balances. This trend was also reflected in muted net interest margin growth, which increased slightly to 2.14% half-on-half (half year to 31 December 2022: 2.11%; half year to 30 June 2022: 1.73%).

The Bank of England base rate rises in the period have flowed through to our front book loan pricing and variable rate lending. This has driven an increase in interest income both year-on-year and half-on-half to £400.1 million (half year to 31 December 2022: £324.0 million; half year to 30 June 2022: £239.7 million).

Table 1: Summary income statement

	Half year to 30 Jun 2023 (unaudited) £'million	Half year to 31 Dec 2022 (unaudited) £'million	Half year to 30 Jun 2022 (unaudited) £'million	Year-on-year change
Net interest income	221.5	223.3	180.8	23%
Net fee, commission and other income	64.1	63.7	55.7	15%
Net gains on sale of assets	0.8	-	-	n/a
Total income	286.4	287.0	236.5	21%
General operating expenses	(221.4)	(234.4)	(233.2)	(5%)
Depreciation and amortisation	(38.3)	(39.6)	(37.4)	2%
Impairment and write-off of PPE and intangible assets	-	(1.5)	(8.2)	(100%)
Expected credit loss expense	(11.3)	(22.0)	(17.9)	(37%)
Profit/(loss) before tax	15.4	(10.5)	(60.2)	(126%)
Taxation	(2.7)	(0.5)	(1.5)	80%
Profit/(loss) after tax	12.7	(11.0)	(61.7)	(121%)

As at 30 June 2023 91% of our retail mortgages were fixed rate (31 December 2022: 90%, 30 June 2022: 87%) with a weighted average life of 2.40 years before they reprice (31 December 2022: 2.45 years; 30 June 2022: 1.97 years).
In our consumer term lending and BBLS (closed to new borrowers) portfolios, all of the loans are fixed rate, limiting the impact of rising rates on these portfolios. As our fixed-rate lending rolls-off it will be replaced with higher-yielding loans. We therefore anticipate seeing continued interest income growth.

The rise in base rates has also partially flowed through to deposits, with cost of deposits increasing to 0.66% in the first six months of the year, up from 0.14% in the first half, and 0.25% in the second half of 2022. This increase has been driven in part by our return to the fixed-term deposit market as previously guided due to the market-wide decline in average balances.

Interest expense was £178.6 million in the period, up from £58.9 million in the first half of last year and £100.7 million in the six months to 31 December 2022. The rise in interest expense over the period also reflects the increase cost of wholesale funding, notably the amounts borrowed from the Bank of England under the Term Funding Scheme for SMEs. As the cost of this funding is directly linked to base rate it has increased significantly in the first half of the year to £78.0 million, compared to £13.1 million in the first half of last year and £42.4 million in the last six-month of 2022. We do not rely on this funding for operational activities and our lending remains entirely deposit funded. It does however provide an additional form of stable funding which, whilst dilutive to net interest margin, can be deployed into high quality floating rate securities or assets.

Finance review Continued

Fee, commission and other income

Statutory net fee, commission and other income has increased year-on-year to £64.1 million from £55.7 million and remained broadly flat from the last six months (half year to 31 December 2022: £63.7 million).

Service charges and other fee income increased year-on-year as we continue to see increasing customer activity through account acquisition, although growth slowed in comparison to the second half of the year as transaction volumes reduced, driven by a decline in consumer spending, resulting from cost-of-living pressures.

Operating expenses

Total statutory operating expenses decreased to £259.7 million from £278.8 million in the first six months of 2022 and from £275.5 million in the second half of 2022, reflecting our continued cost discipline despite high inflation conditions. The reduction also reflects a continued lessening in our use of contractors, leading to a reduction in our spend on professional fees. People-related costs at £120.4 million during the period were broadly flat compared to £119.9 million a year earlier and £116.7 million in the second half of 2022, despite delivering an average pay rise across our workforce of 5% in April 2023.

The reduction in statutory operating expense was aided by the reduction in non-underlying expenses as we completed our transformation program and closed outstanding legacy issues. Most of the non-underlying costs recognised during the period related to the implementation of our holding company in May this year and as such are not forecast to recur going forward.

Expected credit loss expense

We recognised an expected credit loss (ECL) expense of £11.3 million for the period (half year to 30 June 2022: £17.9 million; half year to 31 December 2022: £22.0 million). The ECL charge in the period reflects the challenging external economic conditions and the maturation of the loan books, offset by ECL releases from commercial repayments and management's actions to constrain lending growth. As part of our approach to calculating ECL we continue to maintain management overlays and adjustments of £24.1 million (31 December 2022: £30.9 million) which represent 12% of the total ECL stock (31 December 2022: 17%). As at 30 June 2023 our coverage ratio increased to 1.54% (31 December 2022: 1.41%).

Despite the challenging external conditions, we have recognised fewer individual impairments in the first six months of the year, particularly in the commercial space as customers remain resilient despite the economic environment and we have also seen repayments which have resulted in ECL releases in the period. We continue to have high levels of collateral with average debt to value for retail mortgages and commercial term loans as at 30 June of 58% and 55% respectively (31 December 2022: 56% and 55% respectively). Within our consumer lending portfolio, we undertake a robust approach to credit decisioning and have seen few signs of deterioration in credit quality. At a total level non-performing loans (NPLs) representing 2.86% of gross lending (31 December 2022: 2.65%).

Balance sheet review

Deposits

The Bank remains highly liquid and deposit funded. The Bank's loan to deposit ratio was 81% as at 30 June 2023 compared to 82% at the end of 2022. The Bank's deposit mix remains focused on core deposits (covering current and interest-bearing savings accounts), representing 92% of total deposits.

During the first six months of the year deposits reduced from £16,014 million to £15,529 million, primarily driven by a reduction in average account balances. This reduction reflects increased costs of living, including interest costs, paying down borrowing, as well as seasonal factors such as tax payments in January and a greater propensity to transfer surplus current account balances into higher yielding accounts.

Although average balances have reduced our core deposit franchise remains resilient to increased competition in the market and continues to attract new customers, opening 106,000 Personal Current Accounts and 23,000 Business Current Accounts in the first half. The more recent deposit trajectory has been positive with net inflows towards the end of the period.

As guided at the full year we have started to re-enter the fixed term deposit market, after several years of letting these balances reduce. As at 30 June 2023, fixed term deposits were £1,205 million (31 December 2022: £625 million) representing only 8% (31 December 2022: 4%) of total deposits. We intend to continue to gradually increase fixed term deposits as we introduce more tenure into our deposit profile.

During the period the Bank has invested in building out a competitive range of products for the current rate environment. This investment will improve our switching capabilities to better compete within the ISA market as well as offer a broader range of savings accounts including savings-boost propositions. Given earlier investment prioritisation elsewhere, our market share in these products is lower than for other core products and therefore represents an opportunity for growth.

Lending

As previously guided the Bank is actively constraining the new lending to around or below replacement levels. Accordingly, net lending decreased during the period to £12,572 million compared to £13,102 million at the end of 2022.

Gross commercial lending made up the largest component of the reduction, decreasing 9% to £3,768 million from £4,160 million at 31 December 2022. This reflects the continued reduction in the professional buy-to-let portfolio and commercial real estate portfolios which reduced by 13% from £1,412 million to £1,234 million in the period. We also continue to see a reduction in government-backed lending, which are closed to new borrowers, as these loans are paid back, with balances reducing from £1,313 million as at 31 December 2022 to £1,109 million at the end of June 2023.

Gross consumer lending reduced to £1,410 million (£1,480 million at 31 December 2022) Whilst the Bank has not sought to build the consumer lending portfolio during the period, it remains an important product area through the cycle and we continue to build out the breadth of our offering including through the launch of a new motor finance proposition towards the end of 2022.

Finance review Continued

Gross mortgage balances also reduced slightly to £7,591 million from £7,649 million at 31 December 2022 as originations were kept broadly in line with repayments. Our retail mortgage portfolio continues to be primarily focused on owner occupied loans. These make up 72% of balances at 30 June 2023 (31 December 2022: 72%) and continue to have a low loan to value profile. We continue to progress our AIRB application in respect of our retail mortgages portfolio.

Property, plant & equipment and intangibles

Non-current assets and intangible asset balances continued to decrease during the period as depreciation and amortisation charges exceeded the level of additions. Property plant and equipment ended the first half of the year at £733 million, down from £748 million at year end, as we did not open any additional stores in the period. Stores remain core to our service offering and we continue to evaluate a pipeline of sites to deliver on our commitment of 11 new stores in the North of England, which we expected to open in 2024 and 2025, expanding our reach into new markets.

Intangible assets also continued to decrease to £207 million from £216 million as at 31 December 2022, reflecting how we have reduced the levels of investment from the peaks during the turnaround period. Alongside key regulatory enhancement projects we have invested more recently in our deposit proposition as well as enhancing our core service offering, which includes the delivery of confirmation of payee which was launched in July 2023, enhanced business overdrafts which are delivered entirely electronically and the roll out of our new mortgage platform.

Table 2: Summary balance sheet

	30 Jun 2023 (unaudited) £'million	31 Dec 2022 (audited) £'million	Change
Assets			
Cash and balances with the Bank of England	2,708	1,956	38%
Loans and advances to customers	12,572	13,102	(4%)
Investment securities held at FVOCI	489	571	(14%)
Investment securities held at amortised cost	4,826	5,343	(10%)
Financial assets held at FVTPL	1	1	-
Derivative financial assets	26	23	13%
Property, plant and equipment	733	748	(2%)
Intangible assets	207	216	(4%)
Prepayments and accrued income	107	85	26%
Other assets	78	74	5%
Total assets	21,747	22,119	(2%)
Liabilities			
Deposits from customers	15,529	16,014	(3%)
Deposits from central banks	3,800	3,800	-
Debt securities	573	571	-
Repurchase agreements	363	238	53%
Derivative financial liabilities	25	26	(4%)
Lease liabilities	238	248	(4%)
Deferred grant	17	17	-
Provisions	5	7	(29%)
Deferred tax liability	12	12	-
Other liabilities	215	230	(7%)
Total liabilities	20,777	21,163	(2%)
Total equity	970	956	1%

Capital

Our return to profitability in the first half of the year combined with moderated asset origination, and therefore moderated RWA deployment, has seen us generate organic capital through the period. Risk weighted assets ended the period at £7,802 million, a reduction of 2% from £7,990 million as at 31 December 2022. The reduction has been driven by a decrease in lending volumes partly offset by an increase to our annual operational risk adjustment.

The MREL requirement of 16.7% reflects the reduction of our Pillar 2A requirements from 0.50% to 0.36%, from the 1 January 2023, and the decision by the Bank of England to set our binding MREL requirement as the lower of 18% and two times the sum of Pillar 1 and Pillar 2A, which were announced in June 2022.

On 5 July 2023 the scheduled increase in the CCyB came into effect, increasing the level from 1% to 2%. Accordingly, the Bank's Tier 1 requirement, including the combined public buffers, increased from 9.8% to 10.8%. The Bank's Tier 1 ratio as at 30 June 2023 (including profits) was 10.4% and we are therefore now operating within buffers for Tier 1 capital as well as MREL, however the Bank remains above all of its minimum capital requirements.

Finance review Continued

Table 3: Capital ratios and requirements

	30 Jun 2023 (unaudited) £'million	Minimum requirement excluding buffers[1]	Minimum requirement including buffers[1]
CET1	10.4%	4.7%	8.2%
Tier 1	10.4%	6.3%	9.8%
Total regulatory capital	13.2%	8.4%	11.9%
Total regulatory capital plus MREL	18.1%	16.7%	20.2%

1. Excluding any confidential buffer, where applicable. Countercyclical buffer increased by 1% to 2% on 5 July 2023

In May we completed the implementation of our holding company marking an important milestone in meeting our requirements in respect of the Bank of England's resolution framework. Upon the implementation of the holding company our existing MREL debt moved up to sit within the new holding company entity. This consists of £350 million of 9.5% Senior Non preferred notes which have a call date on 8 October 2024. The Board continues to review our options, across the capital stack, to strengthen our capital base, including the refinancing of this MREL debt.

Our Tier 2 notes however have remained within the existing banking entity (Metro Bank PLC), although following the agreement by the Bank of England's Resolution Directorate on 28 July 2023, these will continue to contribute to our MREL requirements up until their maturity on 26 June 2028. The Tier 2 notes had a call date during the first six months of the year and we took the decision not to exercise this. As a result the coupon on this instrument reset from 5.500% to 9.139%. By not calling the notes their Tier 2 eligibility will amortise over their remaining life at a rate of 20% each year, calculated on a daily basis. Following the insertion of the new holding company, these notes are also now subject to a haircut at the Group level.

Liquidity and wholesale funding

We continue to maintain strong levels of liquidity. We ended 30 June 2023 with a Liquidity Coverage Ratio (LCR) of 214% (31 December 2022: 213%) which continues to be significantly in excess of the regulatory requirements of 100%.

We remain primarily deposit funded with our loan to deposit ratio at the 30 June 2023 being 81% (31 December 2022: 82%). Whilst we utilise wholesale funding in the form of the Bank of England's Term Funding Scheme (TFSME) and repurchase agreements, these act as additional stable forms of funding and liquidity.

As at 30 June 2023 the Bank held £2,708 million in cash and balances at the Bank of England (31 December 2022: £1,956 million) with a further £5,315 million in high quality investment securities (31 December 2022: £5,914 million), which nearly all are AAA rated or are UK Gilts. Of our total investment securities £4,826 million, 91% are held at amortised cost (31 December 2022 £5,343 million; 90%). Given the rising rate environment the fair value of these securities is £4,502 million (31 December 2022: £5,009 million). As we have no intention to sell these securities, their fair value will pull back to carrying value as they approach maturity.

The weighted-average repricing duration on the portfolio (excluding cash) is 1.1 years and virtually all the securities are Bank of England eligible so are available for entering into repurchase agreements, should we need additional liquidity. The remaining £489 million of our investment securities are held at fair value and therefore market movements on these assets are already reflected in our reserves and capital ratios.

Going concern and outlook

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

Given the Bank's year to date performance and taking account of the external environment, we reiterate the guidance that we are targeting mid-single digit return on tangible equity by 2024.

James Hopkinson
Chief Financial Officer
31 July 2023

Risk review

As at 30 June 2023, our business model, risk management framework and risk appetites remain consistent with our 2022 Annual Report and Accounts. The key risks we face (our 'principal risks') are unchanged:

Credit risk The risk of financial loss should our borrowers or counterparties fail to fulfil their contractual obligations in full and on time.	**Capital risk** The risk that we fail to meet minimum regulatory capital (and MREL) requirements.	**Financial crime risk** The risk of financial loss or reputational damage due to regulatory fines, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to comply with prevailing legal and regulatory requirements relating to financial crime.	**Operational risk** The risk that events arising from inadequate or failed internal processes, people and systems, or from external events cause regulatory censure, reputational damage, financial loss, service disruption and/or detriment to our customers.
Regulatory risk The risk of regulatory sanction, financial loss and reputational damage as a result of failing to comply with relevant regulatory requirements.	**Conduct risk** The risk that our behaviours or actions result in unfair outcomes or detriment to customers and/or undermines market integrity.	**Strategic risk** The risk of having an insufficiently defined, flawed or poorly implemented strategy, a strategy that does not adapt to political, environmental, business and other developments and/or a strategy that does not meet the requirements and expectations of our stakeholders.	**Model risk** The risk of potential loss and regulatory non-compliance due to decisions that could be principally based on the output of models, due to errors in the development, implementation, or use of such models.
Liquidity and funding risk Liquidity risk is the risk that we fail to meet our obligations as they fall due. Funding Risk is the risk that we cannot fund assets that are difficult to monetise at short notice (i.e. illiquid assets) with funding that is behaviourally or contractually long-term (i.e. stable funding).	**Market risk** The risk of loss arising from movements in market prices. Market risk is the risk posed to earnings, economic value or capital that arises from changes in interest rates, market prices or foreign exchange rates.	**Legal risk** The risk of loss, including to reputation that can result from lack of awareness or misunderstanding of, ambiguity in or reckless indifference to, the way law applies to the Directors, the business, its relationships, processes, products and services.	

We continue to actively monitor and regularly reassess our exposure to each of these risks, with particular focus on those that could result in events or circumstances that might harm our customers, threaten our business model, solvency or liquidity, and reputation.

Top risks

Our top risks are defined as risks which are considered to be the most material to the Bank with the potential for the greatest impact during the forthcoming 12 months and currently consist of:

- Macroeconomic risk (credit risk)
- Capital risk
- Financial crime risk
- Regulatory risk
- Technology risk

Further information on our top and emerging risks are outlined on pages 12 to 18.

Risk review Continued

Credit risk

Credit portfolio performance has remained resilient during the first half of 2023 despite a challenging external environment for our customers. Notwithstanding the recent increases in market expectations for interest rates, the overall macroeconomic outlook has improved since the end of 2022. The overall impact of risk profile, credit performance and macroeconomic outlook has resulted in a cost of risk of 0.18% (six months to 31 December 22: 0.33%).

Expected credit losses

Table 4: Expected credit loss allowances

	30 Jun 2023 £'million	31 Dec 2022 £'million	Change £'million
Retail mortgages	21	20	1
Consumer lending	93	75	18
Commercial lending	83	92	(9)
Total expected credit loss allowances	197	187	10

ECL have increased during the year by £10 million to £197 million (31 December 2022: £187 million) predominantly driven by maturation of the consumer portfolio, offset by repayments in commercial and improvements in macroeconomic scenarios. As part of our ECL we continue to hold overlays to reflect the continued macroeconomic uncertainty given the high inflation and cost of living pressures as well as anticipated interest rate increases not fully captured in the latest macroeconomic scenarios and IFRS 9 models.

Non-performing loans

NPLs increased to £365 million (31 December 2022: £352 million) with the overall NPL ratio increasing to 2.86% (31 December 2022: 2.65%). The NPL ratio for mortgages has increased to 1.83% (31 December 2022: 1.45%), driven largely by our legacy acquired mortgage portfolios. These portfolios were not written under our organic credit criteria, and we have seen poorer arrears performance, exacerbated in the recent period as these have on average poorer risk scores and are more likely to be on a variable rate. The NPL ratio for consumer customers has increased to 4.82% (31 December 2022: 3.38%) driven by the maturation of the RateSetter loans portfolio. The NPL ratio for Commercial has reduced to 4.19% (31 December 2022: 4.59%) driven by successful BBLS claims and repayments as well as the write-off of a small number of large commercial exposures.

Table 5: Non-performing loans

	30 Jun 2023 (unaudited)		31 Dec 2022 (unaudited)	
	NPLs £'million	NPL ratio %	NPLs £'million	NPL ratio %
Retail mortgages	139	1.83%	111	1.45%
Consumer lending	68	4.82%	50	3.38%
Commercial lending	158	4.19%	191	4.59%
Total	365	2.86%	352	2.65%

Cost of risk

The change in overall cost of risk is primarily driven by increased ECL for consumer lending (resulting from maturation of this portfolio) which now equates to 11% of our total lending (31 December 2022: 11%) and carries a higher cost of risk than retail mortgages and commercial. As at the 30 June 2023 our coverage ratio on our consumer lending portfolio stood at 6.60%, up from 5.07% as the year-end. The cost of risk for retail mortgages has remained flat. The cost of risk for commercial has reduced due to improvements in macroeconomic scenarios and repayments of a small number of large commercial exposures.

Table 6: Cost of risk and coverage ratios

	Cost of risk		Coverage ratio	
	Half year to 30 Jun 2023 (unaudited) %	Full year 31 Dec 2022 (unaudited) %	30 Jun 2023 (unaudited) %	31 Dec 2022 (unaudited) %
Retail mortgages	0.02%	0.02%	0.28%	0.26%
Consumer lending	2.95%	2.26%	6.60%	5.07%
Commercial lending	(0.52%)	0.11%	2.20%	2.21%
Cost of risk	0.18%	0.32%	1.54%	1.41%

Stage 2 balances

Stage 2 balances are identified using quantitative and qualitative tests that determine the significant increase in credit risk (SICR) criteria. In addition, customers that trigger the 30 days back stop classification are also reported in Stage 2, in line with IFRS 9 standards.

Stage 2 balances have decreased in the first half of 2023, with the quantitative SICR criteria continuing to be the primary driver and improvements in macroeconomic outlook resulting in customers no longer triggering SICR and transferring back to Stage 1. Marginal decreases in Stage 2 balances have also been observed in the qualitative and 30 days past due backstop criteria. As at 30 June 2023, 87% (31 December 2022: 88%) of Stage 2 balances triggered quantitative SICR criteria, 10% (31 December 2022: 9%) triggered qualitative SICR and the remaining 3% (31 December 2022: 3%) triggered the 30 days past due backstop criteria.

Table 7: Stage 2 balances[1]

	30 Jun 2023 (unaudited)		31 Dec 2022 (unaudited)	
	Gross carrying amount £'million	Loss allowance £'million	Gross carrying amount £'million	Loss allowance £'million
Quantitative	1,414	36	1,845	38
Qualitative	160	5	189	7
30 days past due backstop	51	6	54	6
Total Stage 2	1,625	47	2,088	51

1. Where an account satisfies more than one of the Stage 2 criteria above, the gross carrying amount and loss allowance has been assigned in the order presented. For example, an account that triggers both Quantitative and Qualitative SICR criteria will only be reported as Quantitative SICR.

Risk review Continued

Credit risk exposure by internal PD rating
The migration observed across bandings, in particular band 1, is primarily driven by the improvement in macroeconomic scenarios feeding through the IFRS 9 models resulting in customers moving to lower PD bands.

Table 8: Credit risk exposure, by IFRS 9 12-month PD[1] rating and stage allocation

		30 Jun 2023 (unaudited)								
		Gross lending £'million				Loss allowance £'million				
	PD Range %	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Coverage ratio
Band 1	0.00 – 2.99	8,937	380	-	9,317	33	3	-	36	0.39%
Band 2	3.00 – 16.99	1,346	994	-	2,340	27	25	-	52	2.22%
Band 3	17.00 - 99.99	496	251	-	747	1	19	-	20	2.68%
Band 4	100	-	-	365	365	-	-	89	89	24.38%
Total		10,779	1,625	365	12,769	61	47	89	197	1.54%

		31 Dec 2022 (unaudited)								
		Gross lending £'million				Loss allowance £'million				
	PD Range %	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Coverage ratio
Band 1	0.00 – 2.99	8,042	549	-	8,591	32	5	-	37	0.43%
Band 2	3.00 – 16.99	2,209	1,313	-	3,522	33	29	-	62	1.76%
Band 3	17.00 - 99.99	598	226	-	824	1	17	-	18	2.18%
Band 4	100	-	-	352	352	-	-	70	70	19.99%
Total		10,849	2,088	352	13,289	66	51	70	187	1.41%

1. IFRS 9 12-month PD excludes post model overlays (PMO).

Risk review Continued

Retail mortgage lending
Mortgage balances have been broadly stable in the first six months of 2023 at £7,591 million (31 December 2022: £7,649 million) with modest organic book growth offsetting the run-off of our back book portfolios.

Despite the challenging economic environment, the credit performance of the portfolio during the first half of 2023 has remained broadly stable. Debt-to-value (DTV) has increased by 2% to 58% as at 30 June 2023 (31 December 2022: 56%) as a result of falling house prices. Early arrears cases (one to less than three months in arrears) have remained stable at 0.63% at 30 June 2023 (31 December 2022: 0.63%). Accounts that are three or more months in arrears have increased from 0.73% at 31 December 2022 to 0.91% at 30 June 2023, mainly driven by increases in arrears in the legacy acquired portfolios that are in run-off and have greater sensitivity to interest rate rises.

Loan-to-value has been restricted to <=90% resulting in a small reduction in average loan-to-value for new lending (30 June 2023: 67%; 31 December 2022: 68%).

Table 9: Residential mortgage lending by repayment type

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Interest only	1,936	1,998	3,934	2,005	2,047	4,052
Capital and repayment	3,565	92	3,657	3,502	95	3,597
Total	5,501	2,090	7,591	5,507	2,142	7,649

Table 10: Retail mortgage lending by DTV banding

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Less than 50%	1,853	453	2,306	2,007	568	2,575
51-60%	875	386	1,261	961	463	1,424
61-70%	1,078	633	1,711	1,088	660	1,748
71-80%	1,037	595	1,632	990	434	1,424
81-90%	517	23	540	374	13	387
91-100%	141	-	141	87	-	87
More than 100%	-	-	-	-	4	4
Total	5,501	2,090	7,591	5,507	2,142	7,649

All of our loan exposures which are secured on property are secured on UK-based assets. Our current retail mortgages portfolio is concentrated within London and the South-East, which is representative of our original customer base and store footprint.

Table 11: Residential mortgage lending by geographic exposure

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Greater London	1,937	1,167	3,104	1,937	1,201	3,138
South East	1,442	401	1,843	1,435	408	1,843
East of England	531	158	689	531	163	694
South West	463	93	556	476	99	575
North West	256	68	324	263	68	331
West Midlands	231	76	307	226	76	302
East Midlands	172	54	226	168	54	222
Yorkshire and the Humber	180	34	214	184	34	218
Scotland	121	12	133	115	11	126
Wales	107	18	125	109	18	127
North East	61	9	70	63	10	73
Total	5,501	2,090	7,591	5,507	2,142	7,649

Consumer lending
Consumer balances have reduced to £1,410 million as at 30 June 2023 (31 December 2022: £1,480 million). The portfolio is now comprised 95% of lending through the RateSetter brand, including £5 million in secured motor originations, with the remaining of the portfolio being £45 million of overdrafts and £23 million of credit cards. The performance of this portfolio is aligned with expectations with continual enhancements being performed in relation to the affordability and creditworthiness assessment in light of the economic environment. Increases in arrears and non-performing loans have been observed but are in line with the growth of the book as well as historical cohorts and our internal forecasts.

The total ECL coverage position for consumer has increased to 6.6% as a result of the continued maturation of the portfolio and a post model overlay to reflect the uncertainty due to high inflation (31 December 2022: 5.1%).

Commercial lending
Our commercial lending remains largely comprised of term loans secured against property and government supported lending. In addition, commercial lending includes facilities secured by other forms of collateral (such as debentures and guarantees) as well as asset and invoice financing.

Our commercial balances have decreased from £4,160 million to £3,768 million in the first six months of 2023. This reflects the business strategy to reduce our professional buy to let and real estate lending, and run-offs in government supported lending.

Our commercial real estate book covers property investment lending against both residential and commercial property, with repayment reliant on rental income from the underlying property. As at 30 June 2023 35% of the book is covered by residential property, 20% by retail property and 18% by offices. The average DTV for our commercial real estate loans is 45%, unchanged from 31 December 2022 (31 December 2022: 45%).

Risk review Continued

Commercial customers are managed through an early warning categorisation where there are early signs of financial difficulty, thereby allowing timely engagement and appropriate corrective action to be taken. Early Warning categories support our IFRS 9 stage classification. Total lending in Early Warning categories has remained broadly flat since December 2022, However, some deterioration within early warning categories has been observed. Close customer management is key to identify issues and supporting our customers.

Table 12: Commercial term lending (exc. BBLS) by DTV banding

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Less than 50%	210	790	1,000	278	817	1,095
51-60%	110	340	450	158	433	591
61-70%	135	138	273	219	112	331
71-80%	95	90	185	62	76	138
81-90%	56	29	85	3	53	56
91-100%	6	32	38	5	12	17
More than 100%	3	502	505	6	587	593
Total	615	1,921	2,536	731	2,090	2,821

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

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Real estate (rent, buy and sell)	615	619	1,234	731	681	1,412
Hospitality	-	346	346	-	372	372
Health & Social Work	-	327	327	-	334	334
Legal, Accountancy & Consultancy	-	170	170	-	196	196
Retail	-	147	147	-	161	161
Recreation, cultural and sport	-	76	76	-	62	62
Construction	-	50	50	-	87	87
Education	-	21	21	-	9	9
Investment and unit trusts	-	11	11	-	17	17
Real estate (development)	-	10	10	-	11	11
Real estate (management of)	-	7	7	-	6	6
Other	-	137	137	-	154	154
Total	615	1,921	2,536	731	2,090	2,821

As of 30 June 2023, 75% of our commercial term lending (excluding BBLS) had a DTV of 80% or less (31 December 2022: 76%), reflecting the prudent risk appetite historically applied. Lending with DTV >100% includes loans which benefit from additional forms of collateral, such as debentures. The value of this additional collateral is not included in the DTV but does provide an additional level of credit risk mitigation. DTV >100% also includes government backed lending where the facility does not also benefit from property collateral. The decrease in DTV>100% in 2023 reflects a reduction in government backed lending.

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

The sector profile for commercial term lending is broadly consistent with the position as at 31 December 2022. There has been an overall reduction in commercial real estate of 13%.

Table 14: Commercial term lending (exc. BBLS) by repayment type

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Interest only	577	221	798	691	253	944
Capital and repayment	38	1,700	1,738	40	1,837	1,877
Total	615	1,921	2,536	731	2,090	2,821

Table 15: Commercial term lending (exc. BBLS) by geographic exposure

	30 Jun 2023 (unaudited)			31 Dec 2022 (audited)		
	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Greater London	394	933	1,327	472	1,052	1,524
South East	124	365	489	149	377	526
East of England	42	140	182	45	147	192
North West	11	144	155	13	153	166
South West	18	122	140	22	143	165
West Midlands	7	105	112	8	112	120
East Midlands	10	43	53	12	43	55
Yorkshire and the Humber	2	22	24	3	23	26
North East	3	21	24	3	19	22
Wales	3	13	16	3	11	14
Scotland	-	8	8	-	7	7
Northern Ireland	1	5	6	1	3	4
Total	615	1,921	2,536	731	2,090	2,821

Risk review Continued

Capital risk
Capital remains the largest constraint on the business as we continue to operate within our publicly disclosed MREL buffers and expect to continue to do so for a further period of time. Our return to profit in the first half of the year combined with a slight reduction in RWAs has seen us generate organic capital growth between 1 January and 30 June 2023. As a result we have seen increases across our regulatory ratios compared to 31 December 2022 except for total capital following the haircut to Tier 2 arising from implementation of our holding company in May. These increases are notwithstanding the step down of IFRS 9 transitional relief on 1 January 2023.

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

As at 30 June 2023 our CET1, Tier 1 and MREL requirements were 4.7%, 6.3% and 16.7%, respectively (excluding buffers). Further details of which can be found in the finance review section above.

On 5 July 2023 the CCyB rate increased from 1% to 2%. The increase in the CCyB means we do not have sufficient CET1 resources to meet the Combined Buffer Requirement for Tier 1. This subjects the Bank to maximum distributable amount (MDA) restrictions in the PRA Rulebook, which limit the ability of the Bank to make certain payments, including dividends on ordinary shares and coupon payments on Additional Tier 1 instruments as well as other cash/ bonus payments. As we do not currently have any AT1-eligible instruments and have no imminent plans to make dividend payments on our ordinary shares there are minimal implications resulting from this, other than it acting as a limit on the level of variable remuneration we can pay colleagues.

As set out in the finance review section, in May 2023, we implemented our new holding company, Metro Bank Holdings PLC, which became the new listed entity in order to meet the Bank of England's resolution requirements of having a single point of entry for the purposes of resolution. There are no changes to our capital requirements as a result of the holding company insertion other than that our main capital requirements will now be monitored at the new Group level.

As Metro Bank Holdings PLC is a clean holding company, it will primarily hold the Group's external debt and equity and as such there are limited impacts from its insertion, although the Tier 2 resources which continue to be held at the level of Metro Bank PLC are now subject to a haircut at the level of the Group.

As part of the holding company insertion we undertook a process to create distributable reserves within both Metro Bank PLC and Metro Bank Holdings PLC in line with the Companies Act 2006. The creation of distributable reserves will allow us to issue and pay dividends on instruments including AT1 in the future (providing the MDA restrictions do not apply at the point of payment).

Risk-weighted assets
Risk weighted assets ended the period at £7,802 million down from £7,990 million as at 31 December 2022. The reduction has been driven by a decrease in lending volumes partly offset by an increase to our annual operational risk adjustment.

The increase in base rates over the period has allowed us to redeploy capital into low risk-weighted investment securities and zero risk-weighted deposits at the Bank of England. These provide a strong return on regulatory capital, especially given limited capital availability, which constrains our ability to increase lending on less risk weight efficient assets. We continue to progress our AIRB application in respect of our retail mortgages.

We are also continuing to work through the implications of the implementation of Basel 3.1 on which the PRA published its consultation at the end of November 2022.

Table 16: Capital resources

	30 Jun 2023 (unaudited) £'million	31 Dec 2022 (audited) £'million
Ordinary share capital	-	-
Share premium	-	1,964
Retained earnings	962	(1,015)
Other reserves	8	7
Intangible assets	(207)	(216)
Other regulatory adjustments	50	79
Total Tier 1 capital (CET1)	813	819
Debt securities (Tier 2)	217	250
Total Tier 2 capital	217	250
Total regulatory capital	1,030	1,069

Financial Crime Risk
Metro Bank maintains its low appetite for customer relationships or activity that poses a high financial crime risk and has no appetite for customer relationships or activity that violate our sanctions obligations. We continue to invest in our systems and controls as part of ongoing efforts to embed the Financial Crime Framework throughout the Bank. This includes activity to managing our ongoing sanctions compliance associated with the conflict in Ukraine. The skills and capability of our colleagues to prevent and detect financial crime continues to be a key focus, with formal training delivered to all colleagues and robust consequence management measures in place.

Risk review Continued

Regulatory risk
Progress continues to be made on key regulatory initiatives, including embedding customer-centric enhancements in response to the new Consumer Duty requirements and other key developments including Basel 3.1 and the revised UK Corporate Governance Code. Our risk appetite remains unchanged and subject to active oversight through targeted risk metrics that are calibrated to reflect regulatory priorities. The Bank's regulatory risk framework and supporting policies have been revalidated and we continue to maintain coordinated and proactive engagement with our key regulators.

Operational Risk
We continue to invest and improve our key technology capabilities that underpin the Bank's customer service proposition and maintain our operational resilience. The Bank's technology estate is continuously reviewed to ensure it remains fit for purpose and the first half of the year has included prioritisation of required updates, risk and performance reviews of our material third party technology providers and independent assessment of our technology resilience. We continue to patch and upgrade our systems and platforms and keep an open dialogue with our regulators on actual or potential disruption events.

Emerging risks
We consider emerging risks to be evolving threats which cannot yet be fully quantified, with the potential to significantly impact our strategy, financial performance, operational resilience and/or reputation. We keep our emerging risks under review, informed by a horizon scanning process, with escalation and reporting to the Risk Oversight Committee and Board as necessary.

The emerging risks reported in our 2022 Annual Report and Accounts have been updated below. As anticipated, the macroeconomic and geopolitical environment has been challenging through the first half of 2023 and this is forecast to continue for the remainder of the year. Rising interest rates are placing pressure on household finances and inflation remains high.

Considered as part of Technological Change, artificial intelligence has been included as an emerging risk to be monitored in light of the speed at which the threats and opportunities it offers are progressing.

Emerging risks	Description	Mitigating actions
Rapidly changing macroeconomic and geopolitical environment	The first half of 2023 has seen some deterioration in macroeconomic outcomes, with falls in property prices in particular. Recent higher than expected inflation has led to increases in market expectations for interest rates which is impacting on credit pricing. While it is anticipated that inflation will fall in 2023, levels are still likely to be high compared to recent history, adding to pressure on household finances and business costs. Alongside this, unemployment is forecast to rise, albeit from an historic low level, and house prices are predicated to continue falling back. The political and central bank response to these issues continues to evolve and the continued inflationary environment will likely see base rates continue to rise through the second half of 2023. There is a risk of further volatility within financial markets, particularly in respect of yields.	We continue to monitor economic and political developments in light of the ongoing uncertainty, considering potential consequences for our customers, products and operating model. We actively monitor our credit portfolios and undertake internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK. We continue to focus on affordability and cost of living assumptions for new lending, on back book monitoring, as well as focus on potential impacts on our customers. The latter includes pro-active engagement with vulnerable customers and those that are considered most at risk of payment difficulties prior to the emergence of arrears.
Cyber risk	Cyber attacks continue to grow in intensity and complexity, meaning that continuing to evolve our ability and methodologies used to safeguard the confidentiality, integrity and availability and our customers' information and services remains crucial.	We continue to invest in our cyber security and resilience capabilities in response to these rapidly evolving threats. Key areas of focus relate to access controls, network security, disruptive technology and the denial of service capability. We actively participate in the sharing of threat information with other organisations, helping to ensure the continued availability of our exceptional service offering while also making banking safer for all.

Risk review Continued

Emerging risks	Description	Mitigating actions
Technological change	Changes in the use of technology by our customers, along with rapid changes to technology provided by third parties, requires us to continually assess the need to upgrade our technology estate. This in turn drives increasing demands on our people and our ability to remain operationally resilient, in order to avoid causing harm to our customers. The rapid emergence of artificial intelligence into mainstream commercial and individual applications poses opportunities and threats that are currently being assessed.	We continue to review our use of technology to prioritise enhancements where required. We follow an Agile change methodology and remain focused on building out a strong digital offering. We are closely monitoring the emergence of artificial intelligence including the regulatory, legal and industry response to its application.
Regulatory change	The regulatory landscape continues to evolve with the requirement to respond to both prudential and conduct driven initiatives requiring ongoing prioritisation and implementation. Regulatory business plans and supervisory priorities are regularly assessed to identify emerging themes and ensure our control framework remains appropriate.	We continue to monitor the regulatory landscape for emerging regulatory initiatives and to identify potential impacts on our business model and ensure we are well placed to respond effectively to regulatory change. Regular monthly reporting on material regulatory change programmes ensures appropriate visibility and escalation where required.
Fraud risk	We are faced with an increasing volume and complexity of scams perpetrated on our customers by threat actors who continue to develop more sophisticated tactics to commit fraud. The uncertain economic environment may also result in increased fraud as companies and individuals struggle. This has resulted in increased regulatory expectations across the financial services industry.	We continue to enhance our approach to identifying and preventing potential fraud and are proactive in educating our customers and colleagues in fraud prevention measures, alerting them to changes in the threat landscape as they occur.
Environment, social and governance (ESG) risk	There remain significant uncertainties around the time horizon over which climate risks will materialise, as well as the exact nature and impact of climate change on our strategy, performance and operating model. There are also risks associated with changing societal and political requirements from a wide range of stakeholders to which our risk and governance frameworks must evolve responses.	Our ESG working groups and steering committee meet regularly to ensure our responses to emerging ESG risks are continually enhanced. We continue to focus on sustainability in all forms and take an ethical approach to doing business, remaining committed to the communities we serve.

Statement of Directors' responsibilities

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

- An indication of important events that have occurred during the first six months ended 30 June 2023 and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months ended 30 June 2023 and any material changes in the related-party transactions described in the last annual report.

Signed on its behalf by:

Daniel Frumkin
Chief Executive Officer

James Hopkinson
Chief Financial Officer

Robert Sharpe
Chair

Independent review report to Metro Bank Holdings PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Metro Bank Holdings PLC's condensed consolidated interim financial statements (the "interim financial statements") in the interim report of Metro Bank Holdings PLC for the 6 month period ended 30 June 2023 (the "period").

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

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2023;
- the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Basis for conclusion

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

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the interim report, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
31 July 2023

Condensed consolidated statement of comprehensive income (unaudited)

For the half year ended 30 June 2023

	Note	Half year to 30 Jun 2023	Half year to 31 Dec 2022	Half year to 30 Jun 2022
Interest income	2	400.1	324.0	239.7
Interest expense	2	(178.6)	(100.7)	(58.9)
Net interest income		221.5	223.3	180.8
Net fee and commission income		42.2	42.3	39.5
Net gains on sale of assets		0.8	-	-
Other income		21.9	21.4	16.2
Total income		286.4	287.0	236.5
General operating expenses	3	(221.4)	(234.4)	(233.2)
Depreciation and amortisation	7,8	(38.3)	(39.6)	(37.4)
Impairment and write-offs of PPE and intangible assets	7,8	-	(1.5)	(8.2)
Total operating expenses		(259.7)	(275.5)	(278.8)
Expected credit loss expense		(11.3)	(22.0)	(17.9)
Profit/(loss) before tax		15.4	(10.5)	(60.2)
Tax expense	5	(2.7)	(0.5)	(1.5)
Profit/(loss) for the period		12.7	(11.0)	(61.7)
Other comprehensive expense for the period				
Items which will be reclassified subsequently to profit or loss where specific conditions are met:				
Movements in respect of investment securities held at fair value through other comprehensive income (net of tax):				
- changes in fair value		(0.9)	(0.9)	(6.7)
Total other comprehensive expense		(0.9)	(0.9)	(6.7)
Total comprehensive income/(loss) for the period		11.8	(11.9)	(68.4)
Earnings per share				
Basic earnings per share (pence)	13	7.4	(6.4)	(35.8)
Diluted earnings per share (pence)	13	7.1	(6.4)	(35.8)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated balance sheet (unaudited)

As at 30 June 2023

	Note	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Assets				
Cash and balances with the Bank of England		2,708	1,956	2,862
Loans and advances to customers	6	12,572	13,102	12,364
Investment securities held at FVOCI		489	571	781
Investment securities held at amortised cost		4,826	5,343	5,393
Financial assets held at fair value through profit and loss		1	1	2
Derivative financial assets[1]		26	23	11
Property, plant and equipment	7	733	748	749
Intangible assets	8	207	216	227
Prepayments and accrued income		107	85	80
Assets held for sale		-	1	-
Other assets		78	73	97
Total assets		21,747	22,119	22,566
Liabilities				
Deposits from customers	9	15,529	16,014	16,514
Deposits from central banks		3,800	3,800	3,800
Debt securities	10	573	571	577
Repurchase agreements		363	238	166
Derivative financial liabilities[1]		25	26	19
Lease liabilities	11	238	248	264
Deferred grants		17	17	19
Provisions		5	7	14
Deferred tax liabilities	5	12	12	12
Other liabilities		215	230	212
Total liabilities		20,777	21,163	21,597
Equity				
Called up share capital	12	-	-	-
Share premium	12	-	1,964	1,964
Retained earnings		962	(1,015)	(1,004)
Other reserves		8	7	9
Total equity		970	956	969
Total equity and liabilities		21,747	22,119	22,566

1. Derivative financial assets and liabilities have been split out in the balance sheet as at 30 June 2022, having previously been presented on a net basis.

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 31 July 2023 and were signed on its behalf by:

Daniel Frumkin
Chief Executive Officer

James Hopkinson
Chief Financial Officer

Robert Sharpe
Chair

Condensed consolidated cash flow statement (unaudited)

For the half year ended 30 June 2023

	Note	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Reconciliation of profit/(loss) before tax to net cash flows from operating activities				
Profit/(loss) before tax		15	(11)	(60)
Adjustments for non-cash items		(173)	(157)	(116)
Interest received		392	318	235
Interest paid		(149)	(59)	(65)
Changes in other operating assets		502	(751)	(101)
Changes in other operating liabilities		(405)	(452)	34
Net cash inflows/(outflows) from operating activities[1]		182	(1,112)	(73)
Cash flows from investing activities				
Sales, redemptions and paydowns of investment securities		1,226	549	308
Purchase of investment securities		(627)	(291)	(915)
Purchase of property, plant and equipment	7	(5)	(28)	(1)
Purchase and development of intangible assets	8	(12)	(12)	(12)
Net cash inflows/(outflows) from investing activities		582	218	(620)
Cash flows from financing activities				
Repayment of capital element of leases	11	(12)	(12)	(13)
Net cash outflows from financing activities		(12)	(12)	(13)
Net increase/(decrease) in cash and cash equivalents		752	(906)	(706)
Cash and cash equivalents at start of period		1,956	2,862	3,568
Cash and cash equivalents at end of period		2,708	1,956	2,862

1. The presentation of the cash flows from operating activities for the period ended 30 June 2022 has been updated to align to the cashflow statement within the 2022 Annual Report and Accounts.

Non-cash items

The table below sets out the non-cash items included in profit/(loss) before tax which been adjusted for in the cash flow statements above.

	Note	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Interest income	2	(400)	(324)	(240)
Interest expense	2	179	101	59
Depreciation and amortisation	7,8	38	40	37
Impairment and write-off of property, plant equipment and intangible assets	7,8	-	2	8
Expected credit loss expense		11	22	18
Share option charge		2	-	2
Grant income recognised in the income statement		-	(2)	-
Amounts provided for (net of amounts released)		(2)	4	-
Gain on sale of assets		(1)	-	-
Total adjustment for non-cash items		(173)	(157)	(116)

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated statement of changes in equity (unaudited)

For the half year ended 30 June 2023

	Called-up Share capital £'million	Share Premium £'million	Merger reserve £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance at 1 Jan 2023	-	1,964	-	(1,015)	(13)	20	956
Profit for the period	-	-	-	13	-	-	13
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	-	-	-	-	(1)	-	(1)
Total comprehensive income	-	-	-	13	(1)	-	12
Net share option movements	-	-	-	-	-	2	2
Cancelation of Metro Bank PLC share capital and share premium[1]	-	(1,964)	-	1,964	-	-	-
Issuance of Metro Bank Holdings PLC share capital[1]	-	-	965	(965)	-	-	-
Bonus issuance	965	-	(965)	-	-	-	-
Capital reduction of Metro Bank Holdings PLC share capital	(965)	-	-	965	-	-	-
Balance at 30 Jun 2023	-	-	-	962	(14)	22	970
Balance at 1 Jul 2022	-	1,964	-	(1,004)	(11)	20	969
Loss for the period	-	-	-	(11)	-	-	(11)
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	-	-	-	-	(2)	-	(2)
Total comprehensive loss	-	-	-	(11)	(2)	-	(13)
Net share option movements	-	-	-	-	-	-	-
Balance at 31 Dec 2022	-	1,964	-	(1,015)	(13)	20	956
Balance at 1 Jan 2022	-	1,964	-	(942)	(5)	18	1,035
Loss for the period	-	-	-	(62)	-	-	(62)
Other comprehensive expense (net of tax) relating to investment securities designated at FVOCI	-	-	-	-	(6)	-	(6)
Total comprehensive loss	-	-	-	(62)	(6)	-	(68)
Net share option movements	-	-	-	-	-	2	2
Balance at 30 Jun 2022	-	1,964	-	(1,004)	(11)	20	969
Note	12	12					

1. The cancelled called up share capital of Metro Bank PLC and new share capital of Metro Bank Holdings PLC amount to £172 and as such have been rounded to £nil.

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies

1.1 General information

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

1.2 Basis of preparation

The condensed consolidated interim financial statements of Metro Bank Holdings PLC and its subsidiaries for the half year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Directors on 31 July 2023.

These condensed consolidated interim financial statements for the six months ended 30 June 2023 have been prepared in accordance with UK adopted International Accounting Standards (IAS 34 'Interim Financial Reporting') and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The comparative financial information as at and for the periods ending 31 December 2022 and 30 June 2022 do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the year ended 31 December 2022 has been delivered to the Registrar of Companies. These accounts are for Metro Bank PLC, the former listed entity and ultimate parent company of the Group up until 19 May 2023.

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

Insertion of Metro Bank Holdings PLC

To meet Bank of England's resolution requirements, on 19 May 2023, Metro Bank Holdings PLC was inserted as the new ultimate holding company and listed entity of the Group. Prior to this date Metro Bank PLC was both a banking entity and the ultimate parent company of the Group, but has subsequently become a 100% subsidiary of Metro Bank Holdings PLC. In addition to the insertion of a new holding company the Group undertook a reduction in capital to provide the Group with distributable reserves.

The insertion of Metro Bank Holdings PLC has been treated as a business combination under common control, with the Group controlled by the same parties both before and after the insertion. Combinations under common control are outside the scope of IFRS 3 'Business Combinations' and accordingly, the insertion has not been recognised at fair value and no goodwill or fair value acquisition adjustments have been recognised. The Group has instead applied predecessor accounting approach as this most faithfully represents the substance of the facts and circumstances of the series of transactions that comprise the insertion of Metro Bank Holdings PLC. This is on the basis that those transactions are not designed to deliver economic benefits, but represent a re-arrangement of the organisation of business activities across legal entities in order to be compliant with the relevant regulations.

In applying this approach, the Group has used the carrying amounts in Metro Bank PLC's consolidated financial statements at the date of transfer to determine the value of the assets and liabilities transferred. These financial statements are therefore prepared as if Metro Bank Holdings PLC had been the parent company throughout the current and prior years, to treat the new structure as if it has always been in place. Hedge accounting continues to be applied to the transferred designated hedge relationships as if they have originally been designated by the Group.

Further details on the insertion of Metro Bank Holdings PLC can be found in note 12.

Going concern

The Directors have adopted the going concern basis in preparing these condensed consolidated interim financial statements. This assessment has been reached after assessing our principal risks, which remain unchanged from those disclosed in the risk report of the 2022 Annual Report and Accounts. As with the assessment undertaken at the year end the Directors placed additional consideration of the risk that we may have insufficient capital given that we continue to utilise regulatory buffers.

In reaching their conclusion the Directors considered the performance over the period against our Long-Term Plan as well as the continued delivery of our strategy, an update on which is provided within the Business Review section of this report. As part of their assessment the Directors have considered a wide range of information relating to present and future conditions, including projected future profitability, and capital resources and requirements as well as liquidity. The Directors have prepared a 'severe but plausible' downside scenario which involves a significant deterioration in the economy and deposit outflows over a period of 12 months from the date of this report. In this scenario we fell below regulatory minima during the period at a total regulatory capital plus MREL level, prior to any assumed actions that could be taken. The Directors considered the actions that could reasonably be deployed should such a scenario materialise. This involved making reasonable adjustments to our operating plans. While these mitigating actions did not in of themselves constitute any additional risk, they would involve us operating in our capital buffers for longer than envisaged. These actions centred around cost reductions, reducing lending origination as well as not seeking to raise any further regulatory capital.

The Directors believe the Group to remain a going concern and has sufficient resources to be able to continue to operate for a period of at least 12 months from when the interim financial statements are authorised for issue. They have also concluded that there are no material uncertainties that could cast significant doubt over this assessment.

Although outside the going concern period of assessment, the Directors have also considered the refinancing of our £350 million senior non preferred note issuance which is MREL eligible and which has a call date in October 2024. In order to continue to meet its minimum capital requirements we will need to refinance this debt. The Directors consider this refinancing to be achievable at a satisfactory cost based on the Long-Term Plan and as such concluded this does not pose an additional risk to going concern.

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies Continued

Operating segments

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

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

Accounting policies

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2022.

1.3 Future accounting developments

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

1.4 Critical accounting judgements

In our 2022 Annual Report and Accounts we identified the following critical accounting judgements:

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

No new critical accounting judgements have been identified during the period.

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

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

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the probability of default (PD) over the remaining life of the financial instrument.

Stage	Description	ECL recognised
Stage 1	Financial assets that have had **no significant increase in credit risk** since initial recognition or that have low credit risk (high quality investment securities only) at the reporting date.	**12-month expected credit losses** Total losses expected on defaults which may occur within the next 12 months. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 2	Financial assets that have had a **significant increase in credit risk** since initial recognition but that do not have objective evidence of impairment. Financial instruments that are classified in Early Warning List 1 and 2 will be reported in Stage 2. The IFRS 9 standard also provides a rebuttable presumption which states that financial instruments falling 30 DPD due on contractually defined payments are to be considered as having deteriorated significantly since origination.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios.
Stage 3	Financial assets that are credit impaired at the reporting date. A financial asset is **credit impaired** when it has met the definition of default. We define default to have occurred when a loan is greater than 90 days past due (non-performing loan) or where the borrower is considered unlikely to pay, this includes customers who are categorised as Early Warning List 3.	**Lifetime expected credit losses** Losses expected on defaults which may occur at any point in a loan's lifetime. Losses are adjusted for probability-weighted macroeconomic scenarios. Interest income is calculated on the carrying amount of the loan net of credit allowance.
Purchased or originated credit impaired (POCI) assets	Financial assets that have been purchased and had **objective evidence of being 'non-performing' or 'credit impaired'** at the point of purchase.	**Lifetime expected credit losses** At initial recognition, POCI assets do not carry an impairment allowance. Lifetime expected credit losses are incorporated into the calculation of the asset's effective interest rate. Subsequent changes to the estimate of lifetime expected credit losses are recognised as a loss allowance.

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies Continued

The assessment for a Retail financial instrument compares the PD occurring at the reporting date to that at initial recognition, considering reasonable and supportable information, including information about past events, current conditions, and future economic conditions.

The assessment for a Commercial financial instrument is based on quantitative and qualitative assessment, including current and forecast financial performance, future economic conditions, and our internal credit risk rating grade.

In light of this classification, our stage allocation criteria must include:

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

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

- *Quantitative criteria* – where the numerically calculated probability of default on a Retail financial instrument has increased significantly since initial recognition. This is determined when the lifetime PD at observation is greater than the lifetime PD at origination by a portfolio specific threshold. Given the different nature of the products and the dissimilar level of lifetime PDs at origination, different thresholds are used by sub-products within each portfolio (term loans, revolving loan facilities and mortgages). The assessment for a Commercial financial instrument uses the internal credit risk rating grade. The Commercial approach recognises that historic credit rating grades are not available.
- *Qualitative criteria* – Early Warning List is used to inform allocation to Stage 2, regardless of the results of the quantitative analysis.
- *Backstop criteria* - instruments that are 30 days past due or more are allocated to Stage 2, regardless of the results of the quantitative and qualitative analysis.

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

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

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

PMAs and PMOs are defined as follows:

- *Post model adjustments* - refer to increases/decreases in ECL to address known model limitations, either in model methodology or model inputs. These rely on analysis of model inputs and parameters to determine the change required to improve model accuracy. These may be applied at an aggregated level however, they will usually be applied at account level.
- *Post model overlays* - reflect management judgement. These rely more heavily on expert judgement and will usually be applied at an aggregated level. For example, where recent changes in market and economic conditions have not yet been captured in the macroeconomic factor inputs to models (e.g., industry specific stress event).

Given the ongoing economic uncertainty we continue to maintain conservative levels of PMOs. The level of PMAs and PMOs has reduced during 2023 with the total percentage of ECL stock comprised of PMAs and PMOs reducing to 12% as at 30 June 2023 (31 December 2022: 17%).

PMAs totalling (£2.0 million) were in place as at 30 June 2023 (31 December 2022: £0.4 million). These negative PMAs are held in anticipation of IFRS 9 commercial models planned for implementation in the second half of 2023:

- IFRS 9 commercial unsecured LGD model (30 June 2023: (£0.9 million); 31 December 2022: £nil).
- IFRS 9 commercial revolving EAD model (30 June 2023: (£1.1 million); 31 December 2022: £nil).
- IFRS 9 retail mortgage secured LGD model (30 June 2023: £nil; 31 December 2022: £0.1 million).
- IFRS 9 commercial business loans lifetime PD model (30 June 2023: £nil; 31 December 2022: £0.3 million).

PMOs have been reassessed during the period to ensure an appropriate level of ECL to account for the high level of macroeconomic uncertainty, following the high inflation environment and cost of living pressures, and anticipated property price falls further exacerbated by the expected base rate increases.

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies Continued

PMOs made up £26.1 million of the ECL stock as at 30 June 2023 (31 December 2022: £30.5 million) and comprised:

- *High inflation environment and cost-of-living risks* – Management overlays were introduced in 2022 to reflect high inflation and cost of living pressures, which are not fully captured through the economic scenarios and IFRS 9 models (30 June 2023: £18.1 million; 31 December 2022: £22.5 million). The reduction in 2023 is driven by underlying credit risk profile movements on some individual cases resulting in previously held overlays now being released. This reflects the associated risks across retail mortgage, consumer, and commercial portfolios. For commercial, the inflation PMO has been assessed based on potential future individual customer migration of current Stage 1 lending migrating into Stage 2 and 3, based on an inflationary stress scenario.
- *Significant increase in credit risk (SICR) adjustment overlay* – A negative overlay introduced in 2022 is being held as at 30 June 2023. The SICR model is resulting in a significant overstatement of stage 2 assets and the negative PMO is in place to account for this. These overlays will be removed once the IFRS 9 PD Annual Model Reviews for both portfolios are validated and implemented into production, which is scheduled to happened in the second half of 2023 (30 June 2023: (£7.2 million); 31 December 2022: (£3.4 million)).
- *House price index and commercial real estate index adjustment* – An overlay raised in 2022 is still being held at 30 June 2023 to reflect further downside risk in property price indices beyond the latest scenarios for the retail mortgage and commercial property portfolios (30 June 2023: £4.7 million; 31 December 2022: £6.1 million). A release has been observed for this overlay in the first half of 2023 to offset the observed reduction in house price index and commercial real estate index. However, management has continued to maintain an overlay to reflect the risk of further deterioration in property price falls exacerbated by recent changes in expectations for base rate increases.
- *Climate change impact* – An expert judgement overlay raised in 2021 has been revised in the first half of 2023 and reflects the impact of climate change on property values for the mortgage and commercial portfolios (30 June 2023: £3.4 million; 31 December 2022: £3.5 million). The slight reduction in the overlay since December 2022 is due to the updated balance movements for all portfolios across the period.
- *An expert judgement overlay for the mortgage portfolio* – A management overlay has been introduced in the first half of 2023 to reflect additional model and forecast risks as a result of economic uncertainty, in particular increases to mortgage rates (30 June 2023: £3.6 million; 31 December 2022: £nil).
- *Commercial model enhancements* – An overlay is held in anticipation of remaining model adjustments for the commercial portfolio (30 June 2023: £0.5 million; 31 December 2022: £1.2 million). The reduction in the overlay over the period is due to the implementation of the new IFRS 9 commercial unsecured LGD model as a PMA and therefore this removes this figure from the PMO.
- *An expert judgement overlay for the commercial portfolio* – This overlay reflects additional downside risks as a result of economic uncertainty (30 June 2023: £3.0 million; 31 December 2022: £0.6 million).

1.5 Critical accounting judgements

In our 2022 Annual Report and Accounts we identified the following critical accounting estimate:

- Measurement of the expected credit loss allowance - multiple forward-looking macroeconomic scenarios

No new critical accounting estimates have been identified during the period.

Multiple forward-looking macroeconomic scenarios

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

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

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

Scenarios and probability weights used as at 30 June 2023 are as follows are as follows:

Scenario weighting	Half year to 30 Jun 2023	Half year to 31 Dec 2022	Half year to 30 Jun 2022
Baseline	50%	50%	40%
Upside	20%	20%	20%
Downside	25%	25%	30%
Severe Downside	5%	5%	10%

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies Continued

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

- Baseline scenario (50% weight) - Reflects the projection of the median, or "50%" scenario, meaning that in the assessment there is an equal probability that the economy might perform better or worse than the baseline forecast.
- Upside scenario (20% weight): This above-baseline scenario is designed so there is a 10% probability the economy will perform better than in this scenario, broadly speaking, and a 90% probability it will perform worse.
- Downside scenario (25% weight): In this recession scenario, in which a deep downturn develops, there is a 90% probability the economy will perform better, broadly speaking, and a 10% probability it will perform worse.
- Severe Downside scenario (5% weight): In this recession scenario, in which a deep downturn develops, there is a 96% probability the economy will perform better, broadly speaking, and a 4% probability it will perform worse.

A wide range of potential economic variables have been considered in our ECL models, representing drivers of credit losses on our lending portfolios. Statistical methods are used to choose the subset of drivers which have the greatest significance and predictive fit to our data. This includes variables which impact GDP, unemployment, interest rates, inflation, stock prices, borrower income and the UK housing market.

The base case macroeconomic outlook throughout 2023 reflects the inflationary and cost-of-living pressures resulting in higher interest rate and recessionary environment, which have been exacerbated by the latest base rate increase. Monthly reductions in property prices have begun to be observed, although the annual growth rate is still positive, and the labour market remains tight with low unemployment.

		30 Jun 2023				31 Dec 2022				30 Jun 2022			
Macroeconomic variable	Scenario	2024	2025	2026	2027	2023	2024	2025	2026	2023	2024	2025	2026
Adjusted UK five years mortgage interest rates (%)	Baseline	5.6%	4.4%	4.3%	4.3%	5.5%	4.4%	4.0%	4.0%	3.6%	4.0%	4.1%	4.2%
	Upside	6.0%	4.4%	4.3%	4.3%	5.3%	4.3%	4.0%	4.0%	3.9%	4.2%	4.3%	4.3%
	Downside	4.2%	3.0%	3.3%	3.4%	5.5%	4.4%	3.6%	3.1%	2.3%	2.8%	3.0%	3.1%
	Severe Downside	4.2%	2.8%	3.0%	3.0%	5.8%	4.0%	3.4%	3.0%	2.2%	2.8%	2.9%	3.0%
Unemployment (%)	Baseline	4.5%	4.5%	4.6%	4.6%	4.3%	4.5%	4.5%	4.6%	4.4%	4.6%	4.7%	4.8%
	Upside	3.8%	3.7%	3.8%	4.1%	3.9%	3.6%	3.7%	4.0%	3.7%	3.8%	4.0%	4.2%
	Downside	7.2%	7.3%	7.1%	6.5%	6.2%	7.2%	7.2%	6.8%	7.1%	7.4%	7.2%	6.6%
	Severe Downside	8.5%	8.2%	8.1%	7.6%	7.4%	8.3%	8.2%	7.9%	8.4%	8.1%	8.2%	7.7%
Adjusted house price index (YoY%)[1]	Baseline	(3.1%)	4.7%	2.9%	0.8%	(4.4%)	2.3%	4.8%	2.9%	2.9%	4.8%	2.2%	0.9%
	Upside	6.5%	4.6%	(1.1%)	(2.6%)	9.0%	5.4%	2.1%	(1.2%)	13.1%	4.6%	(1.8%)	(2.5%)
	Downside	(14.7%)	(0.1%)	4.3%	4.3%	(14.9%)	(7.0%)	4.0%	5.7%	(8.8%)	0.3%	3.7%	4.4%
	Severe Downside	(21.5%)	(0.9%)	4.0%	2.9%	(20.7%)	(10.9%)	4.4%	4.3%	(15.7%)	(0.5%)	3.3%	3.0%
UK GDP (YoY%)	Baseline	1.0%	1.3%	1.2%	1.4%	(0.8%)	1.2%	1.4%	1.2%	1.6%	1.4%	1.2%	1.0%
	Upside	2.5%	1.3%	1.1%	1.5%	1.9%	1.2%	1.1%	1.2%	2.7%	1.2%	1.0%	1.2%
	Downside	(2.8%)	3.1%	1.7%	1.3%	(6.9%)	1.3%	2.5%	1.2%	(2.2%)	2.9%	1.7%	0.9%
	Severe Downside	(4.6%)	3.1%	3.3%	1.6%	(8.3%)	(0.3%)	3.5%	2.1%	(4.0%)	2.6%	2.9%	1.3%
Adjusted commercial real estate index (YoY%)[1]	Baseline	(4.4%)	2.6%	0.1%	(1.6%)	(8.2%)	(6.0%)	2.0%	1.4%	n/a	n/a	n/a	n/a
	Upside	4.2%	2.3%	(3.8%)	(4.9%)	3.2%	(3.6%)	(0.3%)	(2.2%)	n/a	n/a	n/a	n/a
	Downside	(14.7%)	0.5%	2.7%	2.6%	(23.2%)	(11.9%)	5.1%	4.2%	n/a	n/a	n/a	n/a
	Severe Downside	(22.7%)	2.6%	2.9%	2.0%	(30.5%)	(14.8%)	6.9%	3.5%	n/a	n/a	n/a	n/a

1. We have applied a further stress to the five year mortgage rate, house price index and commercial real estate index on top of the independent forecasts received to account for economic uncertainty.

Notes to the condensed consolidated interim financial statements

(unaudited)

1. Basis of preparation and accounting policies Continued

The base case macroeconomic outlook throughout 2023 reflects the inflationary and cost-of-living pressures resulting in higher interest rate and recessionary environment, which have been exacerbated by the latest base rate increase. Monthly reductions in property prices have begun to be observed, although the annual growth rate is still positive, and the labour market remains tight with low unemployment.

Key assumptions underpinning the baseline June 2023 scenarios:

- The UK economy continues to struggle but avoids recession. GDP grows at an unimpressive pace throughout 2023 but starts to slowly recover in 2024.
- Inflation has peaked in the fourth quarter of 2022 but remains above target for several quarters because of elevated wage pressures and second-round effects.
- Global oil prices remain around current levels until mid-2023. Natural gas prices stay well below their summer peaks and slightly above pre-pandemic levels. Thanks to liquefied natural gas imports, warmer-than-average weather, and conservation by businesses and households, gas supplies are sufficient for next winter.
- Supply-chain bottlenecks continue to normalise.

The following variables are the key drivers of ECL:

- UK interest rate (five-year mortgage rate) (adjusted across all scenarios to reflect market expectations due to expected base rate increases not accounted for in the latest macroeconomic scenarios).
- UK unemployment rate.
- UK house price index change, year-on-year (adjusted across all scenarios to reflect further uncertainty in residential property values).
- UK GDP change, year-on-year.
- UK commercial real estate index change, year-on-year (adjusted across all scenarios to reflect further uncertainty in commercial property values).

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

Scenario	ECL £'million	Variance to reported weighted ECL
30 Jun 2023		
Baseline	182	(8%)
Upside	166	(16%)
Downside	235	19%
Severe Downside	274	39%
Weighted	197	n/a
30 Dec 2022		
Baseline	172	(8%)
Upside	156	(17%)
Downside	233	25%
Severe Downside	279	49%
Weighted	187	n/a
30 Jun 2022		
Baseline	155	(9%)
Upside	144	(16%)
Downside	193	13%
Severe Downside	223	31%
Weighted	171	n/a

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

We also note that the sensitivities disclosed above do not consider movements in impairment stage allocations that would result under the different scenarios.

Notes to the condensed consolidated interim financial statements Continued

(unaudited)

2. Net interest income

Interest income

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Cash and balances held with the Bank of England	48.6	23.5	9.5
Loans and advances to customers	284.6	254.8	207.4
Investment securities held at amortised cost	54.8	41.0	21.9
Investment securities held at FVOCI	7.4	4.4	0.3
Interest income calculated using the effective interest rate method	395.4	323.7	239.1
Derivatives in hedge relationships	4.7	0.3	0.6
Total interest income	400.1	324.0	239.7

Interest expense

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Deposits from customers	51.0	20.5	12.4
Deposits from central banks	78.0	42.4	13.1
Repurchase agreements	10.3	2.6	0.8
Debt securities	24.4	24.3	24.4
Lease liabilities	6.6	6.8	7.6
Interest expense calculated using the effective interest rate method	170.3	96.6	58.3
Derivatives in hedge relationships	8.3	4.1	0.6
Total interest expense	178.6	100.7	58.9

3. General operating expenses

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
People costs	120.4	116.7	119.9
Information technology costs	29.9	32.3	29.9
Money transmission and banking related costs	24.0	24.2	24.5
Occupancy expenses	14.3	15.8	15.0
Professional fees	12.0	18.2	20.2
Printing, postage and stationery costs	3.3	3.1	3.1
Legal and regulatory fees	3.2	3.7	3.3
Marketing and advertising costs	2.9	1.5	3.5
Holding company related insertion costs	1.5	1.8	-
Capability & Innovation fund (C&I) costs	0.8	1.0	0.3
Travel costs	0.8	0.8	0.8
Transformation costs	-	2.3	1.0
Remediation costs	(0.8)	2.3	3.0
Other	9.1	10.7	8.7
Total general operating expenses	221.4	234.4	233.2

4. People costs

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Wages and salaries	100.2	97.6	99.2
Social security costs	10.9	12.2	11.5
Pension costs	7.2	6.9	6.8
Equity-settled share-based payments	2.1	-	2.4
Total people costs	120.4	116.7	119.9

Notes to the condensed consolidated interim financial statements Continued

(unaudited)

5. Taxation

Tax expense for the period

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
Current tax			
Current tax	(2.2)	-	-
Total current tax expense	(2.2)	-	-
Deferred tax			
Origination and reversal of temporary differences	-	(0.6)	(0.9)
Effect of changes in tax rates	(0.5)	(0.1)	(0.6)
Adjustment in respect of prior periods	-	0.2	-
Total deferred tax expense	(0.5)	(0.5)	(1.5)
Total tax expense	(2.7)	(0.5)	(1.5)

Reconciliation of the total tax expense

	Half year to 30 Jun 2023 £'million	Effective tax rate %	Half year to 31 Dec 2022 £'million	Effective tax rate %	Half year to 30 Jun 2022 £'million	Effective tax rate %
Profit/(loss) before tax	15.4		(10.5)		(60.2)	
Tax (charge)/credit at statutory income tax rate	(3.6)	(23.5%)	2.0	19.0%	11.4	19.0%
Tax effects of:						
Non-deductible expenses - depreciation on non-qualifying fixed assets	(1.3)	8.2%	(1.6)	15.2%	(0.9)	(1.5%)
Non-deductible expenses – investment property impairment	-	-	(0.1)	1.0%	-	-
Non-deductible expenses - other	(0.1)	0.7%	(1.0)	9.5%	-	-
Impact of intangible asset impairment on R&D deferred tax liability	-	-	0.1	(1.0%)	0.2	0.3%
Share based payments	(0.1)	0.5%	0.2	(1.9%)	(0.1)	(0.2%)
Adjustment in respect of prior years	-	-	0.2	(1.9%)	-	-
Current year losses for the period for which no deferred tax asset has been recognised	-	-	(0.2)	1.9%	(11.5)	(19.1%)
Losses offset against current year profits	2.8	(18.1%)	-	-	-	-
Derecognition of tax losses arising in prior years	0.1	(0.4%)	-	-	-	-
Effect of changes in tax rates	(0.5)	2.9%	(0.1)	1.0%	(0.6)	(0.9%)
Tax expense reported in the consolidated income statement	(2.7)	17.3%	(0.5)	4.8%	(1.5)	(2.4%)

Notes to the condensed consolidated interim financial statements Continued
(unaudited)

5. Taxation Continued

Effective tax rate

The effective tax rate for the period is 17.3% (half year to 31 December 2022: (4.8%); half year to 30 June 2022 (2.4%)) This has been calculated by applying the effective tax rate which is expected to apply to the Group for the six months ended 30 June 2023 using rates substantively enacted by 30 June 2023 as required by IAS 34 'Interim Financial Reporting'.

Effect of changes in tax rates

This relates to the remeasurement of deferred tax balances following a change to the main UK corporation tax rate.

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

Losses for which no deferred tax asset has been recognised

The tax effected value of current year losses for which no deferred tax asset has been recognised is £nil (31 December 2022: £11.7 million; 30 June 2022: £11.5 million).

Deferred tax

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

	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant & equipment £'million	Intangible assets £'million	Total £'million
30 Jun 2023						
Deferred tax assets	12	3	1	-	-	16
Deferred tax liabilities	-	4	-	(26)	(6)	(28)
Deferred tax liabilities (net)	12	7	1	(26)	(6)	(12)
1 Jan 2023	12	7	1	(26)	(6)	(12)
Income statement	-	-	-	-	-	-
At 30 Jun 2023	12	7	1	(26)	(6)	(12)

Notes to the condensed consolidated interim financial statements Continued
(unaudited)

5. Taxation Continued

	Unused tax losses £'million	Investment securities and impairments £'million	Share-based payments £'million	Property, plant & equipment £'million	Intangible assets £'million	Total £'million
31 Dec 2022						
Deferred tax assets	12	3	1	-	-	16
Deferred tax liabilities	-	4	-	(26)	(6)	(28)
Deferred tax liabilities (net)	12	7	1	(26)	(6)	(12)
1 Jul 2022	12	7	-	(24)	(7)	(12)
Income statement	-	-	1	(2)	1	-
Other comprehensive income	-	-	-	-	-	-
At 31 Dec 2022	12	7	1	(26)	(6)	(12)
30 Jun 2022						
Deferred tax assets	12	4	-	-	-	16
Deferred tax liabilities	-	3	-	(24)	(7)	(28)
Deferred tax liabilities (net)	12	7	-	(24)	(7)	(12)
1 Jan 2022	13	5	-	(23)	(7)	(12)
Income statement	(1)	-	-	(1)	-	(2)
Other comprehensive income	-	2	-	-	-	2
At 30 Jun 2022	12	7	-	(24)	(7)	(12)

Unrecognised deferred tax assets
We have total unused tax losses of £896 million for which a deferred tax asset of £212 million has not been recognised. The impact of recognising the deferred tax asset in the future would be material.

Although there is an expectation for profits in the near future, the tax benefits would be spread over a number of years. In addition, the 50% corporate loss restriction in place extends the timeline over which we can offset losses against future profits. This will be reassessed for the year ending 31 December 2023 in light of actual performance against management forecasts and prevailing market conditions. There is no time limit beyond which these losses expire.

Notes to the condensed consolidated interim financial statements Continued (unaudited)

6. Loans and advances to customers

	30 Jun 2023			31 Dec 2022			30 Jun 2022		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	7,591	(21)	7,570	7,649	(20)	7,629	6,785	(18)	6,767
Consumer lending	1,410	(93)	1,317	1,480	(75)	1,405	1,269	(56)	1,213
Commercial lending	3,768	(83)	3,685	4,160	(92)	4,068	4,481	(97)	4,384
Total loans and advances to customers	12,769	(197)	12,572	13,289	(187)	13,102	12,535	(171)	12,364

Loans and advances to customers by category

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Residential owner occupied	5,501	5,507	4,977
Retail buy-to-let	2,090	2,142	1,808
Total retail mortgages	7,591	7,649	6,785
Overdrafts	45	60	70
Credit cards	23	19	16
Motor finance	5	-	-
Term loans	1,337	1,401	1,183
Total consumer lending	1,410	1,480	1,269
Total retail lending	9,001	9,129	8,054
Professional buy-to-let	615	731	853
Bounce back loans	638	801	984
Coronavirus business interruption loans	106	127	145
Recovery loan scheme	365	385	357
Other term loans	1,450	1,578	1,638
Commercial term loans	3,174	3,622	3,977
Overdrafts and revolving credit facilities	155	122	110
Credit cards	4	4	4
Asset and invoice finance	435	412	390
Total commercial lending	3,768	4,160	4,481
Total gross loans to customers	12,769	13,289	12,535

Notes to the condensed consolidated interim financial statements Continued
(unaudited)

6. Loans and advances to customers Continued

Credit risk exposures

Retail mortgages

	30 Jun 2023					31 Dec 2022					30 Jun 2022				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Up to date	6,632	763	41	-	7,436	6,194	1,289	33	-	7,516	5,420	1,226	27	-	6,673
1 to 29 days past due	2	26	10	-	38	1	21	7	-	29	1	18	10	-	29
30 to 89 days past due	-	29	19	-	48	-	33	15	-	48	-	19	14	-	33
90+ days past due	-	-	69	-	69	-	-	56	-	56	-	-	50	-	50
Gross carrying amount	6,634	818	139	-	7,591	6,195	1,343	111	-	7,649	5,421	1,263	101	-	6,785

Consumer lending

	30 Jun 2023					31 Dec 2022					30 Jun 2022				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Up to date	1,020	304	3	-	1,327	1,172	235	3	-	1,410	1,089	133	2	-	1,224
1 to 29 days past due	3	2	-	-	5	8	2	-	-	10	3	2	-	-	5
30 to 89 days past due	-	13	6	-	19	-	13	5	-	18	-	10	4	-	14
90+ days past due	-	-	59	-	59	-	-	42	-	48	-	-	26	-	26
Gross carrying amount	1,023	319	68	-	1,410	1,180	250	50	-	1,480	1,092	145	32	-	1,269

Commercial lending

	30 Jun 2023					31 Dec 2022					30 Jun 2022				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Up to date	3,078	417	70	-	3,565	3,453	419	67	-	3,939	3,646	510	89	-	4,245
1 to 29 days past due	44	30	6	-	80	21	36	5	-	62	8	46	17	-	71
30 to 89 days past due	-	41	9	-	50	-	40	20	-	60	-	56	14	-	70
90+ days past due	-	-	73	-	73	-	-	99	-	99	-	3	92	-	95
Gross carrying amount	3,122	488	158	-	3,768	3,474	495	191	-	4,160	3,654	615	212	-	4,481

Total lending

	30 Jun 2023					31 Dec 2022					30 Jun 2022				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Up to date	10,730	1,484	114	-	12,328	10,819	1,943	103	-	12,865	10,155	1,869	118	-	12,142
1 to 29 days past due	49	58	16	-	123	30	59	12	-	101	12	66	27	-	105
30 to 89 days past due	-	83	34	-	117	-	86	40	-	126	-	85	32	-	117
90+ days past due	-	-	201	-	201	-	-	197	-	197	-	3	168	-	171
Gross carrying amount	10,779	1,625	365	-	12,769	10,849	2,088	352	-	13,289	10,167	2,023	345	-	12,535

Notes to the condensed consolidated interim financial statements Continued (unaudited)

6. Loans and advances to customers Continued

Loss allowance

Retail mortgages

	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Balance at 1 Jan 2023	6,195	1,343	111	-	7,649	(6)	(11)	(3)	-	(20)	6,189	1,332	108	-	7,629
Transfers to/from stage 1	672	(670)	(2)	-	-	(5)	5	-	-	-	667	(665)	(2)	-	-
Transfers to/from stage 2	(177)	177	-	-	-	-	-	-	-	-	(177)	177	-	-	-
Transfers to/from stage 3	(16)	(24)	40	-	-	-	-	-	-	-	(16)	(24)	40	-	-
Net remeasurement due to transfers	-	-	-	-	-	3	(2)	(1)	-	-	3	(2)	(1)	-	-
New lending	425	58	-	-	483	-	(1)	-	-	(1)	425	57	-	-	482
Repayments, additional drawdowns and interest accrued	(95)	(12)	-	-	(107)	-	-	-	-	-	(95)	(12)	-	-	(107)
Derecognitions	(370)	(54)	(10)	-	(434)	-	-	-	-	-	(370)	(54)	(10)	-	(434)
Changes to assumptions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance at 30 Jun 2023	6,634	818	139	-	7,591	(8)	(9)	(4)	-	(21)	6,626	809	135	-	7,570
Balance at 1 Jul 2022	5,421	1,263	101	-	6,785	(5)	(10)	(3)	-	(18)	5,416	1,253	98	-	6,767
Transfers to/from stage 1	94	(92)	(2)	-	-	(1)	2	(1)	-	-	93	(90)	(3)	-	-
Transfers to/from stage 2	144	(141)	(3)	-	-	-	-	-	-	-	144	(141)	(3)	-	-
Transfers to/from stage 3	(13)	(12)	25	-	-	-	1	(1)	-	-	(13)	(11)	24	-	-
Net remeasurement due to transfers	-	-	-	-	-	2	-	-	-	2	2	-	-	-	2
New lending	1,155	402	1	-	1,558	-	(5)	-	-	(5)	1,155	397	1	-	1,553
Repayments, additional drawdowns and interest accrued	(73)	(9)	(4)	-	(86)	-	-	-	-	-	(73)	(9)	(4)	-	(86)
Derecognitions	(533)	(68)	(7)	-	(608)	(2)	2	2	-	2	(535)	(66)	(5)	-	(606)
Changes to assumptions	-	-	-	-	-	-	(1)	-	-	(1)	-	(1)	-	-	(1)
Balance at 31 Dec 2022	6,195	1,343	111	-	7,649	(6)	(11)	(3)	-	(20)	6,189	1,332	108	-	7,629
Balance at 1 January 2022	5,546	1,063	114	-	6723	(2)	(12)	(5)	-	(19)	5,544	1,051	109	-	6,704
Transfers to/from stage 1	199	(189)	(10)	-	-	(3)	2	1	-	-	196	(187)	(9)	-	-
Transfers to/from stage 2	(343)	346	(3)	-	-	-	-	-	-	-	(343)	346	(3)	-	-
Transfers to/from stage 3	(3)	(10)	13	-	-	-	-	-	-	-	(3)	(10)	13	-	-
Net remeasurement due to transfers	-	-	-	-	-	2	(1)	-	-	1	2	(1)	-	-	1
New lending	511	147	-	-	658	(3)	(2)	-	-	(5)	508	145	-	-	653
Repayments, additional drawdowns and interest accrued	(57)	(13)	(1)	-	(71)	-	-	-	-	-	(57)	(13)	(1)	-	(71)
Derecognitions	(432)	(81)	(12)	-	(525)	1	-	1	-	2	(431)	(81)	(11)	-	(523)
Changes to assumptions	-	-	-	-	-	-	3	-	-	3	-	3	-	-	3
Balance at 30 Jun 2022	5,421	1,263	101	-	6,785	(5)	(10)	(3)	-	(18)	5,416	1,253	98	-	6,767

Notes to the condensed consolidated interim financial statements Continued (unaudited)

6. Loans and advances to customers Continued

Consumer lending

	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Balance at 1 Jan 2023	1,180	250	50	-	1,480	(21)	(12)	(42)	-	(75)	1,159	238	8	-	1,405
Transfers to/from stage 1	29	(29)	-	-	-	(2)	2	-	-	-	27	(27)	-	-	-
Transfers to/from stage 2	(180)	180	-	-	-	2	(2)	-	-	-	(178)	178	-	-	-
Transfers to/from stage 3	(17)	(8)	25	-	-	1	2	(3)	-	-	(16)	(6)	22	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	(5)	(16)	-	(20)	1	(5)	(16)	-	(20)
New lending	240	7	1	-	248	(4)	-	(1)	-	(5)	236	7	-	-	243
Repayments, additional drawdowns and interest accrued	(133)	(62)	(3)	-	(198)	-	-	-	-	-	(133)	(62)	(3)	-	(198)
Derecognitions	(96)	(19)	(5)	-	(120)	2	1	4	-	7	(94)	(18)	(1)	-	(113)
Changes to assumptions	-	-	-	-	-	(2)	2	-	-	-	(2)	2	-	-	-
Balance at 30 Jun 2023	1,023	319	68	-	1,410	(23)	(12)	(58)	-	(93)	1,000	307	10	-	1,317
Balance at 1 Jul 2022	1,092	145	32	-	1,269	(20)	(9)	(27)	-	(56)	1,072	136	5	-	1,213
Transfers to/from stage 1	3	(3)	-	-	-	-	-	-	-	-	3	(3)	-	-	-
Transfers to/from stage 2	12	(12)	-	-	-	-	-	-	-	-	12	(12)	-	-	-
Transfers to/from stage 3	(12)	(2)	14	-	-	1	-	(1)	-	-	(11)	(2)	13	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	2	(6)	-	(3)	1	2	(6)	-	(3)
New lending	223	146	10	-	379	(5)	(6)	(8)	-	(19)	218	140	2	-	360
Repayments, additional drawdowns and interest accrued	(51)	(15)	(4)	-	(70)	-	-	-	-	-	(51)	(15)	(4)	-	(70)
Derecognitions	(87)	(9)	(2)	-	(98)	1	-	-	-	1	(86)	(9)	(2)	-	(97)
Changes to assumptions	-	-	-	-	-	1	1	-	-	2	1	1	-	-	2
Balance at 31 Dec 2022	1,180	250	50	-	1,480	(21)	(12)	(42)	-	(75)	1,159	238	8	-	1,405
Balance at 1 January 2022	786	82	21	1	890	(18)	(8)	(16)	-	(42)	768	74	5	1	848
Transfers to/from stage 1	16	(16)	-	-	-	(2)	2	-	-	-	14	(14)	-	-	-
Transfers to/from stage 2	(108)	108	-	-	-	1	(1)	-	-	-	(107)	107	-	-	-
Transfers to/from stage 3	(9)	(4)	13	-	-	-	2	(2)	-	-	(9)	(2)	11	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	(5)	(9)	-	(13)	1	(5)	(9)	-	(13)
New lending	583	10	2	-	595	(10)	(1)	(1)	-	(12)	573	9	1	-	583
Repayments, additional drawdowns and interest accrued	(93)	(26)	(2)	(1)	(122)	-	-	-	-	-	(93)	(26)	(2)	(1)	(122)
Derecognitions	(83)	(9)	(2)	-	(94)	4	1	1	-	6	(79)	(8)	(1)	-	(88)
Changes to assumptions	-	-	-	-	-	4	1	-	-	5	4	1	-	-	5
Balance at 30 Jun 2022	1,092	145	32	-	1,269	(20)	(9)	(27)	-	(56)	1,072	136	5	-	1,213

Notes to the condensed consolidated interim financial statements Continued (unaudited)

6. Loans and advances to customers Continued

Commercial lending

	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Balance at 1 Jan 2023	3,474	495	191	-	4,160	(39)	(28)	(25)	-	(92)	3,435	467	166	-	4,068
Transfers to/from stage 1	40	(39)	(1)	-	-	(2)	2	-	-	-	38	(37)	(1)	-	-
Transfers to/from stage 2	(146)	148	(2)	-	-	2	(3)	1	-	-	(144)	145	(1)	-	-
Transfers to/from stage 3	(38)	(34)	72	-	-	-	2	(2)	-	-	(38)	(32)	70	-	-
Net remeasurement due to transfers	-	-	-	-	-	2	(4)	(3)	-	(5)	2	(4)	(3)	-	(5)
New lending	253	5	4	-	262	(5)	-	-	-	(5)	248	5	4	-	257
Repayments, additional drawdowns and interest accrued	(191)	(25)	(9)	-	(225)	-	-	-	-	-	(191)	(25)	(9)	-	(225)
Derecognitions	(270)	(62)	(97)	-	(429)	4	3	3	-	10	(266)	(59)	(94)	-	(419)
Changes to assumptions	-	-	-	-	-	8	2	(1)	-	9	8	2	(1)	-	9
Balance at 30 Jun 2023	3,122	488	158	-	3,768	(30)	(26)	(27)	-	(83)	3,092	462	131	-	3,685
Balance at 1 Jul 2022	3,654	615	212	-	4,481	(33)	(33)	(31)	-	(97)	3,621	582	181	-	4,384
Transfers to/from stage 1	41	(41)	-	-	-	(1)	1	-	-	-	40	(40)	-	-	-
Transfers to/from stage 2	(21)	20	-	-	(1)	-	-	-	-	-	(21)	20	-	-	(1)
Transfers to/from stage 3	11	63	(74)	-	-	-	-	-	-	-	11	63	(74)	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	(1)	-	-	-	1	(1)	-	-	-
New lending	258	(17)	16	-	257	(5)	-	(1)	-	(6)	253	(17)	15	-	251
Repayments, additional drawdowns and interest accrued	(150)	(19)	(10)	-	(179)	-	-	-	-	-	(150)	(19)	(10)	-	(179)
Derecognitions	(319)	(126)	47	-	(398)	2	6	8	-	16	(317)	(120)	55	-	(382)
Changes to assumptions	-	-	-	-	-	(3)	(1)	(1)	-	(5)	(3)	(1)	(1)	-	(5)
Balance at 31 Dec 2022	3,474	495	191	-	4,160	(39)	(28)	(25)	-	(92)	3,435	467	166	-	4,068
Balance at 1 January 2022	3,739	780	327	-	4,846	(27)	(29)	(52)	-	(108)	3,712	751	275	-	4,738
Transfers to/from stage 1	164	(163)	(1)	-	-	(6)	6	-	-	-	158	(157)	(1)	-	-
Transfers to/from stage 2	(135)	137	(1)	-	1	1	(1)	-	-	-	(134)	136	(1)	-	1
Transfers to/from stage 3	(98)	(108)	206	-	-	-	4	(4)	-	-	(98)	(104)	202	-	-
Net remeasurement due to transfers	-	-	-	-	-	3	(4)	-	-	(1)	3	(4)	-	-	(1)
New lending	427	54	2	-	483	(7)	(2)	(1)	-	(10)	420	52	1	-	473
Repayments, additional drawdowns and interest accrued	(180)	(25)	(5)	-	(210)	-	-	-	-	-	(180)	(25)	(5)	-	(210)
Derecognitions	(263)	(60)	(316)	-	(639)	1	1	22	-	24	(262)	(59)	(294)	-	(615)
Changes to assumptions	-	-	-	-	-	2	(8)	4	-	(2)	2	(8)	4	-	(2)
Balance at 30 Jun 2022	3,654	615	212	-	4,481	(33)	(33)	(31)	-	(97)	3,621	582	181	-	4,384

Notes to the condensed consolidated interim financial statements Continued (unaudited)

6. Loans and advances to customers Continued

Total lending

	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million	Stage 1 £'million	Stage 2 £'million	Stage 3 £'million	POCI £'million	Total £'million
Balance at 1 Jan 2023	10,849	2,088	352	-	13,289	(66)	(51)	(70)	-	(187)	10,783	2,037	282	-	13,102
Transfers to/from stage 1	741	(738)	(3)	-	-	(9)	9	-	-	-	732	(729)	(3)	-	-
Transfers to/from stage 2	(503)	505	(2)	-	-	4	(5)	1	-	-	(499)	500	(1)	-	-
Transfers to/from stage 3	(71)	(66)	137	-	-	1	4	(5)	-	-	(70)	(62)	132	-	-
Net remeasurement due to transfers	-	-	-	-	-	6	(11)	(20)	-	(25)	6	(11)	(20)	-	(25)
New lending	918	70	5	-	993	(9)	(1)	(1)	-	(11)	909	69	4	-	982
Repayments, additional drawdowns and interest accrued	(419)	(99)	(12)	-	(530)	-	-	-	-	-	(419)	(99)	(12)	-	(530)
Derecognitions	(736)	(135)	(112)	-	(983)	6	4	7	-	17	(730)	(131)	(105)	-	(966)
Changes to assumptions	-	-	-	-	-	6	4	(1)	-	9	6	4	(1)	-	9
Balance at 30 Jun 2023	10,779	1,625	365	-	12,769	(61)	(47)	(89)	-	(197)	10,718	1,578	276	-	12,572
Balance at 1 Jul 2022	10,167	2,023	345	-	12,535	(58)	(52)	(61)	-	(171)	10,109	1,971	284	-	12,364
Transfers to/from stage 1	138	(136)	(2)	-	-	(2)	3	(1)	-	-	136	(133)	(3)	-	-
Transfers to/from stage 2	135	(133)	(3)	-	(1)	-	-	-	-	-	135	(133)	(3)	-	(1)
Transfers to/from stage 3	(14)	49	(35)	-	-	1	1	(2)	-	-	(13)	50	(37)	-	-
Net remeasurement due to transfers	-	-	-	-	-	4	1	(6)	-	(1)	4	1	(6)	-	(1)
New lending	1,636	531	27	-	2,194	(10)	(11)	(9)	-	(30)	1,626	520	18	-	2,164
Repayments, additional drawdowns and interest accrued	(274)	(43)	(18)	-	(335)	-	-	-	-	-	(274)	(43)	(18)	-	(335)
Derecognitions	(939)	(203)	38	-	(1,104)	1	8	10	-	19	(938)	(195)	48	-	(1,085)
Changes to assumptions	-	-	-	-	-	(2)	(1)	(1)	-	(4)	(2)	(1)	(1)	-	(4)
Balance at 31 Dec 2022	10,849	2,088	352	-	13,289	(66)	(51)	(70)	-	(187)	10,783	2,037	282	-	13,102
Balance at 1 January 2022	10,071	1,925	462	1	12,459	(47)	(49)	(73)	-	(169)	10,024	1,876	389	1	12,290
Transfers to/from stage 1	379	(368)	(11)	-	-	(11)	10	1	-	-	368	(358)	(10)	-	-
Transfers to/from stage 2	(586)	591	(4)	-	1	2	(2)	-	-	-	(584)	589	(4)	-	1
Transfers to/from stage 3	(110)	(122)	232	-	-	-	6	(6)	-	-	(110)	(116)	226	-	-
Net remeasurement due to transfers	-	-	-	-	-	6	(10)	(9)	-	(13)	6	(10)	(9)	-	(13)
New lending	1,521	211	4	-	1,736	(20)	(5)	(2)	-	(27)	1,501	206	2	-	1,709
Repayments, additional drawdowns and interest accrued	(330)	(64)	(8)	(1)	(403)	-	-	-	-	-	(330)	(64)	(8)	(1)	(403)
Derecognitions	(778)	(150)	(330)	-	(1,258)	6	2	24	-	32	(772)	(148)	(306)	-	(1,226)
Changes to assumptions	-	-	-	-	-	6	(4)	4	-	6	6	(4)	4	-	6
Balance at 30 Jun 2022	10,167	2,023	345	-	12,535	(58)	(52)	(61)	-	(171)	10,109	1,971	284	-	12,364

Notes to the condensed consolidated interim financial statements Continued

(unaudited)

7. Property, plant and equipment

	Investment property £'million	Leasehold improvements £'million	Freehold land & buildings £'million	Fixtures fittings & equipment £'million	IT hardware £'million	Right of use assets £'million	Total £'million
Cost							
1 Jan 2023	12	261	372	22	8	283	958
Additions	-	-	5	-	-	-	5
Disposals	-	-	-	-	-	(4)	(4)
Write-offs	(2)	-	-	-	-	-	(2)
Transfers	-	(5)	5	-	-	-	-
30 Jun 2023	10	256	382	22	8	279	957
Accumulated depreciation							
1 Jan 2023	8	69	34	20	2	77	210
Charge for the period	-	6	3	1	1	6	17
Disposals	-	-	-	-	-	(1)	(1)
Write-offs	(2)	-	-	-	-	-	(2)
Transfers	-	(2)	2	-	-	-	-
30 Jun 2023	6	73	39	21	3	82	224
Net book value at 30 Jun 2023	4	183	343	1	5	197	733
Cost							
1 Jul 2022	18	270	342	22	1	295	948
Additions	-	-	21	-	7	1	29
Disposals	-	-	-	-	-	(13)	(13)
Transfers	-	(9)	9	-	-	-	-
Moved to held for sale	(6)	-	-	-	-	-	(6)
31 Dec 2022	12	261	372	22	8	283	958
Accumulated depreciation							
1 Jul 2022	12	64	31	18	-	74	199
Charge for the period	-	6	2	2	2	6	18
Impairments	1	-	-	-	-	-	1
Disposals	-	-	-	-	-	(3)	(3)
Moved to held for sale	(5)	-	-	-	-	-	(5)
Transfers	-	(1)	1	-	-	-	-
31 Dec 2022	8	69	34	20	2	77	210
Net book value at 31 Dec 2022	4	192	338	2	6	206	748
Cost							
1 Jan 2022	18	280	341	24	1	295	959
Additions	-	-	1	-	-	-	1
Write-offs	-	(10)	-	(2)	-	-	(12)
30 Jun 2022	18	270	342	22	1	295	948
Accumulated depreciation							
1 January 2022	12	68	28	19	-	67	194
Charge for the period	-	6	3	1	-	7	17
Write-offs	-	(10)	-	(2)	-	-	(12)
30 Jun 2022	12	64	31	18	-	74	199
Net book value at 30 Jun 2022	6	206	311	4	1	221	749

Notes to the condensed consolidated interim financial statements Continued

(unaudited)

8. Intangible assets

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 Jan 2023	10	2	338	350
Additions	-	-	12	12
30 Jun 2023	10	2	350	362
Accumulated amortisation				
1 Jan 2023	-	-	134	134
Charge for the period	-	-	21	21
30 Jun 2023	-	-	155	155
Net book value at 30 Jun 2023	10	2	195	207
Cost				
1 Jul 2022	10	2	332	344
Additions	-	-	12	12
Write-offs	-	-	(6)	(6)
31 Dec 2022	10	2	338	350
Accumulated amortisation				
1 Jul 2022	-	-	117	117
Charge for the period	-	-	22	22
Write-offs	-	-	(5)	(5)
31 Dec 2022	-	-	134	134
Net book value at 31 Dec 2022	10	2	204	216
Cost				
1 Jan 2022	10	2	336	348
Additions	-	-	12	12
Write-offs	-	-	(16)	(16)
30 Jun 2022	10	2	332	344
Accumulated amortisation				
1 Jan 2022	-	-	105	105
Charge for the period	-	-	20	20
Write-offs	-	-	(8)	(8)
30 Jun 2022	-	-	117	117
Net book value at 30 Jun 2022	10	2	215	227

9. Deposits from customers

Deposits by customer segment

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Deposits from retail customers	7,557	7,851	8,138
Deposits from commercial customers	7,972	8,163	8,376
Total deposits from customers	15,529	16,014	16,514

Deposits by product

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Demand: current accounts	7,106	7,888	7,769
Demand: savings accounts	7,218	7,501	7,817
Fixed term: savings accounts	1,205	625	927
Total deposits from customers	15,529	16,014	16,514

10. Debt securities

Name	Issue date	Currency	Amount issued £'million	Coupon rate	Call date	Maturity date
Fixed Rate Reset Callable Subordinated Notes	26/06/18	GBP	250	9.139%	n/a	26/06/28
Fixed Rate Reset Senior Non-Preferred Notes	08/10/19	GBP	350	9.500%	08/10/24	08/10/25

During the first six months of the year we took the decision not to call our Fixed Rate Reset Callable Subordinated Notes (the 'Notes') issued by Metro Bank PLC, which had a call date on 26 June 2023. As a result, the interest rate on the Notes reset from 5.500% to 9.139%.

In December 2022 the Bank of England's Resolution Directorate agreed to provide a temporary, time-limited, adjustment for the Notes with respect to MREL eligibility until 26 June 2025. This came into effect upon the implementation of our holding company on 19 May 2023. The adjustment permitted the Notes to remain eligible to count towards our MREL requirement until 26 June 2025. On 28 July 2023 the Bank of England's Resolution Directorate agreed to a further extension, permitting the Notes to remain eligible to count towards our MREL requirement until their maturity date on 26 June 2028. The eligibility of the Notes for Tier 2 capital will amortise over the final five years of their term to maturity.

Notes to the condensed consolidated interim financial statements Continued
(unaudited)

11. Lease liabilities

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
At beginning of the period	248	264	269
Additions and modifications	(1)	1	-
Disposals	(4)	(11)	-
Lease payments made	(12)	(12)	(13)
Interest on lease liabilities	7	6	8
At end of the period	238	248	264

12. Share capital
As at 30 June 2023 we had 172.6 million ordinary shares of 0.0001 pence (31 December 2022: 172.4 million, 30 June 2022: 172.4 million) in issue.

Called up share capital (issued and fully paid)

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
At beginning of the period	-	-	-
Cancelation of Metro Bank PLC share capital[1]	-	-	-
Issuance of Metro Bank Holdings PLC share capital[1]	-	-	-
Bonus issuance	965	-	-
Capital reduction	(965)	-	-
At end of the period	-	-	-

1. The cancelled called up share capital of Metro Bank PLC and new share capital of Metro Bank Holdings PLC amount to £172 and as such have been rounded to £nil in the table above.

Share premium

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million
At beginning of the period	1,964	1,964	1,964
Cancelation of Metro Bank PLC share premium	(1,964)	-	-
At end of the period	-	1,964	1,964

Redeemable preference shares
In addition to the share capital set out above Metro Bank Holdings PLC has £50,000 of redeemable preference shares which were issued to Robert Sharpe (Chair) and Daniel Frumkin (Chief Executive Officer) upon the initial incorporation of the legal entity on 29 September 2022. These shares are in the process of being redeemed.

New holding company
As set out in note 1, on 19 May 2023, Metro Bank Holdings PLC became the listed entity and new holding company of Metro Bank PLC. As part of the insertion of Metro Bank Holdings PLC, the existing listed share capital and share premium of Metro Bank PLC was cancelled and the share capital and share premium amounts transferred to retained earnings. Metro Bank PLC subsequently issued the same number of new unlisted 0.0001p ordinary shares to Metro Bank Holdings PLC. Each existing holder of Metro Bank PLC share was issued with an equivalent number of new shares in Metro Bank Holdings PLC, with the nominal value of 0.0001p, as part of a share for share exchange.

The difference between the new nominal share capital in Metro Bank Holdings PLC and the net assets of Metro Bank PLC was recognised in a merger reserve. This merger reserve was capitalised through the allotment of 964,505,616 million special shares of 0.0001p each, which were then subsequently reduced to provide the Metro Bank Holdings PLC with distributable reserves.

As at 30 June 2023 all of Metro Bank Holdings PLC's retained earnings are distributable other than £50,000 which it is required to retain as a publicly listed company.

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

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

	Half year to 30 Jun 2023	Half year to 31 Dec 2022	Half year to 30 Jun 2022
Profit/(loss) attributable to ordinary equity holders (£'million)	12.7	(11.0)	(61.7)
Weighted average number of ordinary shares in issue (thousands)			
Basic	172,583	172,464	172,421
Adjustment for share awards	6,790	-	-
Diluted	179,373	172,464	172,421
Earnings per share (pence)			
Basic	7.4	(6.4)	(35.8)
Diluted	7.1	(6.4)	(35.8)

Notes to the condensed consolidated interim financial statements Continued

(unaudited)

14. Fair value of financial instruments

	Carrying value £'million	Quoted market price Level 1 £'million	Using observable inputs Level 2 £'million	With significant unobservable inputs Level 3 £'million	Total fair value £'million
30 Jun 2023					
Assets					
Loan and advances to customers	12,572	-	-	11,782	11,782
Investment securities held at FVOCI	489	489	-	-	489
Investment securities held at amortised cost	4,826	3,174	1,295	33	4,502
Financial assets held at FVTPL	1	-	-	1	1
Derivative financial assets	26	-	26	-	26
Liabilities					
Deposits from customers	15,529	-	-	15,517	15,517
Deposits from central banks	3,800	-	-	3,800	3,800
Debt securities	573	-	-	440	440
Derivative financial liabilities	25	-	25	-	25
Repurchase agreements	363	-	-	363	363
31 Dec 2022					
Assets					
Loan and advances to customers	13,102	-	-	12,321	12,321
Investment securities held at FVOCI	571	533	38	-	571
Investment securities held at amortised cost	5,343	3,834	1,135	40	5,009
Financial assets held at FVTPL	1	-	-	1	1
Derivative financial assets	23	-	23	-	23
Liabilities					
Deposits from customers	16,014	-	-	16,004	16,004
Deposits from central banks	3,800	-	-	3,800	3,800
Debt securities	571	423	-	-	423
Derivative financial liabilities	26	-	26	-	26
Repurchase agreements	238	-	-	238	238
30 Jun 2022					
Assets					
Loan and advances to customers	12,364	-	-	12,498	12,498
Investment securities held at FVOCI	781	743	38	-	781
Investment securities held at amortised cost	5,393	3,685	1,482	53	5,220
Financial assets held at FVTPL	2	-	-	2	2
Derivative financial assets	11	-	11	-	11
Liabilities					
Deposits from customers	16,514	-	-	16,377	16,377
Deposits from central banks	3,800	-	-	3,800	3,800
Debt securities	577	447	-	-	447
Derivative financial liabilities	19	-	19	-	19
Repurchase agreements	166	-	-	166	166

Notes to the condensed consolidated interim financial statements Continued (unaudited)

14. Fair value of financial instruments Continued

Cash and balances with the Bank of England, trade and other receivables, trade and other payables, and other assets and liabilities which meet the definition of financial instruments are not included in the tables. Their carrying amount is a reasonable approximation of fair value.

An inverse relationship exists between interest rates and fair value and therefore as base rates have continued to rise this has seen the fair value of our fixed-rate financial instruments continue to remain below their carrying amount. As these financial instruments approach maturity their fair value will pull back to their carrying value.

The significant majority of our investment securities held at amortised cost are Bank of England eligible so are available for entering into repurchase agreements, should we need additional liquidity. The remainder of our investment securities are held at fair value and therefore market movements on these assets are already reflected in our reserves and capital ratios.

Information on how fair values are calculated are explained below:

Loans and advances to customers
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date, adjusted for future credit losses and prepayments, if considered material.

Investment securities
The fair value of investment securities is based on either observed market prices for those securities that have an active trading market (fair value Level 1 assets), or using observable inputs (in the case of fair value Level 2 assets).

Financial assets held at fair value through profit and loss
The financial assets at fair value through profit and loss relate to the loans and advances previously assumed by the RateSetter provision fund.

Deposits from customers
Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is approximated by its carrying value.

Debt securities
Fair values are determined using the quoted market price at the balance sheet date. Whilst previously classified as a Level 1, as at 30 June 2023 this was reclassified as a Level 3 due to low trading volumes on these instruments.

Deposits from central banks/repurchase agreements
Fair values are estimated using discounted cash flows, applying current rates. Fair values approximate carrying amounts as their balances are generally short-dated.

Derivative financial assets and liabilities
The fair values of derivatives are obtained from discounted cash flow models or option pricing models as appropriate.

Notes to the condensed consolidated interim financial statements Continued
(unaudited)

15. Legal proceedings and regulatory matters
As part of the normal course of business we are subject to legal and regulatory matters. The matters outlined below represent contingent liabilities and as such at the reporting date no provision has been made for any of these cases within the financial statements. This is because, based on the facts currently known, it is not practicable to predict the outcome, if any, of these matters or reliably estimate any financial impact. Their inclusion does not constitute any admission of wrongdoing or legal liability.

Financial Crime
The FCA is currently undertaking enquiries regarding our financial crime systems and controls. We continue to engage and co-operate fully with the FCA in relation to these matters.

Magic Money Machine litigation
In 2022 Arkeyo LLC, a software company based in the United States, filed a civil suit with a stated value of over £24 million against us in the English High Court alleging, among other matters, that we infringed their copyright and misappropriated their trade secrets relating to money counting machines (i.e. our Magic Money Machines). We believe Arkeyo LLC's claims are without merit and are vigorously defending the claim.

16. Post balance sheet events
Tier 2 MREL eligibility
As set out in Note 10, on 28 July 2023 the Bank of England's Resolution Directorate agreed to a further extension to the pre-existing adjustment with respect to our £250 million 9.139% Tier 2 Notes regarding their MREL eligibility.

The adjustment permits the Tier 2 Notes to remain eligible to count towards our MREL requirement until their maturity date of 26 June 2028. Their eligibility as Tier 2 regulatory capital will continue to amortise from the call date (26 June 2023) over their remaining life.

Early repayment of TFSME
On 28 and 31 July we made early repayments totalling £550 million to the Bank of England in respect of amounts we had drawn down under TFSME. The repayment was financed using long-dated repurchase agreements. Following these repayments, the amount remaining due under the scheme total £3,250 million. These will mature in 2025 and 2027 in the amounts of £1,860 million and £1,390 million respectively.

There have been no other material post balance sheet events.

Alternative performance measures (unaudited)

In the reporting of financial information, we use certain measures that are not required under IFRS, the Generally Accepted Accounting Principles under which we report. These measures are consistent with those used by management to assess underlying performance. These alternative performance measures have been defined below, where a measure relates to a half year any financial statement lines marked with an * have been annualised in the calculation.

Cost of deposits

Interest expense on customer deposits divided by the average deposits from customers for the period.

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million	Full year to 31 Dec 2022 £'million
Interest on customer deposits*	51.0	20.5	12.4	32.9
Average deposits from customer	15,580	16,509	16,444	16,351
Cost of deposits (annualised)	0.66%	0.25%	0.14%	0.20%

Net-interest margin

Net interest income as a percentage of average interest–earning assets.

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million	Full year to 31 Dec 2022 £'million
Net interest income*	221.5	223.3	180.8	404.1
Average interest-earning assets	20,900	20,973	21,085	21,029
Net interest margin (annualised)	2.14%	2.11%	1.73%	1.92%

Cost of risk

Expected credit loss expense divided by average gross loans.

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million	Full year to 31 Dec 2022 £'million
Expected credit loss expense*	11.3	22.0	17.9	39.9
Average gross lending	12,934	12,871	12,346	12,611
Cost of risk (annualised)	0.18%	0.33%	0.29%	0.32%

Non-performing loan ratio

Gross balance of loans in stage 3 (non–performing loans) as a percentage of gross loans as at period end.

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Stage 3 loans	365	352	345
Loans and advances to customers	12,769	13,289	12,535
Non–performing loan ratio	2.86%	2.65%	2.75%

Coverage ratio

Expected credit losses as a percentage of gross loans.

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Expected credit losses	197	187	171
Gross loans and advances to customers	12,769	13,289	12,535
Coverage ratio	1.54%	1.41%	1.36%

Statutory cost:income ratio

Statutory total operating expenses as a percentage of statutory total income

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million	Full year to 31 Dec 2022 £'million
Operating expenses	259.7	275.5	278.8	554.3
Total income	286.4	287.0	236.5	523.5
Statutory cost:income ratio	91%	96%	118%	106%

Loan-to-deposit ratio

Net loans and advances to customers expressed as a percentage of total deposits as at the period end.

	30 Jun 2023 £'million	31 Dec 2022 £'million	30 Jun 2022 £'million
Net loans and advances to customers	12,572	13,102	12,364
Deposits from customer	15,529	16,014	16,514
Loan–to–deposit ratio	81%	82%	75%

Underlying cost:income ratio

Underlying total operating expenses as a percentage of underlying total income.

	Half year to 30 Jun 2023 £'million	Half year to 31 Dec 2022 £'million	Half year to 30 Jun 2022 £'million	Full year to 31 Dec 2022 £'million
Underlying operating expenses	258.2	266.5	266.3	532.8
Total underlying income	285.6	285.9	236.2	522.1
Underlying cost:income ratio	90%	93%	113%	102%

Alternative performance measures (unaudited)

Underlying profit/(loss)
Underlying profit/(loss) represents an adjusted measure, excluding the effect of certain items that are considered to distort period-on-period comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business.

Non-underlying item	Description	Reason for exclusion
Impairment and write-offs of property, plant, equipment and intangible assets	The costs associated with non-current assets that are either no longer being used by or are no longer generating future economic benefit for the business.	The impairments and write-offs relating to property, plant, equipment and intangible assets are removed as they distort comparison between periods. This is on the basis that the write-offs and impairments relate to specific events and triggers which are not consistent between periods.
Net C&I costs	These costs and income relate to the delivering the commitments associated with the Capability and Innovation Fund (awarded by BCR).	The commitments under the Capability and Innovation Fund continue through to 2025. The costs associated with fulfilling the commitments and associated income are felt to distort period-on-period comparison. Given the offsetting nature of the income and expenditure, there is no net impact on our profitability from this adjustment.
Remediation costs	Remediation costs consists of money spent in relation to the RWA adjustment including the associated investigations by the PRA and FCA as well as work undertaken in relation to financial crime.	The remediation costs are felt to be time limited and will disappear once the investigations have concluded. As such are removed to allow greater comparability between periods. Following the conclusion of the investigations by the PRA, FCA and OFAC in 2022 future remediation costs will be limited, primarily relating to the ongoing regulatory matters regarding financial crime.
Transformation costs	Transformation costs primarily consist of the costs associated with redundancy programmes during the year as part of our approach to right-sizing teams as well as the costs of work undertaken to establish our cost reduction programme.	The transformation costs are seen as a nonrecurring cost stream aimed at addressing the challenges the business faces. These are therefore removed in order to prevent period-on-period distortion. Following the conclusion of our transformation plan in 2022 no transformation costs have been recognised in 2023.
Holding company insertion costs	Costs associated with the establishment and insertion of a holding company (Metro Bank Holdings PLC) above the current operating company (Metro Bank PLC) to meet regulatory requirements.	In 2022 we started work on implementing our new holding company which was successfully implemented in May 2023. As such they have been excluded from our underlying results to avoid distortion between periods.

Half year to 30 Jun 2023	Statutory basis £'million	Impairment and write offs of PPE and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Underlying basis £'million
Net interest income	221.5	-	-	-	-	-	221.5
Net fee and commission income	42.2	-	-	-	-	-	42.2
Net gains on sale of assets	0.8	-	-	-	-	-	0.8
Other income	21.9	-	(0.8)	-	-	-	21.1
Total income	286.4	-	(0.8)	-	-	-	285.6
General operating expenses	(221.4)	-	0.8	-	(0.8)	1.5	(219.9)
Depreciation and amortisation	(38.3)	-	-	-	-	-	(38.3)
Impairment and write offs of property, plant, equipment and intangible assets	-	-	-	-	-	-	-
Total operating expenses	(259.7)	-	0.8	-	(0.8)	1.5	(258.2)
Expected credit loss expense	(11.3)	-	-	-	-	-	(11.3)
Profit before tax	15.4	-	-	-	(0.8)	1.5	16.1

Alternative performance measures (unaudited)

Half year to 31 Dec 2022	Statutory basis £'million	Impairment and write offs of PPE and intangible assets £'million	Net C&I costs £'million	Transformation costs £'million	Remediation costs £'million	Holding company insertion costs £'million	Underlying basis £'million
Net interest income	223.3	-	-	-	-	-	223.3
Net fee and commission income	42.3	-	-	-	-	-	42.3
Net gains on sale of assets	-	-	-	-	-	-	-
Other income	21.4	-	(1.1)	-	-	-	20.3
Total income	287.0	-	(1.1)	-	-	-	285.9
General operating expenses	(234.4)	-	1.1	2.3	2.3	1.8	(226.9)
Depreciation and amortisation	(39.6)	-	-	-	-	-	(39.6)
Impairment and write offs of property, plant, equipment and intangible assets	(1.5)	1.5	-	-	-	-	-
Total operating expenses	(275.5)	1.5	1.1	2.3	2.3	1.8	(266.5)
Expected credit loss expense	(22.0)	-	-	-	-	-	(22.0)
Loss before tax	(10.5)	1.5	-	2.3	2.3	1.8	(2.6)

Half year to 30 Jun 2022							
Net interest income	180.8	-	0.1	-	-	-	180.9
Net fee and commission income	39.5	-	-	-	-	-	39.5
Net gains on sale of assets	-	-	-	-	-	-	-
Other income	16.2	-	(0.4)	-	-	-	15.8
Total income	236.5	-	(0.3)	-	-	-	236.2
General operating expenses	(233.2)	-	0.3	1.0	3.0	-	(228.9)
Depreciation and amortisation	(37.4)	-	-	-	-	-	(37.4)
Impairment and write offs of property, plant, equipment and intangible assets	(8.2)	8.2	-	-	-	-	-
Total operating expenses	(278.8)	8.2	0.3	1.0	3.0	-	(266.3)
Expected credit loss expense	(17.9)	-	-	-	-	-	(17.9)
Loss before tax	(60.2)	8.2	-	1.0	3.0	-	(48.0)

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