



**Metro Bank Holdings PLC**

**Audit Committee**

**Terms of Reference**

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# **METRO BANK HOLDINGS PLC**

## **GROUP AUDIT COMMITTEE TERMS OF REFERENCE**

### **1. Constitution**

Metro Bank Group (the “Group”) consists of Metro Bank Holdings Plc (the “Company”) and its subsidiaries. The Board of Directors (the “Board”) of the Company has established a Committee of the Board, known as the Group Audit Committee (the “Committee”), with Terms of Reference as set out below.

### **2. Purpose**

2.1 The Committee shall be accountable to the Board and will assist the Board in fulfilling its oversight responsibilities across the Group by reviewing and monitoring the financial reporting process, the system of internal control, the internal and external audit process and auditors, and the Group's process for monitoring compliance with relevant laws, regulations and the code of conduct. In all matters, the Committee will consider the relevance and implications of the FCA Consumer Duty requirements.

2.2 The Committee's responsibilities in relation to subsidiaries that are required to establish audit committees are set out in section 13.

### **3. Chair**

On the recommendation of the Group Nomination Committee, the Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **4. Membership**

4.1 Members of the Committee shall be appointed by the Board on the recommendation of the Group Nomination Committee in consultation with the Committee Chair. The Committee shall comprise of at least three members including the Committee Chair. Membership shall include at least one member of the Group Risk Oversight Committee.

4.2 All members of the Committee shall be independent Non-Executive Directors as determined by the Board and at least one member shall have recent and relevant financial experience with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector in which the Group operates.

4.3 The Board Chair shall not be a member of the Committee, but may be invited to attend its meetings.

- 4.4 Only members of the Committee or their nominee have the right to attend and vote at Committee meetings, however, other individuals may be invited to attend all or part of any meeting as and when appropriate.
- 4.5 The External Auditor shall be invited to attend meetings of the Committee on a regular basis.
- 4.6 Appointments to the Committee shall be for a period of up to three years extendable provided the director remains independent.

## **5. Secretary**

The Company Secretary or their nominee shall act as the Secretary of the Committee.

## **6. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee, at which a quorum is present, shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **7. Meetings**

- 7.1 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required.
- 7.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Group's governance, including the Board Chair, Chief Executive Officer, Chief Finance Officer, External Audit Partner and Chief Internal Auditor, as required.

## **8. Notice of Meetings**

- 8.1 Meetings of the Committee shall be summoned by the Committee Secretary at the request of the Committee Chair or any member of the Committee, or at the request of the External Auditor Partner or the Chief Internal Auditor if they consider it necessary.
- 8.2 The Committee Secretary shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend, no later than five days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

## **9. Annual General Meeting**

The Committee Chair should attend the annual general meeting to answer questions from shareholders on the Committee's activities. In addition, the Committee Chair should appropriately engage with shareholders on significant matters related to the Committee's areas of responsibility.

## **10. Minutes and Reporting**

- 10.1 The Committee Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those members present and others in attendance.
- 10.2 The Committee Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 10.3 The Committee Chair shall be responsible for reporting to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities. The minutes of all meetings and resolutions of the Committee shall be circulated to the members of the Committee and, once agreed, to the Board. The Company Secretary will retain copies of the minutes and papers.

## **11. Duties**

The Committee should carry out the duties below for the Company and subsidiary undertakings, as appropriate.

### **11.1 Financial Reporting**

The Committee shall monitor the integrity of the financial statements of the Group, including its annual and half-yearly reports and any other formal announcements relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and any material judgements which they contain having regard to matters communicated to it by the External Auditor. The Committee shall also review summary financial statements, significant ad hoc or exceptional reports to regulators and any financial information contained in other public documents.

The Committee shall review and challenge where necessary:

- 11.1.1 the application of significant accounting policies both on a year on year basis and across the Group and any changes to them;
- 11.1.2 the appropriateness of the going concern basis of accounting;
- 11.1.3 the methods used to account for significant or unusual transactions where different approaches are possible;
- 11.1.4 whether the Group has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the External Auditor on the financial statements;
- 11.1.5 the clarity and completeness of disclosure in the financial reports and the context in which statements are made; and
- 11.1.6 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit.

## **11.2 Narrative Reporting**

Where requested by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy and whether this is reflected appropriately in the statement in the annual report as it informs the Board's statement in the Annual Report on these matters that is required under the UK Corporate Governance Code ("the Code").

## **11.3 Regulatory Reporting**

The Committee shall review arrangements, systems and controls established by management, including receiving regular reports from the Regulatory Reporting Committee and the Regulatory Interpretation Committee, for compliance with regulatory reporting and best practice requirements including the requirements and recommendations of relevant regulatory bodies.

## **11.4 Internal Controls and Risk Management Systems**

The Committee shall:

- 11.4.1 understand the scope of Internal and External Auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
- 11.4.2 in conjunction with the Group Risk Oversight Committee, given the overlap of remit, review and approve the statements to be included in the annual report concerning internal control and the viability statement taking into account recommendations from the Group Risk Oversight Committee regarding the appropriateness of the statements regarding principal and emerging risks and risk management; and
- 11.4.3 consider the level of assurance it is getting on the risk management and internal control systems, including internal financial controls, and whether this is enough to help the Board in satisfying itself that they are operating effectively.

## **11.5 Compliance and Whistleblowing**

The Committee shall:

- 11.5.1 review the adequacy and security of the Group's arrangements for its colleagues, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 11.5.2 review the Group's systems and controls to ensure compliance with the Modern Slavery Act 2015 and receive reports on non-compliance; and
- 11.5.3 keep under review the adequacy and effectiveness of the Group's Compliance function.

## **11.6 Internal Audit**

- 11.6.1 To establish, maintain, and ensure that Internal Audit has sufficient authority to fulfill its duties, the Committee will:
- 11.6.1.1 ensure the Group Chief Internal Auditor has unrestricted access to, and communicates and interacts directly with, the Committee, including in private meetings without senior management present;
  - 11.6.1.2 participate in discussions with the Group Chief Internal Auditor and senior management about the “essential conditions” described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function;
  - 11.6.1.3 approve the Internal Audit Charter every two years following review with the Group Chief Internal Auditor to:
    - (a) confirm whether the mandate covering authority, role, responsibilities, scope and services (assurance and/or advisory) set out in the Internal Audit Charter remain appropriate;
    - (b) consider changes affecting the Bank, such as the employment of a new Group Chief Internal Auditor or changes in the type, severity, and interdependencies of risks to the Bank; and
    - (c) consider any other topics that should be included in the Internal Audit Charter;
  - 11.6.1.4 approve the risk-based Internal Audit Plan;
  - 11.6.1.5 review on at least an annual basis whether the Internal Audit function has unrestricted scope, access to the necessary financial resources (including budget) and access to information to enable it to fulfil its mandate;
  - 11.6.1.6 receive periodic communications from the Group Chief Internal Auditor about Internal Audit, including its performance relative to its plan and other indicators;
  - 11.6.1.7 receive periodic communications from the Group Chief Internal Auditor, and Management where appropriate, about actions taken by Management to implement IA recommendations;
  - 11.6.1.8 recommend the appointment and removal of the Group Chief Internal Auditor to the Nomination Committee for approval. This would include the qualifications and competencies the Bank expects in a Group Chief Internal Auditor;
  - 11.6.1.9 the Chair of the Committee will be consulted by the People and Remuneration Committee as required regarding remuneration and performance of the Group Chief Internal Auditor;
  - 11.6.1.10 carry out an annual assessment of the effectiveness of the Internal Audit function; and

11.6.1.11 ensure a Quality Assurance and Improvement Program (QAIP) has been established and review the results at least annually. This should include whether an independent, third-party review of the Internal Audit function's effectiveness and process is appropriate.

## **11.7 External Audit**

The Committee shall oversee the relationship with the External Auditor including, but not limited to:

### **11.7.1 Engagement Terms and Fees**

- 11.7.1.1 consider and make recommendations to the Board, to be put to members for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the External Auditors;
- 11.7.1.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent External Auditor with those of other audit firms and; in respect of such tender, lead and conduct such tender process and develop and oversee the selection process in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 11.7.1.3 if an External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 11.7.1.4 approve the External Auditor's remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
- 11.7.1.5 approve the External Auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.

### **11.7.2 Independence and Quality Control**

- 11.7.2.1 assess annually the External Auditor's independence and objectivity taking into account relevant law, regulation, the Financial Reporting Council's Ethical Standard and other professional requirements, and the Group's relationship with the External Auditor as a whole, including any threats to the External Auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;
- 11.7.2.2 satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and the Group (other than in the ordinary course of business) which could adversely affect the External Auditor's independence and objectivity;

- 11.7.2.3 agree with the Board a policy on the employment of former employees of the External Auditor, taking into account the Ethical Standard and legal requirements, and monitor the implementation of this policy;
- 11.7.2.4 develop and approve the Group's formal policy on the provision of non-audit services by the External Auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements and the External Auditor's independence;
- 11.7.2.5 assess annually the qualifications, expertise and resources and the effectiveness of the external audit process, which shall include a report from the External Auditor on their own internal quality procedures;
- 11.7.2.6 monitoring the External Auditor's compliance with relevant legal, professional and regulatory requirements, guidance and the Ethical Standard on the rotation of audit partners and staff, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner;
- 11.7.2.7 meet regularly with the External Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the External Auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 11.7.2.8 seek to ensure coordination of the external audit with the activities of the Internal Audit function; and
- 11.7.2.9 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the External Auditor's communications with the Committee.

### **11.7.3 Conduct and Results of Audit**

- 11.7.3.1 discuss with the External Auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the External Audit team;
- 11.7.3.2 review the findings of the audit with the External Auditor. This shall include but not be limited to the following:
  - (a) a discussion of any major issues which arose during the audit;
  - (b) the External Auditor's explanation of how the risks to audit quality were addressed;
  - (c) key accounting and audit judgements;
  - (d) the External Auditor's view of their interactions with management; and
  - (e) levels of errors identified during the audit;



- 11.7.3.3 review any representation letter(s) requested by the External Auditor before they are signed by management;
- 11.7.3.4 review the management letter and management's response to the External Auditor's findings and recommendations;
- 11.7.3.5 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the External Auditor, and the External Auditor's response to questions from the Committee; and
- 11.7.3.6 inform the Board of the outcome of the statutory audit and explain how the statutory audit contributed to the integrity of financial reporting and what the role of the Committee was in that process.

## **11.8 Reporting Responsibilities**

- 11.8.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities.
- 11.8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit, including audit process effectiveness, significant issues and where action or improvement is needed.
- 11.8.3 The Committee shall produce a report on its activities to be included in the Group's annual report. The report should include:
  - (a) an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the External Auditor, including information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - (b) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the External Auditor; if the External Auditor provides non-audit services, the Committee's policy for approval of non-audit services, an explanation of how auditor objectivity and independence are safeguarded, the audit fees for the statutory audit for audit related services and other non-audit services; and
  - (c) a description of the work carried out to provide oversight of related party contracts. In compiling the reports referred to above under this section, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Group is a going concern and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **11.9 Related Parties**

The Committee Chair shall be available to shareholders, upon request, should they have any queries regarding the Group's relationship with related parties.

### **11.10 Other Matters**

The Committee shall:

- 11.10.1 consider other duties determined by the Board from time to time;
- 11.10.2 have access to sufficient resources in order to carry out its duties including access to the Company Secretariat for assistance as required;
- 11.10.3 ensure that its members take individual responsibility for identifying training appropriate to their needs;
- 11.10.4 be provided with appropriate and timely training including an induction programme for new members and on an ongoing basis for all members;
- 11.10.5 be responsible for oversight of the co-ordination of the Internal and External Auditors
- 11.10.6 give due consideration to all relevant laws and regulations, the provisions of the Code and other published guidance, the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 11.10.7 oversee any investigation of activities which are within its terms of reference;
- 11.10.8 work and liaise as necessary with all other Board Committees, taking particular account of any delegation of the impact of risk management and internal controls to different Board Committees, and ensure that interaction between the Committee and other Board Committees and between the Committee and the Board is reviewed regularly;
- 11.10.9 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively and report the results of this review to the Board, including recommendations of changes it considers necessary to the Board for approval; and
- 11.10.10 confirm annually that all responsibilities outlined in this charter have been carried out.

### **12. Authority**

The Committee is authorised to:

- 12.1 seek any information it requires from any employee of the Group in order to perform its duties;
- 12.2 obtain, at the Group's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so;

- 12.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 12.4 publish in the Group's annual report details of any issues that cannot be resolved between the Committee and the Board. If the Board does not accept the Committee's recommendation, a statement from the Committee should be included in the annual report explaining the recommendation and the reasons why the Board has taken a different position.

### **13. Audit Committees of relevant subsidiaries**

The Committee shall:

- 13.1 review the composition, powers and responsibilities of subsidiary committees with responsibility for oversight of audit within the Group;
- 13.2 review core terms of reference for adoption by subsidiary audit committees and approve material deviations; and
- 13.3 liaise as necessary with the Group's subsidiaries that are required to establish audit committees (setting clear expectations). In exercising its responsibilities, the Committee will have the right to request but not direct subsidiary audit committees to take action or provide information and documentation from time to time such as it shall determine. This may include the following: (i) receiving copies of the minutes from each subsidiary audit committee; (ii) receiving an update on the emerging risks of a subsidiary company; (iii) encouraging information sharing and best practice to be adopted; and (iv) encouraging discussion with the Committee and between the Chairs of subsidiary audit committees.