



Metro Bank PLC

Audit Committee

Terms of Reference

Revision history:

Considered by the Audit Committee	25 July 2023
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METRO BANK PLC

AUDIT COMMITTEE TERMS OF REFERENCE

1. Constitution

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

2. Purpose

The Committee shall be accountable to the Board and will assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the financial reporting process, the system of internal control, the internal and external audit process and auditors, and the Bank's process for monitoring compliance with relevant laws, regulations and the code of conduct.

3. Chair

On the recommendation of the 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 Metro Bank 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 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 Bank 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 Bank'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.

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 Bank and subsidiary undertakings, as appropriate.

11.1 Financial Reporting

The Committee shall monitor the integrity of the financial statements of the Bank, 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 significant ad hoc or exceptional reports to regulators and any financial information contained in other public documents relating to the Bank.

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 Bank 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 Bank 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 to assess the Bank's performance.

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 Bank's Risk Oversight Committee, given the overlap of remit, review and approve the statements to be included in the annual report concerning internal control and risk management, including the assessment of principal risks and emerging risks and the viability statement (which is to be included in the Group accounts); 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 Bank'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 Bank'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 Bank's Compliance function.

11.6 Internal Audit

The Committee shall:

- 11.6.1 recommend the appointment and removal of the Group Chief Internal Auditor to the Group Audit Committee for approval;
- 11.6.2 recommend the role and mandate of the Internal Audit function, monitor and review the effectiveness of its work and biennially recommend its charter to the Group Audit Committee for approval to ensure it is appropriate for the current needs of the Bank;

- 11.6.3 review the internal audit plan, ensuring that it is aligned to the key risks of the business and receive regular reports on work carried out, and recommend it to the Group Board for approval;
- 11.6.4 ensure the Internal Audit function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the Internal Audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the Internal Audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 11.6.5 ensure the Group Chief Internal Auditor has direct access to the Board Chair and to the Committee Chair, providing independence from management and accountability to the Committee; and
- 11.6.6 carry out an annual assessment of the effectiveness of the Internal Audit function and as part of this assessment:
 - (a) meet the Group Chief Internal Auditor, without management being present, to discuss the effectiveness of their function;
 - (b) review and assess progress against the annual internal audit plan;
 - (c) receive a report on the results of the Internal Audit function's work;
 - (d) determine whether it is satisfied that the quality, experience and expertise of the Internal Audit function are appropriate for the business;
 - (e) review actions taken by management to implement the recommendations of the Internal Audit function and to support the effective working of the Internal Audit function;
 - (f) monitor and assess the role and effectiveness of the Internal Audit function in the overall context of the Bank's risk management system and the work of Compliance, Finance and the External Auditor; and
 - (g) consider 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 Bank's 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 the member for approval at the AGM, in relation to the appointment, re-appointment and removal of the External Auditors;

- 11.7.1.2 support the Group Audit Committee where required to ensure that at least once every ten years the audit services contract is put out to tender to enable the Group Audit 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, support the Group Audit Committee where required to 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 in relation to the Bank, 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 with the Bank, including any engagement letter issued at the start of each audit and the scope of the audit for the Bank.

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 Bank'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 Bank (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 recommend to the Group Board the Group's formal policy on the provision of non-audit services by the External Auditor for approval, 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;
- 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 Bank 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 Bank's annual report. The report should include:
- (a) 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; and
 - (b) 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 Bank is a going concern. The report to the shareholder 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 Bank'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 for the Bank;
- 11.10.6 give due consideration to all relevant laws and regulations, 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 Bank in order to perform its duties;
- 12.2 obtain, at the Bank'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 Bank'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.