



## AUDIT COMMITTEE REPORT



### Chairman's statement

I am pleased to present the first Audit Committee report following the Listing for the year ended 31 December 2016.

The four members of the Audit Committee are all independent Non-Executive Directors and bring a range of relevant business experience. In March 2016 we welcomed Sir Michael Snyder, a qualified Chartered Accountant, to the Audit Committee; he has extensive financial and audit experience.

Metro Bank has continued to pursue its growth model and, together with its successful listing in 2016, this has resulted in an increase in work and focus for the Audit Committee over the last year. We spent a significant amount of time in early 2016 reviewing and considering the reports required for the Listing, and where necessary providing comfort or recommendations to the Board for their approval. In addition, the Committee reviewed and recommended quarterly, half yearly and annual financial statements and shareholder announcements for approval by the Board.

This is in addition to monitoring the 2016 Internal Audit Plan. In developing the Internal Audit Plan for 2017, we have ensured inclusion of those areas most impacted by continued growth. We have also supported the expansion of the Internal Audit team to meet the increased workload.

The 2017 Internal Audit Plan was approved by the Board in January 2017 following discussion at the Committee, and they also approved the level of risk assurance contained within the Plan. I am therefore comfortable that the key risks to Metro Bank's unique business model have been identified and are being monitored.

During the year, the Audit Committee commissioned a comprehensive external review by Independent Audit Limited of the Internal Audit function and I am pleased to confirm that the report identified no major nor significant issues. The Committee is pleased to confirm that Internal Audit is operating effectively.

I meet at least once a month with the Director of Internal Audit and regularly with her team. I sit on the Risk Oversight Committee and work closely with Gene Lockhart, Chairman of the Committee. I also meet monthly with the Chief Risk Officer to discuss issues in her Board report. I have regular meetings with the Group Finance Director and members of his team to discuss the financial statements.

The Audit Committee met nine times in 2016 and, following each meeting, I provided a verbal update to the Board on key issues and, where necessary, outlined the actions being taken by management to address any issues raised. The minutes are also included in the next Board pack. I also meet with the external audit partner before each Audit Committee meeting and the Committee members have a session with the external Auditors at the end of each meeting without the presence of management.

**Stuart Bernau**  
Chairman of Audit Committee  
**2 March 2017**

### Composition of the Audit Committee

The Audit Committee currently comprises the following four independent Non-Executive Directors:

Members	Number of meetings attended
Stuart Bernau (Chairman)	9/9
Gene Lockhart	7/9
Keith Carby	9/9
Sir Michael Snyder (appointed 22 March 2016)	4/6

Regular attendees at the Audit Committee include the CEO, CFO, CRO, Director of Internal Audit, Deputy Company Secretary and representatives from the external Auditors, PwC.

### ROLE OF THE AUDIT COMMITTEE

The Audit Committee's key role is to review the integrity of the financial reporting for the Bank and to oversee the effectiveness of the internal control systems and the work of the internal and external Auditors.

The Audit Committee's Terms of Reference are reviewed annually and are available on the Bank's website.



## AUDIT COMMITTEE REPORT CONTINUED

### AUDIT COMMITTEE – KEY RESPONSIBILITIES

External Audit	Internal Audit	Financial and narrative reporting	Whistleblowing and fraud	Internal controls and risk management
<ul style="list-style-type: none"> <li>Recommend the appointment, reappointment or removal</li> <li>Oversee the relationship, approve terms of engagement and review independence and objectivity</li> <li>Approve remuneration and review the supply of non-audit services in line with policy</li> <li>Meet regularly without management present</li> <li>Ensure audit contract is tendered at least every ten years</li> </ul>	<ul style="list-style-type: none"> <li>Approve appointment or termination of the Director of Internal Audit</li> <li>Monitor and review the effectiveness of the function</li> <li>Review and approve the Internal Audit Charter</li> <li>Review and assess the Internal Audit plan and ensure that resources are adequate</li> <li>Meet regularly with Director of Internal Audit and ensure access to Board</li> <li>Review management's responsiveness to findings</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the integrity of the financial statements</li> <li>Review and report to the Board on significant financial issues and material judgements</li> <li>Review and challenge accounting policies, methods used to account for significant and unusual transactions, clarity and completeness of disclosure</li> <li>Advise whether the Annual Report is fair, balanced and understandable</li> </ul>	<ul style="list-style-type: none"> <li>Review the adequacy and security of whistleblowing arrangements</li> <li>Review the procedures for detecting fraud and preventing bribery</li> </ul>	<ul style="list-style-type: none"> <li>Monitor and review the adequacy and effectiveness of the Company's internal financial controls and risk management systems</li> <li>Review and approve the statements in the Annual Report concerning internal controls and risk management</li> </ul>

### KEY AREAS DISCUSSED AT AUDIT COMMITTEE MEETINGS SINCE 1 JANUARY 2016

Month	Key topics
<b>Jan 2016</b>	<ul style="list-style-type: none"> <li>Financial Position and Prospects Procedures report, Working Capital report and Long Form report</li> <li>Key judgement areas for the 2015 Annual Report and Accounts, including a report from the external Auditors</li> </ul>
<b>Feb 2016 (two meetings)</b>	<ul style="list-style-type: none"> <li>2015 Annual Report and Accounts, including an the assessment of going concern basis and related party transactions</li> <li>Review of Conflicts of Interest policy</li> <li>External audit control observations, including management responses</li> <li>Review of 2015 internal audits</li> </ul>
<b>Apr 2016</b>	<ul style="list-style-type: none"> <li>Review of Q1 results</li> <li>Review of Anti-Bribery and Corruption policy and Whistle-Blowing policy</li> </ul>
<b>June 2016</b>	<ul style="list-style-type: none"> <li>Review and approval of Internal Audit Charter</li> <li>AIRB and IFRS 9 considerations – changes to accounting standards</li> </ul>
<b>July 2016</b>	<ul style="list-style-type: none"> <li>2016 Half-year results, including an update of critical accounting judgements and estimates and external auditor's review</li> <li>External audit terms of engagement</li> </ul>
<b>Sept 2016</b>	<ul style="list-style-type: none"> <li>2016 External Audit plan</li> <li>Non-audit services policy</li> </ul>
<b>Oct 2016</b>	<ul style="list-style-type: none"> <li>Review of Q3 results</li> </ul>
<b>Nov 2016</b>	<ul style="list-style-type: none"> <li>2017 Internal Audit plan and resourcing</li> <li>External review of Internal Audit function</li> <li>Review of related party transactions</li> <li>Approval of External Audit fee</li> <li>Update on year-end reporting</li> </ul>
<b>Feb 2017</b>	<ul style="list-style-type: none"> <li>2016 full year results, Annual Report and Accounts, including assessment of the key judgements, going concern and viability reporting</li> <li>Internal audit – External Quality Assessment</li> <li>External Auditors' reports</li> </ul>



In addition to the key areas opposite, the Audit Committee reviewed the progress against the Internal Audit plan and reviewed the detailed reports where appropriate.

## ACTIVITIES IN 2016

### Significant issues and areas of judgement considered by the Committee

In respect of financial reporting, the Audit Committee considered a number of significant issues and areas of judgement in relation to the 2016 Annual Report and Accounts.

Key issues/judgements in financial reporting	Audit Committee review and conclusions
<p><b>Impairment of loans and advances</b></p> <p>Determining the appropriateness of loan loss provision is inherently judgemental and requires management to make a number of assumptions.</p> <p>Individual impairment losses on secured loans and advances are calculated based on an individual valuation of the underlying asset. Collective impairment losses on loans and advances are calculated using a statistical model.</p>	<p>The key assumptions used in the model are probability of default, the probability of this default resulting in possession and/or write-off, and the subsequent loss incurred.</p> <p>The Committee received and challenged reports from management explaining the approach taken to provisioning and the resulting changes in the provision levels during the period.</p> <p>The Committee is satisfied that the approach taken and judgements applied were reasonable.</p>
<p><b>Deferred tax asset</b></p> <p>The recoverability of deferred tax asset ("DTA") requires consideration of the future levels of taxable profit in the Group.</p>	<p>The Committee considered the recognition of DTA, in particular the seven-year financial plan including the timing over which future taxable profits will be available for the deferred tax asset to be realised.</p> <p>The Committee agrees with the management judgement that sufficient taxable profits will be available to utilise the tax losses carried forward in full and therefore the entire asset is considered to be recoverable.</p>

### Related parties

Architecture design and branding services are provided to the Bank by InterArch Inc, a firm owned by Shirley Hill, wife of Vernon W. Hill, II, Non-Executive Chairman.

In order to ensure that the Terms of Reference of the InterArch arrangements are consistent with those that could be obtained from an independent third party, the contractual arrangements are subject to periodic review by the Audit Committee, using benchmarking reviews conducted by independent third parties.

The Audit Committee discussed the benchmarking reviews conducted by independent third parties and concluded that the arrangements with InterArch are on terms which are at least as beneficial to Metro Bank as those which could be obtained from an alternative supplier.

### Fair, balanced and understandable

In line with the Code, the Audit Committee considered whether the 2016 Annual Report is "fair, balanced and understandable and should provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy". The Committee is satisfied that the 2016 Annual Report meets this requirement and in particular, that appropriate disclosure has been included for both positive and negative developments in the year. The process enabling the Committee to reach this conclusion included:

- the compilation of the 2016 Annual Report and Accounts was managed by the Chief Financial Officer together with a cross-functional team of senior management;
- input is provided by a cross-functional team from Finance, Risk, People, Marketing, Investor Relations and business lines;
- a formal review is undertaken by the Audit Committee of the draft 2016 Annual Report and Accounts, along with a review of any issues raised in the External Auditors' report, in advance of final sign-off; and
- a final review is performed by the Board of Directors.

### Internal Audit

The Group's Internal Audit function plays a key role in providing independent assessment and challenge of governance, risk and control. The Audit Committee approved the Audit plan and considered the results of its work. In addition, the Audit Committee:

- approved the Internal Audit Charter, which sets out the role and expectations of Internal Audit;
- monitored the adequacy of Internal Audit resources. The Committee was satisfied that Internal Audit had adequate resources available this year; and
- monitored the delivery of Internal Audit's plan.

During the year, the Committee commissioned an External Quality Assessment by Independent Audit Limited on the effectiveness of the Internal Audit function. The Audit Committee agreed that the function was operating effectively.



## AUDIT COMMITTEE REPORT CONTINUED

### System of internal control and risk management

Details of the risk management framework are provided on pages 24 to 27. In considering the effectiveness of internal controls, the Audit Committee received and discussed reports from Internal Audit and the external Auditors. In addition, executive management were invited to discuss the more significant issues raised by Internal Audit. Management action plans to resolve the issues raised are monitored by the Audit Committee.

Recommendations for improvements to internal controls by the external auditors are monitored by Internal Audit and progress reported to the Audit Committee.

### External audit

The Audit Committee reviews and makes recommendations to the Board with regards to the appointment of external Auditors, their remuneration and terms of engagement.

PwC has been the Group's Auditors since the inception of the Bank in 2009.

The Audit Committee is aware of the rule that the external audit contract should be put out to tender at least every ten years and has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review. As a newly-listed company, the Bank has not yet developed an Audit Tendering policy and continues to benefit from the continuity of service provided by PwC during this period of significant change. The Bank will develop an Audit Tendering policy in 2017 and make further disclosures in this area in the 2017 Annual Report and Accounts. We will commence the tender process no later than 2019.

The Audit Committee is also responsible for the oversight of the relationship with PwC and the effectiveness of the audit process. During the year, the Audit Committee:

- reviewed the proposed Audit plan in advance of the annual audit;
- approved the audit engagement and proposed audit fee; and
- reviewed and discussed the reports provided by PwC.

At the end of each Audit Committee, the Audit Committee members met the external Auditors without management present, to discuss any relevant issues directly with the Committee.