



RISK OVERSIGHT COMMITTEE REPORT



Composition of the Risk Oversight Committee

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

Members	Number of meetings attended
Gene Lockhart (Chairman)	7/7
Stuart Bernau	7/7
Ben Gunn	6/7
Sir Michael Snyder	4/7

All four held office throughout 2016. All other Non-Executive Directors may attend ROC meetings. The CFO, CRO and CEO have standing invitations to attend as guests, unless the Chairman of the Committee asks them to excuse themselves from a particular meeting or discussion.

Other Directors and Metro Bank colleagues attend as guests by invitation of the Chairman to present and report on topics relevant to the Bank.

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

Chairman's statement

I am pleased to present this report of the Risk Oversight Committee ("ROC").

The ROC continues to focus on overseeing risk and advising the Board, as appropriate, on the risk arising to Metro Bank from its continuing business activities and future risk strategy.

There has been considerable change in 2016 for Metro Bank, including substantial growth in the Bank's balance sheet, the size of its workforce and number of stores. During the year, the Bank has reviewed its operational risk management framework; a number of enhancements will be made in 2017 to reflect emerging regulatory changes and ensure it is appropriate for Metro Bank's current size while taking into account future growth.

During the year, the ROC reviewed a range of policies, documents and transactions, and discharged other advisory and oversight responsibilities. I provide a verbal update to the Board and the Risk Oversight Committee minutes are included in the next Board pack.

In 2017, the risk activities of the ROC and the Bank will continue to grow. High on the agenda is Metro Bank's ongoing development of a credit risk rating model, which will be used in its application to use the Advanced Internal Ratings-Based approach to calculating credit risk capital requirements. This will enable the Bank to continue to grow its business in a risk-sensitive way to 2020 and beyond.

The following sections explain the role and activities of the ROC, and how it has discharged these responsibilities, as well as setting out several key areas of activity during 2016.

Gene Lockhart

Chairman, Risk Oversight Committee

2 March 2017

ROLE OF THE RISK OVERSIGHT COMMITTEE

The ROC is a sub-Committee of the Board. Its specific responsibilities are set out in its Terms of Reference.

Accountable to the Board, the ROC provides leadership, oversight, and direction regarding the Bank's risk governance and management. The ROC is charged with assisting the Board in creating an appropriate culture across the Bank, which emphasises and demonstrates the benefits of a risk-based approach to risk management and internal controls. It is responsible for reviewing, challenging and recommending to the Board the Bank's risk appetite, ICAAP, ILAAP and risk policies. The Committee oversees the Bank's risk management procedures and reviews risk reports on key business areas. Additionally, it advises the Audit Committee on reviews of effectiveness of the Bank's risk controls, and advises the Nomination and Remuneration Committees on risk weightings to be applied to the remuneration calculations for the Executive Leadership Team.

The ROC receives regular Management Information ("MI") and reports concerning the Bank's performance against risk appetite and the measures set by it and by the Board. It receives regular updates on regulatory developments, and considers how these will affect the Bank's plans, processes, systems and controls.



RISK OVERSIGHT COMMITTEE REPORT CONTINUED

The ROC reviews and formally notes the minutes of the Executive Risk Committee ("ERC") and the Asset and Liability Committee ("ALCO").

As a key part of Metro Bank's governance framework, the ROC ensures that the CRO has unfettered access to it and its Chairman.

MEETINGS

The ROC meets at least quarterly. It met seven times in 2016: in February, March, May, July, October and November (twice). Additional meetings may be convened by the Chairman of the Committee, the CRO or any two Committee members.

KEY ITEMS CONSIDERED BY THE ROC DURING 2016

Over the course of 2016, the ROC received items of business including the following:

	N	A	R
Individual Liquidity Adequacy Assessment Process document ("ILAAP") incorporating Treasury policy and Contingency Funding plan			•
Credit Risk policy			•
Enterprise Risk policy			•
Commercial Lending policy		•	
Minimum Requirement on Own Funds and Eligible Liabilities ("MREL")	•		
Recruitment policy		•	
Responsible Lending policy			•
Arrears Management policy		•	
Outsourcing policy		•	
Compliance policy			•
Residential Mortgage Lending policy		•	
Money-Laundering Reporting Officer ("MLRO") Annual Report	•		
Anti-Money-Laundering/Counter Terrorism Financing policy			•
Sanctions policy		•	
Credit Risk Model framework			•
Credit Risk Model policy		•	
Credit Risk Model design principles	•		

N = Noted; A = Approved; R = Recommended to the Metro Bank Board for approval.

* The Fraud policy is owned by the Audit Committee and was noted to the ROC.

At each scheduled meeting the ROC considered the following standing items:

- **CRO's overview**

An executive summary from the CRO setting out items of note and assessing the Bank's performance against its risk metrics.

- **Credit risk analytics and underwriting**

Execution of Metro Bank's strategy requires prudent and controlled management of credit risk. In this regard, the ROC has a role to oversee credit underwriting and ensure that the Bank has effective processes and controls to monitor and manage credit risk, including where the risk position associated with a particular customer or loan has deteriorated. It ensures that lending remains within risk appetite and monitors policy exceptions.

- **Operational risk**

The ROC receives regular reports concerning risk and control self-assessments, information security, business continuity management and incidents. While a number of incidents were raised during 2016, it is the view of the ROC that the management of these incidents and the actions taken in response was proportionate and appropriate to the size and scale of the incidents. It also notes that post-incident reviews were held for high-severity incidents to capture learnings and ways to prevent or mitigate any potential recurrences. ROC has taken particular interest in cyber risk in 2016 owing to the increased prevalence of attempted attacks against financial services and other firms.

- **Compliance and conduct risk**

In a constantly-changing regulatory environment, the ROC is updated regularly on developments and regulatory changes that could impact the Bank. It receives updates on compliance and conduct risk under the pillars of culture and governance, product governance, customer treatment, and voice of the customer. The ROC is also updated on the Bank's management of expressions of dissatisfaction, and on the ongoing compliance assurance work performed by the second line.

- **Anti-Money-Laundering and Counter Terrorism Financing ("AML/CTF")**

The ROC receives a regular AML/CTF report which includes management information on compliance with customer identification and verification requirements for all new accounts. Additional reporting incorporates payments and customer screening and updates on items of note from the Financial Crime Steering Group.

- **Treasury**

While the primary venue for in-depth discussions on Treasury is ALCO, the Treasurer's commentary is tabled at each ROC meeting. Treasury policies are reviewed and the CRO's report includes high-level MI on liquidity and interest rate risk, and the minutes of ALCO are also noted by ROC. The Chairman of ROC attends ALCO as a standing guest.

- **Litigation update**

The ROC notes the report from Metro Bank's Legal team on any material litigation cases to which the Bank is party.

The ROC receives in-depth reviews on areas of emerging risk or regulatory interest throughout the year. Topics covered during 2016 included information security, fraud, portfolio concentration risk, collections effectiveness and the performance of the mortgage portfolio acquired in Q3 2015.