METRO BANK

INTERIM REPORT

SIX MONTHS ENDED 30 JUNE 2021

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Forward-looking statements

This document contains forward-looking statements. Forward-looking statements are not historical facts but are based on certain assumptions of management regarding our present and future business strategies and the environment in which we will operate, which the Group believes to be reasonable but are inherently uncertain, and describe the Group's future operations, plans, strategies, objectives, goals and targets and expectations and future developments in the markets. 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 presentation are based on the Group's current expectations and, by their nature, forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Group's control, that could cause the Group's actual results and performance to differ materially from any expected future results or performance expressed or implied by any forward-looking statements. As a result, you are cautioned not to place undue reliance on such forward-looking statements. Past performance should not be taken as an indication or guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance. The Group undertakes no obligation to release the results of any revisions to any forward-looking statements in this presentation that may occur due to any change in its expectations or to reflect events or circumstances after the date of this presentation and the parties named above disclaim any such obligation.

COMPANY INFORMATION

About Metro Bank

Metro Bank is celebrated for its exceptional customer experience. It is the highest rated high street bank for overall service quality and best for service in-store for personal customers, and best for service in-store for business customers in the Competition and Market Authority's Service Quality Survey in February 2021. It was recognised as 'Bank of the Year' at the 2020 MoneyAge Awards and 'Banking Brand of The Year' at the Moneynet Personal Finance Awards 2021.

Offering retail, business, commercial and private banking services, it prides itself on giving customers the choice to bank however, whenever and wherever they choose. Whether that's through its network of stores; on the phone through its UK-based contact centres; or online through its internet banking or award-winning mobile app: the Bank offers customers real choice.
The Bank employs over 4,000 colleagues and is headquartered in Holborn, London.

Board of Directors

Chair
Robert Sharpe [N]

Non-Executive Directors

Catherine Brown [N, O, R]

Sally Clark [A, R]

Anne Grim [R]

Ian Henderson [A, O]

Monique Melis [A, N]

Sir Michael Snyder [N]

Paul Thandi [N, R]

Michael Torpey [A, O]

Nicholas Winsor [O]

(A) Member of the audit committee
(N) Member of the nomination committee
(O) Member of the risk oversight committee
(R) Member of the remuneration committee
Chair of the committee

Executive Directors

Daniel Frumkin – Chief Executive Officer

David Arden – Chief Financial Officer

Company Secretary

Melissa Conway

Registered Office
One Southampton Row
London
WC1B 5HA

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Registered Number

6419578

www.metrobankonline.co.uk

Metro Bank PLC. Registered in England and Wales. Company number: 6419578. Registered office: One Southampton Row, London, WC1B 5HA. 'Metrobank' is the registered trade mark of Metro Bank PLC.

It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Most relevant deposits are protected by the Financial Services Compensation Scheme. For further information about the Scheme refer to the FSCS website www.fscs.org.uk.
All Metro Bank products are subject to status and approval.

Metro Bank PLC is an independent UK bank - it is not affiliated with any other bank or organisation (including the METRO newspaper or its publishers) anywhere in the world. Please refer to Metro Bank using the full name.

SUMMARISED INTERIM RESULTS

	Half year to 30 June 2021	Half year to 31 December 2020	Change	Half year to 30 June 2020	Change
Profit and loss					
Underlying loss before tax[1]	**(£110.0m)**	(£88.4m)	24%	(£183.4m)	(40%)
Statutory loss before tax	**(£138.9m)**	(£71.0m)	96%	(£240.6m)	(42%)
Total income (statutory)[2]	**£196.3m**	£263.5m	(26%)	£168.9m	16%
Total operating expenses (Statutory)	**£320.6m**	£319.8m	0%	£297.5m	8%
Net interest margin	**1.28%**	1.28%	0 bps	1.15%	13 bps
Average cost of deposits	**0.31%**	0.49%	(18 bps)	0.82%	(51 bps)
	30 June 2021	**31 December 2020**	**Change**	**30 June 2020**	**Change**
Balance sheet					
Customer deposits	**£16,620m**	£16,072m	3%	£15,577m	7%
Customer loans	**£12,325m**	£12,090m	2%	£14,857m	(17%)
Loan to deposit ratio	**74%**	75%	(1 pps)	95%	(21 pps)
Total assets	**£23,013m**	£22,579m	2%	£22,134m	4%
Asset quality					
Coverage ratio	**1.33%**	1.30%	3 bps	0.96%	37 bps
Cost of risk (annualised)	**0.24%**	0.20%	4 bps	1.55%	(131bps)
Capital ratios					
Common Equity Tier 1 (CET1) ratio	**13.9%**	15.0%		14.5%	
Regulatory leverage ratio	**4.9%**	5.6%		5.8%	
Total regulatory capital plus MREL ratio	**21.7%**	22.4%		21.3%	
Customer metrics					
Customer accounts	**2.4m**	2.0m		2.1m	
Stores	77	77		77	

1. Underlying loss before tax is an alternative performance measure and excludes Listing Share Awards, impairment and write-off of property, plant & equipment (PPE) and intangible assets, net Banking Competition Remedies Limited (BCR) costs, transformation costs, remediation costs, business acquisition and integration costs and net income resulting from the mortgage portfolio sale when comparing to our statutory loss. A reconciliation between the Groups statutory to underlying results for the half year to 30 June 2021 can be found on page 48.
2. Statutory income in the six months to 31 December 2020 includes £69 million gain on sale of residential mortgage portfolio.

BUSINESS REVIEW

The first six months of 2021 have shown encouraging progress as we continue to deliver our strategy. While our operating environment remains challenging, economic indicators are beginning to show signs of improvement. The outlook is undoubtedly more positive compared to the full year, primarily due to the UK's successful vaccination programme and the gradual lifting of restrictions, but it remains unclear if and how the recovery will develop and as such we remain cautious in our approach.

The business performance is in line with that envisaged in our turnaround plan, even with the additional headwinds and capital drain caused by COVID-19 and we remain on track with the delivery of our strategy. The first half of the year has begun to show real momentum with underlying revenue up 14% over the preceding six months, when adjusted for the mortgage sale. The discipline of driving returns is starting to show early signs of success with a much lower cost of deposits, improving lending yield as a percentage of risk weighted assets and the lending and deposit mix shift all being indicators of progress.

2021 has seen the Bank continue to deliver on what we promised, both in respect of fixing the basics and focusing on addressing the additional challenges arising from the COVID-19 pandemic. In many areas the rapid acceleration of changes brought on by COVID-19 has created opportunities which we continue to capitalise on, building on the early positive indicators we have seen emerge in the first half of the year.

Net interest margin (NIM) has remained flat since the second half of last year, despite the mortgage sale and the excess liquidity we are carrying from the proceeds of that sale, as well as higher than anticipated deposit inflows in the first half. Our lending yields are continuing to accrete and our cost of deposits are continuing to reduce. Our diversification of lending streams to focus more on consumer lending, government backed support schemes and an expanded range of mortgages is allowing us to generate a greater return on risk-weighted assets.

Operationally the business is performing well and we have returned our stores to seven-day a week opening. Whilst our head office colleagues remain almost entirely home-based, we are aiming for a gradual return to the office from September 2021, with a hybrid working approach that follows extensive consultation with our colleagues. We are confident this approach is in the best interest of our colleagues and will continue to engage with them as we evolve our flexible working approach.

Review of strategic priorities

We recognised an underlying loss before tax of £110.0 million during the period (six months to 30 June 2020: £183.4 million, six months to 31 December 2020: £88.4 million) which reflects the cost of addressing legacy challenges, where we are in our turnaround plan and the ongoing impact of lockdowns.

Revenue

Whilst revenue was slightly down in the first six months of the year, this is a reflection of lower customer activity in line with national lockdowns impacting fee income. The fall in income arising from the mortgage sale at the end of last year was largely offset by a disciplined approach to deposit pricing, reducing cost of deposits, and the contribution from growth in consumer lending. Adjusting for the mortgage disposal, revenue increased 14% half on half. On front book pricing we are seeing strong growth in yields as we focus on achieving the right balance between risk and return and we concentrate our attention on areas of the lending market where we can compete effectively.

We have continued to rebalance our lending mix, with consumer lending making up a greater percentage of overall lending. This is mainly due to the acquisition of the RateSetter platform last year, which has provided a strong brand and enhanced capability in this area.

Alongside consumer lending we have bolstered our mortgage range to target underserved areas of the market. This has translated into higher average mortgage lending yields, despite the broader mortgage market remaining highly competitive.

By focusing on the right type of lending, whilst at the same time working to lower the price we pay for deposits, we are driving positive interest income jaws. Cost of deposits have fallen to 0.31%, from 0.49% in the second half of 2020 and are continuing to fall, demonstrating our business model is working and that we do not have to compete on price in order to win deposits. Indeed, pricing is now in line with the larger high street banks.

Fee and other income has remained subdued owing to the continuation of lockdown measures and travel restrictions. We continue to invest in this area as it provides an opportunity for capital efficient income growth and we are optimistic that the work we have undertaken in this segment of our business will mean it returns to growth as restrictions are lifted. New products, including our recently launched insurance partnerships, are areas that will assist in this, with initiatives such as our pet insurance product building on our strong customer proposition.

Costs

We continue to focus on costs, with underlying Run the Bank cost growth contained below 2% from the second half of 2020 to £214.9 million (six months to 31 December 2020: £206.3m million) after adjusting for the integration of RateSetter, which is now largely complete. Going forward we will be looking to realise the longer-term cost savings and additional synergies through this integration.

Infrastructure

We continue to develop our two new stores in Bradford and Leicester, these both remain large and attractive markets and present an opportunity to bolster our franchise. We have worked with new architects and have ensured our new stores are more sustainable, flexible and cost efficient than previous locations, whilst not compromising on the unique Metro Bank look and feel.

We have also agreed the further freehold purchase of three stores, all of which will complete in the second half of the year. These were secured at an attractive yield with a strong capital payback. Our strategy of purchasing the freeholds where the price is right allows us to buy ourselves out of long leases, providing greater flexibility over the sites, as well as being able to reduce costs.

In June we opened a new AMAZE Direct call centre in Bristol, utilising excess space above our store. The call centre underlines our focus on delivering exceptional service whether that be in store, on the phone, or digitally. As well as creating new roles to service our expanding customer base, the call centre also rationalised some of the existing smaller sites in central London which were set up earlier in our history and were no longer practical in terms of size and location for the next stage of our growth.

We have continued to invest in digital capabilities, namely in back office systems, and particularly in relation to regulatory compliance, including financial crime. We have also opened our business account online to a greater range of businesses, providing a simple and efficient way to open an account with us.

In addition to our back-office investments, we have also continued to launch new customer facing features. These include the addition of in-app invoicing technology for our small business accounts, helping customers keep track of their finances.

Balance sheet optimisation

We have continued to deliver on our promise of optimising our Balance Sheet to ensure greater capital efficiency.

2021 started with the completion of the sale of the residential mortgage portfolio and this was swiftly followed by the purchase of the RateSetter back book, which helped redeploy some of the capital and liquidity released though the sale. We are an accredited provider for the government-backed Recovery Loan Scheme, the latest government-backed business support programme. The scheme will be 80% government-backed, via the British Business Bank, and like the earlier schemes, provides both a strong return on capital as well as reduced risk lending.

Over the course of the first six months of the year we have also continued to shift our asset mix, with a clear focus on risk adjusted returns on regulatory capital. This has seen us grow our unsecured lending portfolio as well as specialist mortgage offering whilst at the same time letting older and higher risk weighted commercial loans attrite. This approach is now seeing us generate an increased level of lending income as a proportion of risk weighted assets.

Internal and External Communications

In June we launched our first small business advertising campaign centred around three talented entrepreneurs and showcased our award-winning small business banking offering. The campaign forms part of our updated brand strategy and focus on “people-people banking” – the philosophy that whatever happens in the future of banking, people need people and value human relationships.

Colleagues

We continue to invest in our colleagues and in April we were delighted to celebrate the first cohort of 14 colleagues to complete the Masters-level apprenticeship for senior banking professionals from Cranfield School of Management. The course is a fully funded Masters programme and the UK's first Masters-level apprenticeship for senior banking professionals funded by the Apprenticeship Levy. We have two further cohorts currently on the programme and look forward to enabling more colleagues to take advantage of this opportunity in the years ahead.

Capital management

Following the mortgage portfolio sale, we do not anticipate the need to issue debt capital in the second half of the year. We continue to take a portfolio view of balance sheet optimisation and MREL issuance, and we will take actions to optimise where needed. As in 2020, MREL resources may fall below the sum of the firm's MREL requirement and buffers (the loss absorbing capacity) for a period of time.

Outlook

We continue to deliver the strategy outlined in February 2020, with a focus on cost, revenue, infrastructure, balance sheet optimisation and internal and external communications. This strategy aims to return the Bank to sustainable profitability and provide adequate returns to shareholders.

It has been pleasing in the first half of 2021 to see the early stages of this strategy come through in our financial performance with the shift in lending mix, reduced cost of deposit, improved lending yield over base rate and higher lending income as a percentage of risk weighted assets all visible proof points.

I continue to be humbled by the phenomenal effort and energy my colleagues display every day to look after our customers, engage in our local communities and deliver on our purpose of creating fans. Our turnaround is driven by our exceptional colleagues and as we continue to execute our strategy, it will be their continued dedication that will allow us to become the UK's best community bank.

Daniel Frumkin
Chief Executive Officer
27 July 2021

FINANCE REVIEW

Our results for the first six months of 2021 reflect where we are in our strategic turnaround, although also show momentum within the business and positive signs that the approach adopted is working.

We recognised a statutory loss before tax for the period of £138.9 million, up from the £71.0 million recognised in the second half of 2020, with the increase primarily due to the £69.0 million gain relating to the £3.1 billion mortgage sale.

On an underlying basis the loss for the period of £110.0 million was an increase of 24% (six months to 31 December 2020: £88.4 million). This has been driven by c.£30 million of lost income in the first half of the year as the resulting liquidity freed up from the sale only started to be significantly deployed halfway through the period. Adjusting for this impact both interest income and profitability have increased half-on-half.

2021 has seen us continue to focus on shifting our deposit mix, which has led to the costs of deposits falling from 0.49% to 0.31% from the second half of 2020. Alongside this we have delivered an increasing lending yield and our approach of optimising the balance sheet is now seeing us generate a greater level of interest income as a proportion of risk weighted assets.

We ended the period with CET 1 capital ratio of 13.9% and an MREL ratio of 21.7%. These compare to the regulatory minima (excluding any confidential buffer) of 9.3% and 20.5% respectively. We continue to take a measured approach to capital management and are focused on building a greater risk adjusted return on regulatory capital.

Our primary focus remains the transformation of the Bank and in doing so we are taking a prudent approach in our assessment of the pace of economic recovery. We recognised an expected credit loss expense of £14.6 million for the period which is broadly flat half-on-half (six months to 31 December 2020: £14.7 million).

Income statement review

Table 1: Summary income statement

	Half year to 30 June 2021 (unaudited) £'million	**Half year to 31 December 2020 (unaudited) £'million**	**Half year to 30 June 2020 (unaudited) £'million**	**Year-on-year growth**
Net interest income	**133.3**	133.8	115.9	15%
Net fee, commission and other income	**54.8**	57.6	52.0	
Net gains on sale of assets	**8.2**	72.1	1.0	
Total income	**196.3**	263.5	168.9	16%
General operating expenses	**(272.8)**	(268.2)	(234.1)	17%
Depreciation and amortisation	**(40.3)**	(37.6)	(36.8)	
Impairment and write-off of PPE and intangible assets	**(7.5)**	(14.0)	(26.6)	
Expected credit loss expense	**(14.6)**	(14.7)	(112.0)	
Loss before tax	**(138.9)**	(71.0)	(240.6)	(42%)
Taxation	**(2.2)**	8.6	1.1	
Loss after tax	**(141.1)**	(62.4)	(239.5)	(41%)

Net interest income

Net interest income increased 15% year-on-year to £133.3 million (six months to 30 June 2020: £115.9 million), despite the £3.1 billion mortgage book sale, reflecting increased front book yields, including our meaningful entry into the personal lending market, combined with actions we have taken to reduce cost of deposits. Interest income was slightly reduced from the second half of 2020 (six months to 31 December 2020: £133.8 million) primarily due to the sale of the mortgage portfolio that completed at the start of the year. Adjusting for the mortgage portfolio sale, net interest income increased 57% year on year and 27% half on half.

NIM remained flat from the second half of 2020 at 1.28% (six months to 31 December 2020: 1.28%) and up from 1.15% in the first six months of 2020. The preservation of NIM was achieved despite continued strong deposit inflows and the excess liquidity arising from the mortgage sale.

Fee, commission and other income

Fee commission and other income remain below pre-pandemic levels as the lockdowns at the start of 2021 continued to constrain activity. As restrictions started to be lifted at the end of the period, we have seen an uptick in activity, particularly in areas such as foreign exchange, where volumes had been significantly depressed throughout the pandemic.

Fees and commission remains an area where we believe that we can deliver strong capital efficient returns by building on our expanding account base and leading customer service.

Operating expenses

Operating expenses grew to £275.2 million on an underlying basis during the first six months from £224.7 million in the same period for 2020 and £261.3 million for the last six months of 2020. The year-on-year increase is impacted by several factors, including store growth late in the first half of 2020 and the acquisition of RateSetter which occurred in September 2020. When compared to the final six months of 2020, which is a more representative comparison, cost growth was contained to 5%; 3% once adjusted for the timing of the RateSetter acquisition. On that adjusted basis, Run the Bank cost growth was less than 2%, in line with the guidance we provided at the start of the year.

On a statutory basis total operating expenses remained broadly flat at £272.8 million compared to £268.2 million for the second half of 2020 as the absorption of the additional RateSetter running costs was offset by lower transformation and integration expenditure.

Remediation issues continue to be a significant expense with associated costs of £25.4 million recognised in the period (six months to 31 December 2020: £23.0 million, six months to 30 June 2020: £17.8 million). We are continuing to work closely with the regulators in these investigations.

Expected credit loss expense

Although the macroeconomic environment has improved in 2021, the net charge of £14.6 million (six months to 30 June 2020: £112.0 million, six months to 31 December 2020: £14.7 million) recognised for the period reflects the continued uncertainty, particularly in respect of new COVID variants and the speed and sustainability of lifted restrictions; during the period we added a fourth macroeconomic scenario to help capture this cautious outlook. We have also continued to develop our provisioning models to capture a greater range of factors, and to apply a material level of post model overlays to capture factors that are not easily reflected in the scenarios. These reflect additional uncertainty arising from the withdrawal of pandemic support measures, including the jobs retention scheme, stamp duty holiday and payment deferrals. These also capture newer risks, including the impact on certain property valuations due to the incidence of cladding.

Our expected credit losses also represent the changes in our lending mix during the start of the year as unsecured consumer lending now constitutes a greater proportion of our balance sheet, following the mortgage portfolio sale in December 2020 and the increase in unsecured lending delivered via RateSetter; whilst moving into unsecured lending generates higher yields, by its nature it also leads to a higher cost of risk. We continue to manage our unsecured lending within a defined risk appetite, with a focus on prime and near prime segments, underpinned by strong credit scoring criteria to ensure we limit losses, which to date remain low.

Balance sheet review

Table 2: Summary balance sheet

	30 June 2021 (unaudited) £'million	31 December 2020 (audited) £'million	Growth
Assets			
Cash and balances with the Bank of England	**5,111**	2,993	
Loans and advances to customers	**12,325**	12,090	2%
Investment securities held at fair value through other comprehensive income (FVOCI)	**1,198**	773	
Investment securities held at amortised cost	**3,165**	2,640	
Financial assets held at fair value through profit and loss	**5**	30	
Property, plant and equipment	**786**	806	
Intangible assets	**253**	254	
Prepayments and accrued income	**75**	77	
Assets classified as held for sale	**-**	295	
Other assets	**95**	2,621	
Total assets	**23,013**	22,579	2%
Liabilities			
Deposits from customers	**16,620**	16,072	3%
Deposits from central banks	**3,800**	3,808	
Debt securities	**596**	600	
Financial liabilities held at fair value through profit and loss	**-**	30	
Repurchase agreements	**212**	196	
Derivative financial liabilities	**8**	8	
Lease liabilities	**310**	327	
Deferred grant	**22**	28	
Provisions	**5**	11	
Deferred tax liability	**13**	12	
Other liabilities	**280**	198	
Total liabilities	**21,866**	21,290	
Total equity	**1,147**	1,289	

Deposits

Deposits grew by 3% from 31 December 2020 to £16,620 million at 30 June 2021 (31 December 2020: £16,072 million). The increase was primarily driven by commercial and SME customers which were up 25% and 4% respectively from the start of the year.

Current account balances grew by 9% during the first half of the year and make up 41% of total customer deposits as at 30 June 2021 (31 December 2020: 39%). We continue to see customer preference moving towards having instant access to funds, leading to growth of current accounts and instant access savings accounts, whilst at the same time we have proactively let higher cost fixed term deposits roll off as we continue to manage cost of deposits down.

Deposit growth in the second half will be influenced by customer behaviour, as cash balances are utilised as the economy recovers from the impacts of the pandemic, combined within the unwinding of government support measures. Focus will remain on maintaining a high-quality mix of relationship-driven customer deposits.

Lending

Net lending ended the period at £12,325 million, up 2% from £12,090 million at 31 December 2020. The £235 million increase has been driven by a c£500 million growth in consumer lending, offset by a moderate reduction in the commercial loans and retail mortgage books. The growth in consumer lending is a result of both organic origination through the RateSetter platform, and the purchase of the £337 million back book from peer-to-peer investors. Our investment in consumer lending, including integrating the RateSetter lending capabilities in store, provides a strong base on which we can capitalise as the economy opens and we are ready to serve a consumer-led recovery.

Retail mortgages remained the largest component of the lending book at 55% of gross lending (31 December 2020: 56%), down £77 million to £6,815 million at 30 June 2021 from £6,892 million at 31 December 2020. The decrease reflects the attrition of older loans, offset by our continued penetration into underserved areas of the mortgage market, which has replaced some of these balances.

Commercial loans, which now comprise 40% of our lending, saw a £176 million reduction from £5,148 million at 31 December 2020. The decrease is down to older term loans repaying combined with a slowdown in new government-backed lending in the first half of the year. We have now started to participate in the new government-backed Recovery Loan Scheme and therefore expect to see the return of some growth in this area. The second half of the year will also see the repayments of BBLS loans as the customer, rather than the government, starts to pay interest on these loans.

Property, plant & equipment and intangibles

Non-current assets have decreased during the period, driven by a reduction in our PPE balance, reflecting the scaling back of our store opening programme. We continue to work on sites in Leicester and Bradford and we have no further stores in the pipeline once these are open.

We have also recently agreed the purchase of a further three freeholds which will complete in the second half of 2021; once completed a third of our store estate will be freehold. By trading right of use assets for freeholds at attractive prices we can both reduce costs and gain flexibility for minimal additional risk weighted assets.

Intangibles remained flat over the first six months of the year as continued investment, albeit at a slower rate, was offset by amortisation and impairment charges.

Capital

Our CET1, Tier 1 and MREL ratios at 30 June 2021 were 13.9%, 13.9% and 21.7% respectively, compared to the regulatory minimum of 7.6%, 9.3% and 20.5%, respectively, (excluding any confidential PRA buffer). MREL resources may fall below the sum of our MREL requirement and buffers (the loss absorbing capacity) for a period of time.

Risk weighted assets ended the period down 5% to £7,563 million (31 December 2020: £7,957 million) reflecting our change in asset mix and our focus on improving return on regulatory capital. The reduction was also supported by the settlement of the final tranche of the mortgage portfolio in February 2021.

Liquidity

Our liquidity position continues to be strong owing to the liquidity freed up from the mortgage portfolio sale. We ended 30 June 2021 with a Liquidity Coverage Ratio (LCR) of 309%. We will continue to prudently manage our investments and to invest in high quality securities while maintaining a strong cash position.

Going concern

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 outlook.

David Arden
Chief Financial Officer
27 July 2021

RISK REVIEW

As at 30 June 2021, there had been no significant change to the business model, risk management framework or risk appetites we outlined in our 2020 Annual Report and Accounts. We have reassessed the principal and emerging risks we face, including those that could result in events or circumstances that might threaten our business model, future performance, solvency or liquidity, and reputation. The principal risk categories remain similar to those outlined in the 2020 Annual Report and Accounts, with changes relating to the identification of legal risk as a principal risk.

A detailed description of our principal risks and uncertainties to which we are exposed, along with our approach to mitigating these risk, is set out in the risk report which can be found on pages 15 to 22 of our 2020 Annual Report and Accounts. These risks consist of:

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

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

Liquidity and Funding risk - The risk that we fail to meet our short-term obligations as they fall due or 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.

Financial crime - 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.

Regulatory Compliance risk - The risk of failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests or failing to meet regulatory deadlines; or obstructing the regulator.

Conduct risk - The risk of treating customers unfairly and delivering poor outcomes that lead to customer detriment, such as financial loss and/or distress and inconvenience. This can also result in wider adverse impacts, for example, loss of our FANS, reputational damage, regulatory and/or legal action.

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.

Capital risk - The risk that we fail to meet minimum regulatory capital (and MREL) requirements. Management of capital is essential to the appropriate management of our balance sheet, ensuring our resilience under stress, and the maintenance of the confidence of our current and potential creditors (including bondholders, the bond market, and customers) and key stakeholders in the pursuit of our business strategy.

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.

Further information on credit risk, liquidity and operational risk are outlined below.

Credit risk

COVID-19 continues to disrupt the economy and has had a material impact on customers. We reacted quickly to this by offering payment deferral, and other temporary support options, across both retail and commercial lending and we continue to provide customer support through government lending schemes and forbearance measures. In addition, the Bank has retained prudency in the estimation of expected credit losses (ECL) across all portfolios, including the use of management overlays, and continues to assess the validity of these estimates to ensure an appropriate level of coverage is maintained.

The effectiveness of government support during the pandemic has somewhat muted the emergence of defaults and impairments, resulting in a half year impairment charge £14.6 million. Arrears have remained broadly stable in the first six months of 2021 after most customers rolled off payment deferrals. The majority of payment deferral customers have now returned to contractual payments (with some requiring additional support) and this has led to an improvement in mix across IFRS 9 stages with customers transitioning from stage 2 back to stage 1. Whilst we do expect migrations to stage 2 and 3 to increase, particularly as government support ceases, we are holding an appropriate level of ECL, including COVID-19 related management overlays, to account for the anticipated deterioration.

The macroeconomic outlook has improved as the roll out of the vaccine continues and lock down measures are relaxed. However, there remains an unprecedented level of uncertainty with furlough ending in September, and as payments become due on Government backed loans schemes. We continue to monitor and assess the impact of COVID-19 on customers and the performance of our credit portfolios through these challenging times.

We continue to shift the balance sheet in line with our strategic objectives. The integration of RateSetter into our unsecured consumer finance division has supported higher growth in this area. This has been managed within a Board approved risk appetite and appropriate controls are in place to manage credit risk including the modelling of future losses, appropriate credit policy and referral to specialist manual underwriters where necessary.

Expected credit losses

We have increased the ECL level slightly during the half year of 2021 to £166 million (31 December 2020: £154 million) resulting in an overall coverage level of 1.33% (31 December 2020: 1.30%). This increase was predominately driven by the origination of new consumer loans, the purchase of the RateSetter back book, and a small number of individually assessed impairments on larger commercial loans.

This has been partly offset by the reduction in management overlays to reflect customers with previous payment deferrals options resuming contractual payments, implementation of the new loss given default (LGD) model and portfolio reductions primarily driven by the run-off of the legacy consumer unsecured lending portfolio.

Table 3: Expected credit expense movements

	Six months to 30 June 2021 £'million	Six months to 30 June 2020 £'million	Change £'million
Retail mortgages	(11)	(8)	(3)
Commercial lending	8	20	(12)
Consumer lending	17	3	14
Total expected credit loss expense	**15**	**15**	**-**

COVID support for customers

We participated in all three of the Government's key lending support programmes and have also become an accredited lender for the Recovery Loan Scheme (RLS). As at 30 June 2021 there is a total of £1.6 billion of government loans outstanding with £1.4 billion of BBLS, £162 million of CBILS and £39 million CLBILS.

We have proactively offered support measures to both retail customers, mainly in the form of payment deferrals, and commercial customers, in the form of capital repayment holidays, interest roll up, covenant suspensions and increases in working capital facilities. As at 30 June 2021 we have less than 1% of the overall book still requiring this support.

Alongside this, we have provided further support to households through waiving certain account fees as well as suspending interest on overdrafts.

We have provided an on-line portal enabling our BBLS customers to select from Pay as You Grow (PAYG) options to extend the term of their loan, take a six-month payment holiday or take a six-month interest only payment period. As at 30 June 2021 approximately five and half thousand customers have applied for one for above options which represents 14.9% of all BBLS granted.

Residential mortgage lending

The majority of our lending comprises residential mortgages, typically issued by ourselves with a loan to value of less than 95% and with strong collateral providing mitigation to withstand economic stress and therefore minimise our credit losses.

The average debt to value (DTV) of our residential mortgage book as at 30 June 2021 was 56% (31 December 2020: 56%).

We have taken advantage of opportunities to lend to customers with strong credit ratings for greater than 80% DTV, although the property price growth on back book lending has meant that the DTV profile has remained largely unchanged.

Asset quality and the standard of lending remain strong. However, COVID-19 and lockdown will continue to place strain on customers' financial circumstances. An increase in arrears was observed at the end of last year primarily driven by those customers rolling off support schemes, such as payment deferrals, but who continued to face financial difficulties. Since then arrears levels have been broadly stable.

Table 4: Residential mortgage lending by DTV banding

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Less than 50%	**1,852**	**504**	**2,356**	1,855	502	2,357
51-60%	**795**	**401**	**1,196**	842	390	1,232
61-70%	**971**	**586**	**1,557**	836	533	1,369
71-80%	**951**	**291**	**1,242**	1,084	407	1,491
81-90%	**377**	**1**	**378**	359	4	363
91-100%	**80**	**-**	**80**	74	-	74
More than 100%	**2**	**4**	**6**	1	5	6
Total retail mortgage lending	**5,028**	**1,787**	**6,815**	5,051	1,841	6,892

Table 5: Residential mortgage lending by repayment type

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Interest	**2,221**	**1,703**	**3,924**	2,337	1,751	4,088
Capital and interest	**2,807**	**84**	**2,891**	2,714	90	2,804
Total retail mortgage lending	**5,028**	**1,787**	**6,815**	5,051	1,841	6,892

Table 6: Residential mortgage lending by geographic exposure

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Retail owner occupied £'million	**Retail buy-to-let £'million**	**Total retail mortgages £'million**	Retail owner occupied £'million	Retail buy-to-let £'million	Total retail mortgages £'million
Greater London	**2,157**	**1,115**	**3,272**	2,213	1,147	3,360
South East	**1,172**	**295**	**1,467**	1,157	309	1,466
South West	**430**	**87**	**517**	433	91	524
East of England	**303**	**71**	**374**	298	73	371
North West	**259**	**61**	**320**	265	63	328
West Midlands	**185**	**60**	**245**	179	58	237
Yorkshire and the Humber	**140**	**36**	**176**	139	37	176
East Midlands	**137**	**25**	**162**	131	25	156
Wales	**105**	**20**	**125**	102	21	123
North East	**62**	**10**	**72**	62	10	72
Scotland	**78**	**7**	**85**	72	7	79
Total retail mortgage lending	**5,028**	**1,787**	**6,815**	5,051	1,841	6,892

Commercial lending

Table 7: Summary of commercial lending

	30 June 2021 (unaudited) £'million	31 December 2020 (audited) £'million
Professional buy-to-let	**1,037**	1,117
Other term loans	**1,963**	2,138
Non-Government backed commercial term loans	**3,000**	3,255
Bounce back loans	**1,394**	1,353
Coronavirus business interruption loans	**162**	114
Government backed commercial term loans	**1,556**	1,467
Total commercial term loans	**4,556**	4,722
Overdrafts and revolving credit facilities	**133**	149
Credit cards	**3**	3
Asset and invoice finance	**280**	274
Total commercial lending	**4,972**	5,148

Total commercial lending has decreased over the first half of 2021 to £5.0 billion. New lending principally reflects government support schemes. Repayment of professional buy-to-let and commercial term loans has also led to a reduction in the commercial portfolio.

Our commercial lending remains largely comprised of secured term loans and Government backed lending, with the remaining balance consisting of term loans and facilities secured by other forms of collateral (such as debentures) and asset and invoice finance.

As at 30 June 2021 the average DTV of our total commercial term loan book was 59% (31 December 2020: 56%).

DTV greater than 100% includes loans which benefit from additional forms of collateral which are not included in the DTV figure (such as debentures or unsupported guarantees) which provide an additional level of mitigation not accounted for in the calculation of expected credit loss. Our DTV profile primarily reflects the value of property collateral supporting our term loans and does not include any value from government guarantees provided to support CBILS and CLBILS lending. DTV greater than 100% has increased over the first half of 2021 primarily due to COVID impacts on the asset values of a small number of larger commercial loans.

Table 8: Commercial term lending (exc. BBLS) by DTV banding

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Less than 50%	**321**	**789**	**1,110**	353	876	1,229
51-60%	**257**	**473**	**730**	261	546	807
61-70%	**312**	**221**	**533**	351	255	606
71-80%	**129**	**64**	**193**	133	100	233
81-90%	**8**	**91**	**99**	9	51	60
91-100%	**6**	**10**	**16**	6	13	19
More than 100%	**4**	**477**	**481**	4	411	415
Total commercial term lending	**1,037**	**2,125**	**3,162**	1,117	2,252	3,369

Table 9: Commercial term lending (exc. BBLS) by industry exposure

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Real estate (rent, buy and sell)	**1,037**	**889**	**1,926**	1,117	1,032	2,149
Legal, Accountancy & Consultancy	**-**	**207**	**207**	-	208	208
Health & Social Work	**-**	**226**	**226**	-	248	248
Hospitality	**-**	**370**	**370**	-	376	376
Retail	**-**	**100**	**100**	-	107	107
Real estate (management of)	**-**	**10**	**10**	-	60	60
Construction	**-**	**72**	**72**	-	36	36
Recreation, cultural and sport	**-**	**84**	**84**	-	53	53
Investment and unit trusts	**-**	**13**	**13**	-	9	9
Education	**-**	**25**	**25**	-	30	30
Real estate (development)	**-**	**36**	**36**	-	60	60
Other	**-**	**93**	**93**	-	83	83
Total commercial term lending	**1,037**	**2,125**	**3,162**	1,117	2,252	3,369

The sector profile for commercial term lending is broadly consistent with the position as at 31 December 2020. There has been a reduction in commercial real estate and professional buy-to-let of c.10%.

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

Commercial customers are managed through early warning categorisation where there have been some early signs of financial difficulty. The overriding objective is to identify, at an early stage, those customers for whom we believe repayment difficulties may develop, thereby allowing timely engagement and appropriate corrective action to be taken. Early warning categorisation supports IFRS 9 stage allocation.

Total lending in early warning categories has stabilised over the first six months of 2021, after the increases driven by COVID-19 over 2020. The majority of customers in early warning categories have received temporary COVID-19 support including payment holidays or government backed loans. We are now observing that many off these customers no longer require COVID-19 support, but we remain cautious in our provision approach in respect of them. There is a risk of increasing default levels as government support measures come to an end including furlough, VAT deferral, and moratorium on landlord action, and repayments fall due on BBLS and CBILS loans.

Therefore, we consider that credit risk remains heightened. We continue to maintain a cautious approach to impairments until the vaccine deployment programme is completed, vaccines prove effective against new COVID-19 variants and the economic recovery takes hold. We have maintained impairment levels to accommodate expected increasing default levels over the remainder of 2021.

Table 10: Commercial term lending (exc. BBLS) by repayment type

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Interest	**979**	**231**	**1,210**	1,058	281	1,339
Capital and interest	**58**	**1,894**	**1,952**	59	1,971	2,030
Total commercial term lending	**1,037**	**2,125**	**3,162**	1,117	2,252	3,369

Table 11: Commercial term lending (exc. BBLS) by geographic exposure

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Professional buy-to-let £'million	**Other term loans £'million**	**Total commercial term loans £'million**	Professional buy-to-let £'million	Other term loans £'million	Total commercial term loans £'million
Greater London	**723**	**1,254**	**1,977**	780	1,358	2,138
South East	**189**	**386**	**575**	205	399	604
South West	**29**	**151**	**180**	31	156	187
East of England	**46**	**67**	**113**	48	67	115
North West	**19**	**144**	**163**	20	146	166
West Midlands	**9**	**66**	**75**	10	66	76
Yorkshire and the Humber	**3**	**13**	**16**	3	13	16
East Midlands	**10**	**13**	**23**	11	18	29
Wales	**5**	**9**	**14**	5	10	15
North East	**3**	**21**	**24**	3	18	21
Northern Ireland	**1**	**-**	**1**	1	-	1
Scotland	**-**	**1**	**1**	-	1	1
Total commercial term lending	**1,037**	**2,125**	**3,162**	1,117	2,252	3,369

Consumer lending

The acquisition of RateSetter has driven improved capability to lend in the unsecured consumer loans market, with RateSetter loans now accounting for 80% of unsecured consumer lending. Performance of new lending is in line with expectations.

Overall asset quality remains strong, although arrears performance since the onset of COVID-19 has been muted by the payment deferrals scheme and the government furlough support schemes.

Non-performing loans

Table 12: Non-performing loans

	30 June 2021 (unaudited)		31 December 2020 (unaudited)	
	NPLs £'million	**NPL ratio %**	NPLs £'million	NPL ratio %
Retail mortgages	**110**	**1.61%**	118	1.70%
Consumer lending (incl. RateSetter)	**18**	**2.57%**	13	6.13%
Commercial lending (including asset and invoice finance)	**187**	**3.76%**	127	2.48%
Total	**315**	**2.52%**	258	2.10%

Total Non-Performing Loans (NPLs) increased to £315 million (31 December 2020: £258 million). This increase was primarily driven by commercial customers who have previously sought COVID-19 support measures, and now require further forbearance support. The increase in NPL has been dampened by the government support measures still in place and there is a risk this will increase further in the second half of 2021.

NPLs for consumer customers have decreased to 2.57% (31 December 2020 6.13%) driven by the increase in overall lending, facilitated by RateSetter in the first half of the year as well as the run off of legacy consumer loans.

Cost of risk

Cost of risk (CoR) is credit impairment expense expressed as a percentage of average gross lending. The overall CoR has decreased to 0.24% in the first half of the year (2020: 0.86%) due to the significant charges taken in 2020 in response to COVID-19, compared to the relatively smaller charge movements observed in H1 2021.

Table 13: Cost of risk

	Half year to 30 June 2021 annualised (unaudited) %	Full year 31 December 2020 (unaudited) %
Retail mortgages	**(0.32%)**	0.19%
Consumer lending	**7.16%**	5.97%
Commercial lending (including asset, invoice finance, CBLS, BBLS)	**0.32%**	1.99%
Total	**0.24%**	0.86%

The decrease in the retail mortgage CoR to -0.32% (2020: 0.19%) is primarily driven by in the reduction in management overlays for customers benefiting from payment deferrals, as customers have returned to contractual monthly payments and implementation of a new LGD model.

The increase in Consumer lending CoR to 7.16% (2020: 5.97%) is driven by the purchase of the RateSetter back book. The day one ECL charge for the acquired loans has artificially inflated the CoR for the period, as the portfolio was acquired half way through the period. This means that the average consumer lending balances, which the charge for the period is divided by to calculate CoR, only reflects the back book balance for roughly half the period.

The decrease in Commercial lending CoR to 0.32% (2020: 1.99%) is driven by a smaller £10m impairment charge compared to the significant charge taken in 2020 in response to the onset of COVID-19.

Liquidity and funding risk

Liquidity

Our liquidity position continues to be strong, with our LCR standing at 309% as at 30 June 2021 (31 December 2020: 187%). Our strong liquidity position was strengthened by the completion of the mortgage sale at the start of the year and greater than expected deposit inflows.

We ended the period with a loan to deposit ratio of 74% (31 December 2020: 75%) and we continue to be deposit funded with no reliance on the wholesale markets.

We continue to have access to, and have made use of, the Bank of England's TFS and TFSME, both of which provide us with additional cost-efficient source of liquidity although are not reliant on this as a primary source of funding.

Capital

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

Our CET1 capital ratio decreased to 13.9% at 30 June 2020 from 15.0% as at 31 December 2020. This was primarily due to the losses incurred during the period.

The minimum CET1, Tier 1 and Total Capital Ratio requirements, excluding any confidential PRA buffers, were 7.6%, 9.3% and 11.6%% respectively at 30 June 2021.

We continue to apply the IFRS 9 regulatory transitional arrangements, which allows us to add back to our capital base a portion of the IFRS 9 impairment charges during the transitional period, and our capital ratios are presented on a transitional basis after the application of this arrangement.

The CET1 capital ratio at 30 June 2021 includes a c.1.0% benefit related to software assets which are exempt from the deduction requirement for intangibles assets from CET1. The PRA has consulted on a proposal to revert this treatment and on 9 July 2021 a policy statement was published confirming the requirement for CET1 deduction of intangible software assets will be fully implemented on 1 January 2022.

In 2021 we are subject to an interim MREL requirement of 18% of risk-weighted assets plus buffers, which equates to 20.5% of risk-weighted assets (excluding any confidential PRA buffers). We ended the period with an MREL ratio of 21.7% (31 December 2020: 22.4%). MREL remains the binding constraint on the Bank and our MREL resources may fall below the sum of our MREL requirement plus buffers for a period of time.

Table 14: Capital resources

	30 June 2021 (unaudited) £'million	31 December 2020 (audited) £'million
Ordinary share capital	**-**	-
Share premium	**1,964**	1,964
Retained earnings	**(835)**	(694)
Other reserves	**18**	19
Intangible assets	**(253)**	(254)
Other regulatory adjustments	**158**	157
Total Tier 1 capital (CET1)	**1,052**	1,192
Debt securities (Tier 2)	**249**	249
Total Tier 2 capital	**249**	249
Total regulatory capital	**1,301**	1,441

Operational risk

Impact of COVID-19

In response to the pandemic, it was necessary to implement new ways of working and adapt operational processes in 2020, the associated risks of which continue to be actively assessed for mitigation or acceptance as appropriate and process improvements made and embedded as business as usual. Our overall operational risk profile has remained relatively stable but is subject to ongoing review as the situation unfolds and the longer-term impacts of COVID-19 are fully understood. We continue to plan for, and respond to, ongoing developments to ensure continuity of service, minimise the impact on the risk profile, keep our colleagues and customers safe, and comply with UK Government guidance. While the roll-out of COVID-19 vaccines is underway, it will be some time before this materially reduces the impact of the pandemic on our day-to-day operations.

Fraud risk

We continue to work hard in a constantly evolving environment to minimise the impact of fraud. The level of fraud-related losses has increased but this is in proportion to the increase seen across the industry, particularly in relation to scams on our customers, to which we remain vigilant. Our round-the-clock operation reacts quickly to the fraudsters' changing tactics, minimising the impact to customers, and we continue to invest in system defences, and we provide regular communication and training to our colleagues and customers to ensure that we maintain a strong position in the industry. We are also one of nine firms which have signed up to the Lending Standards Board's Contingent Reimbursement Model voluntary code and we are fully committed to its principles.

Cyber threat

The impact which a successful cyber attack could have on our customers remains a very significant focus of attention, as we both manage our current IT systems and plan to deliver new technology for the future, recognising the changing cyber landscape and the increased focus on digital capabilities. This is mitigated by ongoing investment in our cyber and information security infrastructure, enabling us to make constant improvements to our monitoring, control and response capabilities to protect customer data and minimise the risk of disruption.

Operational resilience

In order to continue to proactively prevent, respond to, recover and learn from operational disruptions, we are investing in measures to enhance our operational resilience in line with increased regulatory requirements, including improving the management of our use of third party suppliers.

Emerging risks

Within our 2020 annual report we outlined several emerging risks. An update to these is provided below where appropriate. We have not identified any new emerging risks in the first half of 2021.

Emerging risk	Change from full year
Macroeconomic environment	The full extent of the economic impacts from COVID-19 is yet to be seen. The duration and depth of the downturn continues to remain uncertain due to the emergence of new variants and risks to credit and margin performance are expected, with significant disruption to both supply and demand already occurring. Increasing levels of unemployment could impact customers' ability to repay their lending. The efficacy of monetary and fiscal policy, and the speed and ability with which the UK can return to 'normal' operating conditions, will determine the overall economic impact for the UK. We continue to monitor economic and political developments in light of the ongoing uncertainty, considering potential consequences for our customers, products and operating model. We actively monitor our credit portfolios and undertake robust internal stress testing to identify sectors that may come under stress as a result of an economic slowdown in the UK.
Climate risk	There is significant uncertainty around the time horizon over which climate risks will materialise, as well as the exact way in which they will occur. Our mortgage portfolio represents a significant proportion of our customer lending. Increases in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property. In addition, tightening minimum energy efficiency standards for domestic buildings could impact the value of mortgaged properties or the ability of borrowers to service debt. We have low levels of lending to carbon-related assets; however, we may be exposed to future transition risks through the business portfolio. Analysis of current river and sea flood risk to properties within the mortgage portfolio has been undertaken as an initial step in assessing the physical risk to our lending. Scenario analysis work will be undertaken to consider the longer-term impacts, as well as the high degree of uncertainty. Transition risk within the mortgage portfolio will also be considered, with an assessment of the energy efficiency of properties, and we intend to use this information to support our customers to 'green' their homes. An assessment of sectors (and sub-sectors) that may have a higher likelihood of being impacted by transition risks from moving to a lower carbon environment has been performed to increase understanding of the possible risks facing our customers, and support prioritisation of areas where further analysis is required. Building scenario analysis capability is a key component of work being undertaken in 2021.
Digitisation	COVID-19 has accelerated the digitisation of the banking industry in the space of a few months and is likely to lead to rapid change over the coming years as the industry rapidly adapts to customers' evolving behaviours. This is spurring an acceleration of investment and delivery by both incumbent banks and neo-banks to provide enhanced digital propositions to customers in both the consumer and business markets. The Bank's strategy had always been predicated on new and exciting digital propositions, with the implications of the pandemic supporting that ambition, but also accelerating the timeframe for delivery. Our rapid response to the pandemic has demonstrated our ability to implement change and digital solutions swiftly. We are, therefore, continuously evaluating the timetable and investment profile of our strategy. We are continuing with our investment and digital development in the near term to position us for the future.

STATEMENT OF DIRECTOR'S 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' and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months ended 30 June 2021 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 2021 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
27 July 2021

David Arden
Chief Financial Officer
27 July 2021

INDEPENDENT REVIEW REPORT TO METRO BANK PLC

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Metro Bank PLC's condensed consolidated interim financial statements (the "interim financial statements") in the interim report of Metro Bank PLC for the 6 month period ended 30 June 2021 (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.

What we have reviewed

The interim financial statements comprise:

- The consolidated balance sheet as at 30 June 2021;
- The consolidated statement of comprehensive income for the period then ended;
- The consolidated cash flow statement for the period then ended;
- The 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 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.

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.

Our responsibility is to express a conclusion on the interim financial statements in the interim report based on our review. 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. 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.

PricewaterhouseCoopers LLP
Chartered Accountants
London
28 July 2021

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the half year to 30 June 2021[1]

	Note	**Half year to 30 June 2021 £'million**	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Interest income	2	**194.2**	208.6	217.7
Interest expense	2	**(60.9)**	(74.8)	(101.8)
Net interest income		**133.3**	133.8	115.9
Net fee and commission income		**32.7**	36.4	23.5
Net gains on sale of assets		**8.2**	72.1	1.0
Other income		**22.1**	21.2	28.5
Total income		**196.3**	263.5	168.9
General operating expenses	3	**(272.8)**	(268.2)	(234.1)
Depreciation and amortisation	7,8	**(40.3)**	(37.6)	(36.8)
Impairment and write offs of PPE and intangible assets	7,8	**(7.5)**	(14.0)	(26.6)
Total operating expenses		**(320.6)**	(319.8)	(297.5)
Expected credit loss expense		**(14.6)**	(14.7)	(112.0)
Loss before tax		**(138.9)**	(71.0)	(240.6)
Tax (expense)/credit	5	**(2.2)**	8.6	1.1
Loss for the period		**(141.1)**	(62.4)	(239.5)
Other comprehensive (expense)/ income 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		**(1.2)**	2.4	3.2
- changes in fair value transferred to the income statement on disposal		**(0.4)**	0.1	(0.2)
Total other comprehensive (expense)/ income		**(1.6)**	2.5	3.0
Total comprehensive loss for the period		**(142.7)**	(59.9)	(236.5)
Earnings per share				
Basic earnings per share (pence)	12	**(81.8)**	(36.2)	(138.9)
Diluted earnings per share (pence)	12	**(81.8)**	(36.2)	(138.9)

1. A reconciliation between our statutory and underlying results can be found on page 48.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2021

	Note	**30 June 2021 £'million**	31 December 2020 £'million	30 June 2020 £'million
Assets				
Cash and balances with the Bank of England		**5,111**	2,993	3,080
Loans and advances to customers	6	**12,325**	12,090	14,857
Investment securities held at FVOCI		**1,198**	773	444
Investment securities held at amortised cost		**3,165**	2,640	2,577
Financial assets held at fair value through profit and loss		**5**	30	-
Property, plant and equipment	7	**786**	806	821
Intangible assets	8	**253**	254	202
Prepayments and accrued income		**75**	77	70
Assets classified as held for sale		**-**	295	-
Other assets		**95**	2,621	83
Total assets		**23,013**	22,579	22,134
Liabilities				
Deposits from customers		**16,620**	16,072	15,577
Deposits from central banks		**3,800**	3,808	3,801
Debt securities		**596**	600	599
Financial liabilities held at fair value through profit and loss		**-**	30	-
Repurchase agreements		**212**	196	211
Derivative financial liabilities		**8**	8	12
Lease liabilities	9	**310**	327	340
Deferred grants	10	**22**	28	31
Provisions		**5**	11	12
Deferred tax liabilities	5	**13**	12	15
Other liabilities		**280**	198	189
Total liabilities		**21,866**	21,290	20,787
Equity				
Called up share capital	11	**-**	-	-
Share premium account	11	**1,964**	1,964	1,964
Retained earnings		**(835)**	(694)	(632)
Other reserves		**18**	19	15
Total equity		**1,147**	1,289	1,347
Total equity and liabilities		**23,013**	22,579	22,134

The notes on pages 27 to 47 form part of the condensed consolidated interim financial statements.

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 27 July 2021 and were signed on its behalf by:

Robert Sharpe
Chairman

Daniel Frumkin
Chief Executive Officer

David Arden
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the half year to 30 June 2021

	Note	**Half year to 30 June 2021 £'million**	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Reconciliation of loss before tax to net cash flows from operating activities:				
Loss before tax		**(139)**	(71)	(241)
Adjustments for:				
Impairment and write offs of property, plant and equipment and intangible assets	7,8	**8**	14	27
Interest on lease liabilities	9	**9**	10	9
Depreciation and amortisation	7,8	**40**	37	37
Share option award charges	4	**1**	1	1
Grant income recognised in the income statement		**(7)**	(8)	(16)
Amounts provided for		**-**	3	5
Gain on sale of assets		**(8)**	(72)	(1)
Accrued interest on and amortisation of investment securities		**1**	5	(2)
Changes in operating assets and liabilities				
Changes in loans and advances to customers		**(235)**	2,767	(176)
Changes in deposits from customers		**548**	495	1,100
Changes in operating assets		**2,817**	(2,809)	(11)
Changes in operating liabilities		**77**	(2)	(61)
Net cash inflows from operating activities		**3,112**	370	671
Cash flows from investing activities				
Net (purchase)/sale of investment securities		**(953)**	(391)	(454)
Purchase of property, plant and equipment		**-**	(19)	(10)
Purchase and development of intangible assets	8	**(26)**	(28)	(53)
Acquisition of subsidiary, net of cash acquired		**-**	(1)	-
Net cash outflows from investing activities		**(979)**	(439)	(517)
Cash flows from financing activities				
Grants repaid	10	**-**	-	(50)
Repayment of capital element of leases	9	**(15)**	(18)	(13)
Net cash outflows from financing activities		**(15)**	(18)	(63)
Net increase/(decrease) in cash and cash equivalents		**2,118**	(87)	91
Cash and cash equivalents at start of period		**2,993**	3,080	2,989
Cash and cash equivalents at end of period		**5,111**	2,993	3,080
Loss before tax includes:				
Interest received		**203**	290	217
Interest paid		**74**	69	107

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)

For the half year to 30 June 2021

	Called-up Share capital £'million	Share premium £'million	Retained earnings £'million	FVOCI reserve £'million	Share option reserve £'million	Total equity £'million
Balance at 1 January 2021	**-**	**1,964**	**(694)**	**3**	**16**	**1,289**
Loss for the period	**-**	**-**	**(141)**	**-**	**-**	**(141)**
Other comprehensive expense (net of tax) relating to investment securities designated at fair value through other comprehensive income	**-**	**-**	**-**	**(2)**	**-**	**(2)**
Total comprehensive expense	**-**	**-**	**(141)**	**(2)**	**-**	**(143)**
Net share option movements	**-**	**-**	**-**	**-**	**1**	**1**
Balance at 30 June 2021	**-**	**1,964**	**(835)**	**1**	**17**	**1,147**
Balance at 1 July 2020	-	1,964	(632)	-	15	1,347
Loss for the period	-	-	(62)	-	-	(62)
Other comprehensive income (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	3	-	3
Total comprehensive (expense)/income	-	-	(62)	3	-	(59)
Net share option movements	-	-	-	-	1	1
Balance at 31 December 2020	-	1,964	(694)	3	16	1,289
Balance at 1 January 2020	-	1,964	(392)	(3)	14	1,583
Loss for the period	-	-	(240)	-	-	(240)
Other comprehensive income (net of tax) relating to investment securities designated at fair value through other comprehensive income	-	-	-	3	-	3
Total comprehensive (expense)/income	-	-	(240)	3	-	(237)
Net share option movements	-	-	-	-	1	1
Balance at 30 June 2020	-	1,964	(632)	-	15	1,347

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of preparation and accounting policies

1.1 General information

Metro Bank PLC ("our" or "we") provides retail and commercial banking services in the UK, 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 and its subsidiaries for the six months ended 30 June 2021 were authorised for issue in accordance with a resolution of the Directors on 27 July 2021.

These condensed consolidated interim financial statements for the six months ended 30 June 2021 have been prepared on the basis of the policies set out in the 2020 annual financial statements and in accordance with UK adopted IAS 34 and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority, and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2020 which were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In the year to 31 December 2021 our annual financial statements will be prepared in accordance with IFRS as adopted by the UK Endorsement Board. This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020.This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. There is no impact on recognition, measurement or disclosure between the two frameworks in the period reported.

The comparative financial information as at and for the periods ending 31 December 2020 and 30 June 2020 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 2020 has been delivered to the Registrar of Companies.

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.

Going concern

The Directors consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial statements. In reaching this assessment, the Directors have considered projections for our capital and funding position. The Directors also considered the key assumptions and uncertainties that feed into these projections and the mitigants that are available should actual performance differ to these projections. Under all scenarios considered, the Directors believe the Group to remain a going concern on the basis that it maintains sufficient resources (including liquidity and capital) to be able to continue to operate for a period of at least twelve months from when the interim financial statements are authorised for issue. The Directors did not deem there to be any material uncertainties with regards to the assessment on going concern.

1.3 Accounting policies

Except as described below, 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 2020.

IBOR transition

During the period we have adopted Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the Phase 2 amendments).

1. Basis of preparation and accounting policies (continued)

The only impact on our financial statements is in relation to our hedging arrangements, which have transitioned from being based on LIBOR to SONIA. The Phase 2 amendments have allowed us to amend the designation of our hedging relationships and the associated hedge documentation to reflect these changes without discontinuing the hedging relationships. Our accounting policies in respect of hedging remain unchanged and continue to be applied.

The impact of the changes does not have a significant impact on these condensed consolidated interim financial statements.

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 2020 Annual Report and Accounts we identified the following critical accounting judgements:

- Recognition of provisions
- 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

Further details on these critical accounting judgements is set out below. No new critical accounting judgements have been identified during the period.

Recognition of provisions

We are currently subject to several regulatory investigations. A key area of judgement applied in the preparation of these financial statements is deciding whether a provision should be made for the outcome of these matters. Specifically, judgement is applied in determining whether a present obligation exists and where one does, in estimating the probability, timing and amount of any outflows. In determining whether a provision needs to be made and whether it can be reliably estimated, we consult relevant professional experts and reassess our judgements on an ongoing basis as facts change. Because of the complex nature of the legal and regulatory matters we are subject to, it is typically the case that it is not possible to reliably estimate the outcome and in these cases we do not provide for their outcome, however we do provide further disclosures outlining the matters in further detail.

Additional information about legal and regulatory matters which constitute contingent liabilities is available in note 14.

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

IFRS 9 requires a higher level of expected credit loss to be recognised for underperforming loans as a lifetime ECL is recognised compared to a 12-month ECL for performing loans. This is considered based on a staging approach. Financial assets that have had no significant increase in credit risk since initial recognition, or that have low credit risk at the reporting date, are considered to be performing loans and are classified as 'Stage 1'. Losses are calculated based on our expectation of losses expected on defaults which may occur within the next 12 months. Assets which are considered to have experienced a significant increase in credit risk since initial recognition, but that do not have objective evidence of impairment, are classified as 'Stage 2'. Losses are calculated based on defaults which may occur at any point in the asset's lifetime.

Judgement is required to determine when a significant increase in credit risk has occurred. An assessment of whether credit risk has increased significantly since initial recognition, resulting in transfer to Stage 2.

As a response to the COVID-19 pandemic, we introduced the ability for our customers to request payment deferrals as a result of the COVID-19 pandemic. The use of a payment deferral is not in itself considered to be trigger of a significant increase in credit risk and as such the granting of a COVID-19 related payment deferral does not in itself result in a transfer between stages for the purposes of IFRS 9. Payment deferral is however a potential indicator of an increase risk and has been reflected via a post model overlay.

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

We use 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.

1. Basis of preparation and accounting policies (continued)

The appropriateness of PMAs and PMOs is subject to rigorous review and challenge, including review by the Bank's Model Governance Committee, Impairment Committee and Audit Committees.

Post model adjustments (PMAs) refer to increases/decreases in ECL to address known model limitations, either in model methodology or model inputs. These rely on analysis of model inputs and parameters to determine the change required to improve model accuracy. These may be applied at an aggregated level, however they will usually be applied at account level.

As at 30 June 2021, only one PMA remains, as models have been implemented into production and previously held PMAs have been released. The remaining PMA reflects the temporary over-estimation of the amortisation profile of customers with payment deferral options (30 June 2021: -£1.4 million; 31 December 2020: £23.0 million).

Post model overlays (PMOs) reflect management judgement. These rely more heavily on expert judgement and will usually be applied at an aggregated level. For example, where recent changes in market and economic conditions have not yet been captured in the macroeconomic factor inputs to models (e.g. industry specific stress event).

Given the continued economic uncertainty, government support and lock down restrictions and further uncertainty on how the pandemic will unfold, we continue to maintain appropriate levels of PMOs. Given the reduction in PMAs, the total percentage of ECL stock comprised of PMAs/PMOs has reduced to 34% (31 December 2020: 50%).

PMOs make up £56.6 million of the ECL stock for the half year ended 30 June 2021 (31 December 2020: £54.0 million) and comprise:

- An overlay to reflect the introduction of a fourth more severe downside scenario – to reflect a wider range of macroeconomic scenarios (30 June 2021: £3.9 million; 31 December 2020: £nil). This has been incorporated as a PMO pending completion of formal model validation.
- An overlay to reflect the existing payment deferrals provided to customers – for mortgages and consumer lending a portfolio level overlay has been maintained to reflect the increased risk for customers currently benefiting from COVID-19 payment deferrals (30 June 2021: £2.6 million; 31 December 2020: £10.9 million). This overlay has been reduced during the first half of 2021 as customers have demonstrated consistent repayments following the end of the deferral period. We expect this to continue to reduce during H2 2021.
- Uncertainties to economic forecast – to reflect the additional uncertainty not captured in the scenarios used. The latest Commercial portfolio macroeconomic scenarios include a favourable view of GDP which reflects the benefits of the easing of lock-down restrictions. Further, government support schemes have artificially delayed default emergence. The Commercial economic forecasts have been lagged, to capture the future default risk expected to emerge, as Government support schemes come to an end in the second half of the year. (30 June 2021: £9.6 million; 31 December 2020: £nil).
- An expert judgement overlay for the Commercial portfolio – to reflect additional downside risks as a result of COVID-19 and associated severe economic scenarios, including additional stress on commercial property values, sector based stress for customers benefiting from temporary COVID-19 support, and a contagion overlay to reflect cross default risk (30 June 2021: £14.9 million; 31 December 2020: £10.6 million).
- An expert judgement overlay for the Mortgage portfolio – to reflect additional downside risks as a result of COVID-19 and associated severe economic scenarios, and potential impact of cladding on property values (30 June 2021: £13.1 million; 31 December 2020: £14.6 million).
- An overlay for losses in respect of government backed lending schemes – this covers the potential cost to recover for BBLS (30 June 2021: £9.6 million; 31 December 2020: £7.5 million).
- An overlay for the RateSetter portfolio - to reflect the difference in ECL estimated using the newly developed models and the current approach (30 June 2021: £1.9 million; 31 December 2020: £nil). This has been incorporated as a PMO pending completion of formal model validation.

1.5 Critical accounting estimates

In our 2020 Annual Report and Accounts we identified one critical accounting estimate relating to the formulation and incorporation of multiple forward-looking economic scenarios into the measurement of the expected credit loss allowance. We continue to consider this to be a critical accounting estimate.

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

1. Basis of preparation and accounting policies (continued)

In line with Metro Bank's 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.

A fourth more severe downside macroeconomic scenario has been introduced as at 30 June 2020 across all portfolios to ensure the set of scenarios adequately reflect a wider range of downside risks which have been previously included within management overlays. Scenarios and probability weights are as follows:

Scenario weighting	**Half year to 30 June 2021**	Half year to 31 December 2020	Half year to 30 June 2020
Baseline	**40%**	40%	40%
Upside	**20%**	30%	30%
Downside	**30%**	30%	30%
Severe Downside	**10%**	-	-

The macroeconomic scenarios reflect the current macroeconomic environment as follows:

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

Key assumptions underpinning the baseline June 2021 scenarios:

- The Delta variant of COVID-19 is the dominant strain in the UK and new cases are increasing.
- The existing vaccines are effective against the new variant, and the death rate remains low.
- A fourth lockdown is prevented, but the last restriction measures remain for a longer period.
- The unemployment rate spikes in the last quarter of 2021 as a result of the end of the Coronavirus Job Retention Scheme, which was extended to the end of September, and the recovery remains fragile in the second half of the year.
- Inflation remains contained for several quarters still, weighed down by the decline in demand. It reaches the 2% target by the start of 2022.
- The government continues to support the economy through massive fiscal stimulus during the first half of 2021, while the Bank of England keeps monetary policy extremely loose for several quarters.
- The EU and the U.K. sign a new financial services agreement, and the U.K. continues operating in European markets.

The following variables are the key drivers of ECL:

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

1. Basis of preparation and accounting policies (continued)

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

Macroeconomic variable	Scenario	2021	2022	2023	2024
UK five year mortgage interest rates (%)	Baseline	2.5%	2.8%	3.2%	3.7%
	Upside	2.8%	3.1%	3.5%	4.2%
	Downside	2.1%	2.3%	2.6%	2.9%
	Severe Downside	2.1%	2.0%	2.5%	2.8%
Unemployment (%)	Baseline	6.7%	6.0%	5.3%	5.0%
	Upside	6.3%	4.9%	4.3%	4.2%
	Downside	7.4%	8.2%	7.6%	7.0%
	Severe Downside	7.5%	9.1%	8.2%	7.8%
House price index (YoY%)[1]	Baseline	(1.4%)	3.2%	6.3%	5.2%
	Upside	3.8%	10.2%	6.9%	3.9%
	Downside	(6.3%)	(12.0%)	(2.0%)	6.6%
	Severe Downside	(12.8%)	(18.1%)	(2.2%)	6.7%
UK GDP (YoY%)	Baseline	6.4%	4.6%	2.9%	1.3%
	Upside	9.3%	4.5%	2.3%	1.3%
	Downside	2.4%	4.0%	4.2%	2.1%
	Severe Downside	1.3%	3.3%	3.9%	2.0%

The period-end assumptions used for the ECL estimate as at 31 December 2020 are as follows:

Macroeconomic variable	Scenario	2021	2022	2023	2024
UK five year mortgage interest rates (%)	Baseline	2.2%	2.8%	3.3%	3.6%
	Upside	2.4%	2.9%	3.7%	4.2%
	Downside	1.7%	2.3%	2.6%	2.7%
Unemployment (%)	Baseline	7.4%	6.8%	5.9%	5.5%
	Upside	6.4%	5.6%	5.0%	4.8%
	Downside	9.2%	9.3%	8.3%	7.6%
House price index (YoY%)	Baseline	(5.0%)	3.2%)	5.7%	5.8%
	Upside	(1.1%)	7.6%	7.4%	5.5%
	Downside	(9.8%)	(1.95%)	4.7%	6.8%
UK GDP (YoY%)	Baseline	6.8%	5.4%	2.7%	1.0%
	Upside	10.7%	3.9%	2.4%	1.1%
	Downside	1.8%	7.0%	3.0%	1.0%

1. For the six months ended 30 June 2021 the HPI economic forecast has been stressed on the downside and more severe downside scenarios to reflect Metro Bank's geographical concentration risk.

1. Basis of preparation and accounting policies (continued)

Following the initial four-year projection period, the Upside, Downside and Severe Downside scenarios converge to the Baseline scenario. The rate of convergence varies based on the macroeconomic factor, but at a minimum convergence takes place three years from the initial four-year projection period.

Scenario	ECL £'million	Variance to reported weighted ECL at 30 June 2021
Weighted	166	100%
Baseline	153	(8%)
Upside	146	(12%)
Downside	182	10%
Severe Downside	208	26%

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 take into account movements in impairment stage allocations that would result under the different scenarios.

1.6 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

2. Net interest income

Interest income

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Cash and balances held with the Bank of England	**2.3**	1.2	4.9
Loans and advances to customers	**182.2**	201.6	191.7
Investment securities held at amortised cost	**9.1**	5.3	19.5
Investment securities held at FVOCI	**0.6**	0.5	1.6
Total interest income	**194.2**	208.6	217.7

Interest expense

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Deposits from customers	**25.5**	38.8	60.3
Deposits from central banks	**1.9**	1.9	6.8
Repurchase agreements	**1.1**	1.1	1.2
Debt securities	**23.6**	23.6	24.2
Lease liabilities	**8.8**	9.4	9.3
Total interest expense	**60.9**	74.8	101.8

3. General operating expenses

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
People costs	**121.5**	108.8	88.7
Information technology costs	**27.3**	26.6	21.7
Occupancy expenses	**16.2**	17.1	17.2
Money transmission and other banking related costs	**33.6**	32.4	13.5
Transformation costs	**1.8**	4.2	12.4
Remediation costs	**25.4**	22.9	17.8
Capability & Innovation fund (C&I) costs	**5.8**	6.4	15.1
Legal and Regulatory fees	**3.4**	3.1	2.3
Professional Fees	**27.4**	32.3	21.7
Contractor costs	**2.1**	2.7	2.8
Printing, postage and stationery costs	**2.4**	3.0	3.1
Travel costs	**0.5**	0.5	1.3
Marketing and advertising costs	**1.5**	2.8	3.6
Business acquisition and integration costs	**2.3**	5.4	-
Other	**1.6**	-	12.9
Total general operating expenses	**272.8**	268.2	234.1

4. People costs

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Wages and salaries	**103.1**	92.2	74.6
Social security costs	**11.2**	10.0	7.9
Pension costs	**6.5**	5.8	5.0
Equity-settled share based payments	**0.7**	0.8	1.2
Total people costs	**121.5**	108.8	88.7

5. Taxation

Tax (expense)/credit for the period

The components of tax (expense)/credit for the six months ended 30 June 2021, 31 December 2020 and 30 June 2020 are:

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
Current tax			
Current tax	**-**	(0.7)	0.6
Adjustment in respect of prior years	**(0.1)**	(0.5)	-
Total current tax (expense)/credit	**(0.1)**	(1.2)	0.6
Deferred tax			
Origination and reversal of temporary differences	**2.3**	4.9	(1.3)
Effect of changes in tax rates	**(4.4)**	0.3	1.8
Adjustment in respect of prior periods	**-**	4.6	-
Total deferred tax (expense)/credit	**(2.1)**	9.8	0.5
Total tax (expense)/credit	**(2.2)**	8.6	1.1

5. Taxation (continued)

Reconciliation of the total tax (expense)/credit

The tax expense shown in the income statement differs from the tax expense that would apply if all accounting profits had been taxed at the UK corporation tax rate.

A reconciliation between the tax expense and the accounting profit multiplied by the UK corporation tax rate for the half year ended 30 June 2021, 31 December 2020 and 30 June 2020 are as follows:

	Half year to 30 June 2021 £'million	**Effective tax rate %**	Half year to 31 December 2020 £'million	Effective tax rate %	Half year to 30 June 2020 £'million	Effective tax rate %
Loss before tax	**(138.9)**		(70.9)		(240.6)	
Tax credit at statutory income tax rate of 19%	**26.4**	**19.0%**	13.5	19.0%	45.7	19.0%
Tax effects of:						
Non-deductible expenses - depreciation on non-qualifying fixed assets	**(0.8)**	**(0.6%)**	(1.0)	(1.4%)	(1.4)	(0.6%)
Non-deductible expenses – investment property impairment	**-**	**-**	(3.2)	(4.5%)		
Non-deductible expenses - PPE impairment	**-**	**-**	-	-	(2.2)	(0.9%)
Non-deductible expenses - remediation	**(4.6)**	**(3.3%)**	(3.6)	(5.1%)	(3.0)	(1.3%)
Non-deductible expenses - other	**(0.1)**	**(0.1%)**	(0.2)	(0.3%)	(0.5)	(0.2%)
Impact of intangible asset impairment on R&D deferred tax liability	**1.9**	**1.4%**	0.2	0.3%	-	-
Share based payments	**(0.2)**	**(0.1%)**	-	-	(0.2)	(0.1%)
Adjustment in respect of prior years	**(0.1)**	**-**	4.1	5.8%	-	-
Losses for the period for which no deferred tax asset has been recognised	**(20.3)**	**(14.6%)**	(3.7)	(5.2%)	(39.1)	(16.3%)
Derecognition of tax losses arising in prior years	**-**	**-**	-	-	-	-
Effect of changes in tax rates	**(4.4)**	**(3.2%)**	0.3	0.4%	1.8	0.8%
Tax (expense) / credit reported in the consolidated income statement	**(2.2)**	**(1.5%)**	6.4	9.0%	1.1	0.4%

Effective tax rate

The effective tax rate for half year to 30 June 2021 is (1.5)% (half year to 31 December 2020: 0.4%; half year to 30 June 2020: 9.0%). This has been calculated by applying the effective tax rate which is expected to apply for the six months ended 30 June 2021 using rates substantively enacted by 30 June 2021 as required by IAS34 'Interim Financial Reporting'.

Effect of changes in tax rates

This relates to the remeasurement of deferred tax rates following a change to the main UK corporation tax rate. A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax liability at 30 June 2021 has been calculated based on these rates, reflecting the expected timing of temporary differences.

5. Taxation (continued)

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. Further information on the details of the judgements taken around deferred tax are discussed in note 1.

The following table shows deferred tax recorded in the statement of financial position and changes recorded in the tax expense:

	Unused tax losses £'million	Investment securities & impairments £'million	Share based payments £'million	Property, plant & equipment £'million	Intangible assets £'million	Total £'million
30 June 2021						
Deferred tax assets	**13**	**3**	**-**	**-**	**-**	**16**
Deferred tax liabilities	**-**	**-**	**-**	**(21)**	**(8)**	**(29)**
Deferred tax liabilities (net)	**13**	**3**	**-**	**(21)**	**(8)**	**(13)**
At 1 January 2021	**12**	**2**	**-**	**(16)**	**(10)**	**(12)**
Income statement	**1**	**-**	**-**	**(5)**	**2**	**(2)**
Other comprehensive income	**-**	**1**	**-**	**-**	**-**	**1**
At 30 June 2021	**13**	**3**	**-**	**(21)**	**(8)**	**(13)**
31 December 2020						
Deferred tax assets	12	3	-	-	-	15
Deferred tax liabilities	-	(1)	-	(16)	(10)	(27)
Deferred tax liabilities (net)	12	2	-	(16)	(10)	(12)
At 1 July 2020	-	3	-	(14)	(4)	(15)
Income statement	12	-	-	(2)	-	10
Other comprehensive income	-	(1)	-	-	-	(1)
Acquisition	-	-	-	-	(6)	(6)
At 31 December 2020	12	2	-	(16)	(10)	(12)
30 June 2020						
Deferred tax assets	-	5	-	-	-	5
Deferred tax liabilities	-	(2)	-	(14)	(4)	(20)
Deferred tax liabilities (net)	-	3	-	(14)	(4)	(15)
At 1 January 2020	-	4	-	(15)	(4)	(15)
Income statement	-	(1)	-	1	-	-
At 30 June 2020	-	3	-	(14)	(4)	(15)

6. Loans and advances to customers

	30 June 2021		
	Gross carrying amount £'million	**ECL allowance £'million**	**Net carrying amount £'million**
Retail mortgages	**6,815**	**(15)**	**6,800**
Consumer lending	**704**	**(42)**	**662**
Commercial lending	**4,972**	**(109)**	**4,863**
Total loans and advances to customers	**12,491**	**(166)**	**12,325**

	31 December 2020		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	6,892	(26)	6,866
Consumer lending	204	(25)	179
Commercial lending	5,148	(103)	5,045
Total loans and advances to customers	12,244	(154)	12,090

	30 June 2020		
	Gross carrying amount £'million	ECL allowance £'million	Net carrying amount £'million
Retail mortgages	10,190	(40)	10,150
Consumer lending	198	(22)	176
Commercial lending	4,614	(83)	4,531
Total loans and advances to customers	15,002	(145)	14,857

Loans and advances to customers by category

	30 June 2021 £'million	31 December 2020 £'million	30 June 2020 £'million
Residential owner occupied	**5,028**	5,051	8,310
Retail buy-to-let	**1,787**	1,841	1,880
Total retail mortgages	**6,815**	6,892	10,190
Overdrafts	**71**	73	73
Credit cards	**11**	10	10
Term loans	**622**	121	115
Total consumer lending	**704**	204	198
Total retail lending	**7,519**	7,096	10,388
Professional buy-to-let	**1,037**	1,117	1,167
Bounce back loans	**1,394**	1,353	730
Coronavirus business interruption loans	**162**	114	50
Other term loans	**1,963**	2,138	2,222
Commercial term loans	**4,556**	4,722	4,169
Overdrafts and revolving credit facilities	**133**	149	185
Credit cards	**3**	3	3
Asset and invoice finance	**280**	274	257
Total commercial lending	**4,972**	5,148	4,614
Total gross loans to customers	**12,491**	12,244	15,002

Included within the consumer term loan figure is the portfolio back book of loans purchased from the RateSetter peer-to-peer investors in April for £337 million.

6. Loans and advances to customers (continued)

Credit risk exposures

The following tables show the loans for each of our portfolios by days past due along with their corresponding staging. Where payment deferrals have been given as a result of COVID-19 the days past due figure exclude the deferral period. Overall COVID-19 has impacted a number of our customers, and this is reflected in the deterioration in the proportion of loans which are past due. We have provisioned for higher levels of expected credit losses to reflect this risk.

Retail mortgages

	30 June 2021			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI[1] Lifetime ECL £'million**
Up to date	**5,917**	**751**	**32**	**-**
1 to 29 days past due	**1**	**17**	**10**	**-**
30 to 89 days past due	**-**	**18**	**17**	**-**
90+ days past due	**-**	**-**	**52**	**-**
Gross carrying amount	**5,918**	**786**	**111**	**-**

1. Purchase or originated credit impaired

	31 December 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	5,911	802	47	-
1 to 29 days past due	-	18	8	-
30 to 89 days past due	-	43	13	-
90+ days past due	-	-	50	-
Gross carrying amount	5,911	863	118	-

	30 June 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	9,382	680	33	-
1 to 29 days past due	-	14	7	-
30 to 89 days past due	-	29	11	-
90+ days past due	-	-	34	-
Gross carrying amount	9,382	723	85	-

Consumer lending

	30 June 2021			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI Lifetime ECL £'million**
Up to date	**641**	**34**	**1**	**-**
1 to 29 days past due	**1**	**1**	**-**	**-**
30 to 89 days past due	**-**	**8**	**1**	**-**
90+ days past due	**-**	**-**	**16**	**1**
Gross carrying amount	**642**	**43**	**18**	**1**

6. Loans and advances to customers (continued)

	31 December 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	149	38	-	-
1 to 29 days past due	-	3	-	-
30 to 89 days past due	-	2	-	-
90+ days past due	-	-	12	-
Gross carrying amount	149	43	12	-

	30 June 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	177	-	-	-
1 to 29 days past due	2	1	-	-
30 to 89 days past due	-	7	-	-
90+ days past due	-	-	11	-
Gross carrying amount	179	8	11	-

Commercial lending

	30 June 2021			
	Stage 1 12 month ECL £'million	**Stage 2 Lifetime ECL £'million**	**Stage 3 Lifetime ECL £'million**	**POCI Lifetime ECL £'million**
Up to date	**3,985**	**765**	**165**	**-**
1 to 29 days past due	**1**	**8**	**2**	**-**
30 to 89 days past due	**-**	**27**	**10**	**-**
90+ days past due	**-**	**-**	**9**	**-**
Gross carrying amount	**3,986**	**800**	**186**	**-**

	31 December 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	4,115	863	96	-
1 to 29 days past due	-	21	2	-
30 to 89 days past due	-	22	11	-
90+ days past due	-	-	18	-
Gross carrying amount	4,115	906	127	-

	30 June 2020			
	Stage 1 12 month ECL £'million	Stage 2 Lifetime ECL £'million	Stage 3 Lifetime ECL £'million	POCI Lifetime ECL £'million
Up to date	4,353	2	43	-
1 to 29 days past due	2	39	1	-
30 to 89 days past due	-	97	16	-
90+ days past due	-	-	61	-
Gross carrying amount	4,355	138	121	-

6. Loans and advances to customers (continued)

Loss allowance

The following tables explain the changes in both the gross carrying amount and loss allowances of our loans and advances during the period.

Retail mortgages

£'million	**Gross carrying amount**					**Loss allowance**					**Net carrying amount**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**5,911**	**863**	**118**	**-**	**6,892**	**(5)**	**(17)**	**(4)**	**-**	**(26)**	**5,906**	**846**	**114**	**-**	**6,866**
Transfers to/from stage 1[1]	**369**	**(352)**	**(17)**	**-**	**-**	**(7)**	**6**	**1**	**-**	**-**	**362**	**(346)**	**(16)**	**-**	**-**
Transfers to/from stage 2[1]	**(280)**	**288**	**(8)**	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**(279)**	**287**	**(8)**	**-**	**-**
Transfers to/from stage 3[1]	**(9)**	**(21)**	**30**	**-**	**-**	**-**	**1**	**(1)**	**-**	**-**	**(9)**	**(20)**	**29**	**-**	**-**
Net remeasurement due to transfers[2]	**-**	**-**	**-**	**-**	**-**	**6**	**-**	**-**	**-**	**6**	**6**	**-**	**-**	**-**	**6**
New lending[3]	**545**	**77**	**-**	**-**	**622**	**(1)**	**(1)**	**-**	**-**	**(2)**	**544**	**76**	**-**	**-**	**620**
Repayments, additional drawdowns and interest accrued	**(92)**	**(11)**	**(1)**	**-**	**(104)**	**-**	**-**	**-**	**-**	**-**	**(92)**	**(11)**	**(1)**	**-**	**(104)**
Derecognitions[4]	**(526)**	**(58)**	**(11)**	**-**	**(595)**	**1**	**1**	**-**	**-**	**2**	**(525)**	**(57)**	**(11)**	**-**	**(593)**
Changes to assumptions[5]	**-**	**-**	**-**	**-**	**-**	**1**	**5**	**(1)**	**-**	**5**	**1**	**5**	**(1)**	**-**	**5**
Balance at 30 June 2021	**5,918**	**786**	**111**	**-**	**6,815**	**(4)**	**(6)**	**(5)**	**-**	**(15)**	**5,914**	**780**	**106**	**-**	**6,800**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 July 2020	9,382	723	85	-	10,190	(21)	(11)	(8)	-	(40)	9,361	712	77	-	10,150
Transfers to/from stage 1	(18)	20	(2)	-	-	-	-	-	-	-	(18)	20	(2)	-	-
Transfers to/from stage 2	(176)	177	(1)	-	-	-	-	-	-	-	(176)	177	(1)	-	-
Transfers to/from stage 3	(31)	(8)	39	-	-	-	1	(1)	-	-	(31)	(7)	38	-	-
Net remeasurement due to transfers	-	-	-	-	-	1	(3)	2	-	-	1	(3)	2	-	-
New lending	262	44	1	-	307	(1)	(3)	-	-	(4)	261	41	1	-	303
Repayments, additional drawdowns and interest accrued	5	(6)	-	-	(1)	-	-	-	-	-	5	(6)	-	-	(1)
Transfer to held for sale[6]	(289)	(7)	-	-	(296)	1	-	-	-	1	(288)	(7)	-	-	(295)
Derecognitions	(3,224)	(80)	(4)	-	(3,308)	3	1	1	-	5	(3,221)	(79)	(3)	-	(3,303)
Changes to assumptions	-	-	-	-	-	12	(2)	2	-	12	12	(2)	2	-	12
Balance at 31 December 2020	5,911	863	118	-	6,892	(5)	(17)	(4)	-	(26)	5,906	846	114	-	6,866

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2020	9,874	502	54	-	10,430	-	(3)	(5)	-	(8)	9,874	499	49	-	10,422
Transfers to/from stage 1	127	(126)	(1)	-	-	(1)	1	-	-	-	126	(125)	(1)	-	-
Transfers to/from stage 2	(383)	383	-	-	-	-	-	-	-	-	(383)	383	-	-	-
Transfers to/from stage 3	(24)	(14)	38	-	-	-	-	-	-	-	(24)	(14)	38	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	(5)	(3)	-	(8)	-	(5)	(3)	-	(8)
New lending	260	4	-	-	264	(2)	-	-	-	(2)	258	4	-	-	262
Repayments, additional drawdowns and interest accrued	(127)	(5)	-	-	(132)	-	-	-	-	-	(127)	(5)	-	-	(132)
Derecognitions	(345)	(21)	(6)	-	(372)	-	-	-	-	-	(345)	(21)	(6)	-	(372)
Changes to assumptions	-	-	-	-	-	(18)	(4)	-	-	(22)	(18)	(4)	-	-	(22)
Balance at 30 June 2020	9,382	723	85	-	10,190	(21)	(11)	(8)	-	(40)	9,361	712	77	-	10,150

2. Represents the stage transfers prior to any ECL remeasurement
3. Represents the remeasurement between the twelve month and lifetime ECL due to stage transfer, including any changes to the model assumptions and forward looking information
4. Represents the increase in balances resulting from loans and advances that have been newly originated, purchased or renewed
5. Represents the decrease in balances resulting from loans and advances that have been fully repaid, disposed of or written off
6. Represents the change in loss allowances resulting from changes to assumptions notably forward looking macro-economic information and changes in the customer's risk profile
7. Represents the decrease in balances resulting from the reclassification of loans and advances that as at the reporting date are treated as held for sale

6. Loans and advances to customers (continued)

Consumer lending

£'million	**Gross carrying amount**					**Loss allowance**					**Net carrying amount**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**149**	**43**	**12**	**-**	**204**	**(6)**	**(9)**	**(10)**	**-**	**(25)**	**143**	**34**	**2**	**-**	**179**
Transfers to/from stage 1	**14**	**(14)**	**-**	**-**	**-**	**(2)**	**2**	**-**	**-**	**-**	**12**	**(12)**	**-**	**-**	**-**
Transfers to/from stage 2	**(4)**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4)**	**4**	**-**	**-**	**-**
Transfers to/from stage 3	**(1)**	**(2)**	**3**	**-**	**-**	**-**	**2**	**(2)**	**-**	**-**	**(1)**	**-**	**1**	**-**	**-**
Net remeasurement due to transfers	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**(1)**	**-**	**-**	**1**	**-**	**(1)**	**-**	**-**
New lending	**512**	**24**	**5**	**1**	**542**	**(17)**	**(3)**	**(3)**	**-**	**(23)**	**495**	**21**	**2**	**1**	**519**
Repayments, additional drawdowns and interest accrued	**(11)**	**(6)**	**(1)**	**-**	**(18)**	**-**	**-**	**-**	**-**	**-**	**(11)**	**(6)**	**(1)**	**-**	**(18)**
Derecognitions	**(17)**	**(6)**	**(1)**	**-**	**(24)**	**-**	**1**	**1**	**-**	**2**	**(17)**	**(5)**	**-**	**-**	**(22)**
Changes to assumptions	**-**	**-**	**-**	**-**	**-**	**4**	**2**	**(2)**	**-**	**4**	**4**	**2**	**(2)**	**-**	**4**
Balance at 30 June 2021	**642**	**43**	**18**	**1**	**704**	**(20)**	**(5)**	**(17)**	**-**	**(42)**	**622**	**38**	**1**	**1**	**662**

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 July 2020	179	8	11	-	198	(8)	(4)	(10)	-	(22)	171	4	1	-	176
Transfers to/from stage 1	(1)	1	-	-	-	-	-	-	-	-	(1)	1	-	-	-
Transfers to/from stage 2	(54)	54	-	-	-	-	-	-	-	-	(54)	54	-	-	-
Transfers to/from stage 3	(2)	(1)	3	-	-	-	-	-	-	-	(2)	(1)	3	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	(6)	(2)	-	(8)	-	(6)	(2)	-	(8)
New lending	47	1	-	-	48	(2)	-	-	-	(2)	45	1	-	-	46
Repayments, additional drawdowns and interest accrued	11	(20)	(1)	-	(10)	-	-	-	-	-	11	(20)	(1)	-	(10)
Derecognitions	(31)	-	(1)	-	(32)	-	-	1	-	1	(31)	-	-	-	(31)
Changes to assumptions	-	-	-	-	-	4	1	1	-	6	4	1	1	-	6
Balance at 31 December 2020	149	43	12	-	204	(6)	(9)	(10)	-	(25)	143	34	2	-	179

£'million	Gross carrying amount					Loss allowance					Net carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2020	223	-	10	-	233	(3)	(1)	(9)	-	(13)	220	(1)	1	-	220
Transfers to/from stage 1	1	(1)	-	-	-	-	-	-	-	-	1	(1)	-	-	-
Transfers to/from stage 2	(8)	8	-	-	-	1	(1)	-	-	-	(7)	7	-	-	-
Transfers to/from stage 3	(1)	-	1	-	-	-	-	-	-	-	(1)	-	1	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	(1)	(1)	-	(2)	-	(1)	(1)	-	(2)
New lending	8	1	-	-	9	-	-	-	-	-	8	1	-	-	9
Repayments, additional drawdowns and interest accrued	(25)	-	-	-	(25)	-	-	-	-	-	(25)	-	-	-	(25)
Derecognitions	(19)	-	-	-	(19)	-	-	-	-	-	(19)	-	-	-	(19)
Changes to assumptions	-	-	-	-	-	(6)	(1)	-	-	(7)	(6)	(1)	-	-	(7)
Balance at 30 June 2020	179	8	11	-	198	(8)	(4)	(10)	-	(22)	171	4	1	-	176

6. Loans and advances to customers (continued)

Commercial lending

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Balance at 1 January 2021	**4,115**	**906**	**127**	**-**	**5,148**	**(19)**	**(44)**	**(40)**	**-**	**(103)**	**4,096**	**863**	**86**	**-**	**5,045**
Transfers to/from stage 1	**126**	**(121)**	**(5)**	**-**	**-**	**(5)**	**5**	**-**	**-**	**-**	**121**	**(116)**	**(5)**	**-**	**-**
Transfers to/from stage 2	**(124)**	**130**	**(6)**	**-**	**-**	**1**	**(2)**	**1**	**-**	**-**	**(123)**	**128**	**(5)**	**-**	**-**
Transfers to/from stage 3	**(18)**	**(78)**	**96**	**-**	**-**	**-**	**2**	**(2)**	**-**	**-**	**(18)**	**(76)**	**94**	**-**	**-**
Net remeasurement due to transfers	**-**	**-**	**-**	**-**	**-**	**4**	**(4)**	**(11)**	**-**	**(11)**	**4**	**(4)**	**(11)**	**-**	**(11)**
New lending	**267**	**59**	**5**	**-**	**331**	**(3)**	**(6)**	**-**	**-**	**(9)**	**264**	**53**	**5**	**-**	**322**
Repayments, additional drawdowns and interest accrued	**(141)**	**(9)**	**(13)**	**-**	**(163)**	**-**	**-**	**-**	**-**	**-**	**(141)**	**(9)**	**(13)**	**-**	**(163)**
Derecognitions	**(239)**	**(87)**	**(18)**	**-**	**(344)**	**2**	**4**	**4**	**-**	**10**	**(237)**	**(83)**	**(14)**	**-**	**(334)**
Changes to assumptions	**-**	**-**	**-**	**-**	**-**	**(1)**	**8**	**(3)**	**-**	**4**	**(1)**	**8**	**(3)**	**-**	**4**
Balance at 30 June 2021	**3,986**	**800**	**186**	**-**	**4,972**	**(21)**	**(37)**	**(51)**	**-**	**(109)**	**3,965**	**764**	**134**	**-**	**4,863**

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 July 2020	4,355	138	121	-	4,614	(48)	(9)	(26)	-	(83)	4,307	129	95	-	4,531
Transfers to/from stage 1	(7)	5	2	-	-	-	-	-	-	-	(7)	5	2	-	-
Transfers to/from stage 2	(571)	572	(1)	-	-	-	-	-	-	-	(571)	572	(1)	-	-
Transfers to/from stage 3	(18)	(1)	19	-	-	-	1	(1)	-	-	(18)	-	18	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	(22)	(9)	-	(31)	-	(22)	(9)	-	(31)
New lending	643	197	7	-	847	(4)	(13)	(3)	-	(20)	639	184	4	-	827
Repayments, additional drawdowns and interest accrued	(89)	1	(6)	-	(94)	-	-	-	-	-	(89)	1	(6)	-	(94)
Derecognitions	(198)	(6)	(15)	-	(219)	1	1	1	-	3	(197)	(5)	(14)	-	(216)
Changes to assumptions	-	-	-	-	-	32	(1)	(3)	-	28	32	(1)	(3)	-	28
Balance at 31 December 2020	4,115	906	127	-	5,148	(19)	(44)	(40)	-	(103)	4,096	863	86	-	5,045

	Gross carrying amount					Loss allowance					Net carrying amount				
£'million	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Balance at 1 January 2020	3,929	72	51	-	4,052	(6)	(1)	(6)	-	(13)	3,923	71	45	-	4,039
Transfers to/from stage 1	20	(16)	(4)	-	-	-	-	-	-	-	20	(16)	(4)	-	-
Transfers to/from stage 2	(107)	107	-	-	-	-	-	-	-	-	(107)	107	-	-	-
Transfers to/from stage 3	(66)	(19)	85	-	-	-	-	-	-	-	(66)	(19)	85	-	-
Net remeasurement due to transfers	-	-	-	-	-	-	(6)	(21)	-	(27)	-	(6)	(21)	-	(27)
New lending	919	2	2	-	923	(2)	-	-	-	(2)	917	2	2	-	921
Repayments, additional drawdowns and interest accrued	(112)	-	(3)	-	(115)	-	-	-	-	-	(112)	-	(3)	-	(115)
Derecognitions	(228)	(8)	(10)	-	(246)	-	-	1	-	1	(228)	(8)	(9)	-	(245)
Changes to assumptions	-	-	-	-	-	(40)	(2)	-	-	(42)	(40)	(2)	-	-	(42)
Balance at 30 June 2020	4,355	138	121	-	4,614	(48)	(9)	(26)	-	(83)	4,307	129	95	-	4,531

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 January 2021	**18**	**292**	**298**	**25**	**11**	**330**	**974**
Additions	**-**	**8**	**(8)**	**-**	**-**	**-**	**-**
30 June 2021	**18**	**300**	**290**	**25**	**11**	**330**	**974**
Accumulated depreciation							
1 January 2021	**12**	**66**	**21**	**15**	**7**	**47**	**168**
Charge for the period	**1**	**6**	**2**	**3**	**1**	**7**	**20**
30 June 2021	**13**	**72**	**23**	**18**	**8**	**54**	**188**
Net book value at 30 June 2021	**5**	**228**	**267**	**7**	**3**	**276**	**786**
Cost							
1 July 2020	18	315	266	26	11	335	971
Additions	-	3	14	2	-	1	20
Recognised in business combinations	-	1	-	-	1	3	5
Disposals	-	-	-	-	-	(9)	(9)
Write-offs	-	(9)	-	(3)	(1)	-	(13)
Transfers	-	(18)	18	-	-	-	-
31 December 2020	18	292	298	25	11	330	974
Accumulated depreciation							
1 July 2020	10	64	16	14	6	40	150
Charge for the period	-	5	3	3	2	7	20
Recognised in business combinations	-	1	-	-	-	-	1
Write-offs	-	(2)	-	(2)	(1)	-	(5)
Transfers	-	(2)	2	-	-	-	-
Impairments	2	-	-	-	-	1	3
Disposals	-	-	-	-	-	(1)	(1)
31 December 2020	12	66	21	15	7	47	168
Net book value at 31 December 2020	6	226	277	10	4	283	806
Cost							
1 January 2020	18	314	262	26	10	332	962
Additions	-	3	4	1	2	3	13
Write-offs	-	(2)	-	(1)	(1)	-	(4)
30 June 2020	18	315	266	26	11	335	971
Accumulated depreciation							
1 January 2020	10	49	14	12	5	16	106
Charge for the period	-	6	2	2	2	9	21
Write-offs	-	-	-	(1)	(1)	-	(2)
Impairments	-	9	-	1	-	15	25
30 June 2020	10	64	16	14	6	40	150
Net book value at 30 June 2020	8	251	250	12	5	295	821

8. Intangible assets

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2021	**10**	**2**	**328**	**340**
Additions	**-**	**-**	**26**	**26**
Deferred grant (see note 10)	**-**	**-**	**1**	**1**
30 June 2021	**10**	**2**	**355**	**367**
Accumulated amortisation				
1 January 2021	**-**	**-**	**86**	**86**
Charge for the period	**-**	**-**	**20**	**20**
Impairment	**-**	**-**	**8**	**8**
30 June 2021	**-**	**-**	**114**	**114**
Net book value at 30 June 2021	**10**	**2**	**241**	**253**

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 July 2020	4	-	268	272
Additions	-	-	28	28
Recognised in business combinations	6	2	32	40
Write-offs	-	-	(4)	(4)
Deferred grant (see note 10)	-	-	4	4
31 December 2020	10	2	328	340
Accumulated amortisation				
1 July 2020	-	-	70	70
Charge for the period	-	-	17	17
Write-offs	-	-	(1)	(1)
31 December 2020	-	-	86	86
Net book value at 31 December 2020	10	2	242	254

	Goodwill £'million	Brands £'million	Software £'million	Total £'million
Cost				
1 January 2020	4	-	224	228
Additions	-	-	53	53
Write-offs	-	-	(6)	(6)
Deferred grant (see note 10)	-	-	(3)	(3)
30 June 2020	4	-	268	272
Accumulated amortisation				
1 January 2020	-	-	60	60
Charge for the period	-	-	16	16
Write-offs	-	-	(6)	(6)
30 June 2020	-	-	70	70
Net book value at 30 June 2020	4	-	198	202

9. Lease liabilities

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
At beginning of the period	**327**	340	341
Additions and modifications	**-**	1	3
Recognised in business combination	**-**	3	-
Disposals	**(11)**	(9)	-
Lease payments made	**(15)**	(18)	(13)
Interest on lease liabilities	**9**	10	9
At the end of the period	**310**	327	340

10. Deferred grants

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
At beginning of the period	**28**	31	50
Released to the income statement	**(7)**	(7)	(16)
Offset against capital expenditure (see note 8)	**1**	4	(3)
At the end of the period	**22**	28	31

Our only deferred grant relates to amounts awarded in relation to the Capability and Innovation Fund which formed part of the RBS alternative remedies programme. The programme was aimed to increase competition in the UK business banking marketplace.

As part of the grant we are subject to delivering a number of public commitments. These commitments can be found on BCR's (the awarding body) website. As at 30 June 2021 we are currently on track with the delivery of these commitments.

11. Share capital

As at 30 June 2021 we had 172.4 million ordinary shares of 0.0001 pence (31 December 2020: 172.4 million, 30 June 2020: 172.4 million) in issue.

Called up ordinary share capital (issued and fully paid)

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
At beginning of the period	**-**	-	-
At end of the period	**-**	-	-

Share premium

	Half year to 30 June 2021 £'million	Half year to 31 December 2020 £'million	Half year to 30 June 2020 £'million
At beginning of the period	**1,964**	1,964	1,964
At end of the period	**1,964**	1,964	1,964

12. Earnings per share

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

	Half year to 30 June 2021	Half year to 31 December 2020	Half year to 30 June 2020
(Loss) attributable to ordinary equity holders (£'million)	**(141.1)**	(62.4)	(239.5)
Weighted average number of ordinary shares in issue (thousands)	**172,420**	172,420	172,420
Basic earnings per share (pence)	**(81.8)**	(36.2)	(138.9)

Diluted EPS has been calculated by dividing the 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 month periods to 30 June 2021, 31 December 2020 and 30 June 2020, the share options would be antidilutive, as they would reduce the loss per share. Therefore, all the outstanding options have been disregarded in the calculation of dilutive EPS.

	Half year to 30 June 2021	Half year to 31 December 2020	Half year to 30 June 2020
(Loss)/profit attributable to ordinary equity holders (£'million)	**(141.1)**	(62.4)	(239.5)
Weighted average number of ordinary shares in issue (thousands)	**172,420**	172,420	172,420
Diluted earnings per share (pence)	**(81.8)**	(36.2)	(138.9)

13. 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 June 2021					
Assets					
Loan and advances to customers	**12,325**	**-**	**-**	**12,287**	**12,287**
Investment securities held at FVOCI	**1,198**	**1,198**	**-**	**-**	**1,198**
Investment securities held at amortised cost	**3,165**	**1,480**	**1,632**	**64**	**3,176**
Financial assets held at FVTPL	**5**	**-**	**-**	**5**	**5**
Liabilities					
Deposits from customers	**16,620**	**-**	**-**	**16,663**	**16,663**
Deposits from central banks	**3,800**	**-**	**-**	**3,800**	**3,800**
Debt securities	**596**	**503**	**-**	**-**	**503**
Derivative financial liabilities	**8**	**-**	**-**	**8**	**8**
Repurchase agreements	**212**	**-**	**-**	**212**	**212**
31 December 2020					
Assets					
Loan and advances to customers	12,090	-	-	11,892	11,892
Investment securities held at FVOCI	773	723	50	-	773
Investment securities held at amortised cost	2,640	1,021	1,567	66	2,654
Financial assets held at FVTPL	30	-	-	30	30
Liabilities					
Deposits from customers	16,072	-	-	16,147	16,147
Deposits from central banks	3,808	-	-	3,808	3,808
Debt securities	600	483	-	-	483
Financial liabilities held at FVTPL	30	-	-	30	30
Derivative financial liabilities	8	-	8	-	8
Repurchase agreements	196	-	-	196	196

13. Fair value of financial instruments (continued)

	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 June 2020					
Assets					
Loan and advances to customers	14,857	-	-	14,975	14,975
Investment securities held at FVOCI	444	444	-	-	444
Investment securities held at amortised cost	2,577	850	1,753	-	2,603
Liabilities					
Deposits from customers	15,577	-	-	15,559	15,559
Deposits from central banks	3,801	-	-	3,801	3,801
Debt securities	599	460	-	-	460
Repurchase agreements	211	-	-	211	211

Information on how fair values are calculated for the financial assets and liabilities noted above 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).

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

Debt securities
Fair values are determined using the quoted market price at the balance sheet date.

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

14. Legal proceedings and regulatory matters

As part of the normal course of business we are subject to legal and regulatory matters, the majority of which are not considered to have a material impact on the business.

The contingent liabilities detailed below are those which could potentially have a material impact, although their inclusion does not constitute any admission of wrongdoing or legal liability. The outcome and timing of these matters is inherently uncertain. Based on the facts currently known, it is not possible at the moment to predict the outcome of any of these matters or reliably estimate any financial impact. As such, at the reporting date no provision has been made for any of these cases within the financial statements.

PRA and FCA investigations into RWA Adjustment and AIRB Accreditation

We are currently subject to enforcement investigations by both the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

- The PRA's investigation relates to potential breaches of the PRA's Fundamental Rules 2 and 6. The PRA is investigating whether there were failures to conduct regulatory reporting with due skill, care and diligence, to remedy an issue identified by the PRA in a timely fashion and/or to provide effective oversight and control to comply with its regulatory reporting obligations. These issues relate to our assessment and reporting of our risk-weighted assets. We are cooperating with the PRA's investigation. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.
- The current scope of the FCA's investigation concerns potential breaches of articles 15 and 17 of the Market Abuse Regulation (EU 596/2014), Principle 11 of the FCA's Principles for Business, and Listing Principle 1, Premium Listing Principle 6 and Rule 1.3.3 of the Listing Rules, in the period between 1 June 2017 and 26 February 2019. The investigations relate to the announcements made on 23 January 2019 and 26 February 2019 in relation to risk-weighted assets and AIRB accreditation respectively and the impact these announcements had on our share price. We are cooperating with the FCA's investigation. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

Financial Crime

In 2017 and 2019 initial disclosures were made to the United State's Office of Foreign Assets Control (OFAC) in relation to Cuba and Iran. We are continuing a review in respect of these matters, together with a review of our sanctions screening and transaction monitoring systems and controls, with the support of external advisers. We continue to engage and fully co-operate with our regulators in relation to these matters. At this stage it is not practicable to identify the likely outcome or estimate the potential financial impact with any certainty.

15. Post balance sheet events

There have been no material post balance sheet events.

END OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

RECONCILIATION OF STATUTORY TO UNDERLYING RESULTS (UNAUDITED)

Underlying loss represents an adjusted measure, excluding the effect of certain items that are considered to distort year-on-year comparisons, in order to provide readers with a better and more relevant understanding of the underlying trends in the business. Details of the item that are considered to be non-underlying and their reasons for exclusion can be found on page 234 of our 2020 Annual Report and Accounts.

A reconciliation from our statutory to underlying results for the period is set out below:

Half year to 30 June 2021	Statutory basis £'million	Impairment and write offs of PPE and intangible assets £'million	Net BCR costs £'million	Transformation costs £'million	Remediation costs £'million	Business acquisition and integration costs £'million	Mortgage portfolio sale £'million	Underlying basis £'million
Interest income	**194.2**	-	-	-	-	-	-	**194.2**
Interest expense	**(60.9)**	-	0.3	-	-	-	-	**(60.6)**
Net interest income	**133.3**	-	0.3	-	-	-	-	**133.6**
Net fee and commission income	**32.7**	-	-	-	-	-	-	**32.7**
Net gains on sale of assets	**8.2**	-	-	-	-	-	(8.7)	**(0.5)**
Other income	**22.1**	-	(6.7)	-	-	-	(1.4)	**14.0**
Total income	**196.3**	-	(6.4)	-	-	-	(10.1)	**179.8**
								-
General operating expenses	**(272.8)**	-	6.5	1.8	25.4	2.3	1.7	**(235.1)**
Depreciation and amortisation	**(40.3)**	-	0.2	-	-	-	-	**(40.1)**
Impairment and write offs of property, plant & equipment and intangible assets	**(7.5)**	7.5	-	-	-	-	-	**-**
Total operating expenses	**(320.6)**	7.5	6.7	1.8	25.4	2.3	1.7	**(275.2)**
Expected credit loss expense	**(14.6)**							**(14.6)**
Loss before tax	**(138.9)**	7.5	0.3	1.8	25.4	2.3	(8.4)	**(110.0)**
Taxation	**(2.2)**	-	-	-	-	-	-	**(2.2)**
Loss after tax	**(141.1)**	**7.5**	**0.3**	**1.8**	**25.4**	**2.3**	**(8.4)**	**(112.2)**

Details of our other alternative performance measures including the methodology used to calculating them can be found on page 233 of our 2020 Annual Report and Accounts.