



# **AIB Group plc** *(Holding Company)*

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## Board Audit Committee Terms of Reference

Reviewed by the AIB Group plc Board Audit Committee on 13 December 2023

Approved by the AIB Group plc Board 15 December 2023

- (A) References in this document to “Board” mean the Board of Directors of AIB Group plc and to “Committee” mean the Board Audit Committee that is a committee of the Board of AIB Group plc and Allied Irish Banks, p.l.c. from which it derives its authority and to which it regularly reports. References in this document to “the Company” mean AIB Group plc and Allied Irish Banks, p.l.c. combined. References to “AIB” or “the Group” mean AIB Group plc, Allied Irish Banks, p.l.c and all of its subsidiary companies combined;
- (B) AIB Group plc (“the Holding Company”) is the ultimate parent financial holding company in the AIB legal entity structure and it is the primary issuer of the Group’s capital instruments, including shares, equity instruments and debt instruments, and any derivatives thereof;
- (C) Allied Irish Banks, p.l.c. (“AIB Bank” or the “Operating Company”) is the sole direct subsidiary of the Holding Company. AIB Bank continues to be the principal operating and regulated financial services company, with all other companies within the legal structure operating as subsidiaries of AIB Bank;
- (D) The Board Audit Committee is replicated at both Holding Company and AIB Bank level and their Terms of Reference are identical. Any differences, should they be introduced in future iterations, will be highlighted;
- (E) The above definitions apply throughout this document unless the context requires otherwise.



## Board Audit Committee Terms of Reference

### **Purpose**

The Committee is appointed by the Board to assist and advise the Board in fulfilling its independent oversight responsibilities in relation to:

- the quality and integrity, of the Group’s accounting policies, financial and narrative reporting, Non-Financial Disclosures and disclosure practices;
- the effectiveness of the Group’s internal control, risk management, and accounting and financial reporting systems;
- the adequacy of arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- the independence and performance of the Internal and External Auditors.

The Committee works to ensure that this purpose is fully aligned to the Group’s strategy and values and considers the interests of stakeholders while operating within all applicable regulatory and statutory requirements.

### **Duties & Responsibilities**

Whilst specific roles and responsibilities are contained in the Appendix to this Terms of Reference, a summary is set out below:

#### **1. Financial Reporting, Narrative Reporting and Non-Financial Disclosures**

Monitor the integrity of, and make recommendations to the Board concerning (i) the approval of the Group’s Annual Financial Report (“AFR”), including whether the AFR, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders and stakeholders to assess the company’s performance, risks, business model and strategy, (ii) the half-yearly financial report and (iii) related releases, including the Non-Financial Disclosures within the Annual Financial Report, reviewing significant financial reporting judgements contained therein, to ensure that they comply with the law and obligations under relevant Stock Exchange listing rules and relevant accounting standards.

With regard to Pillar 3 disclosures, the Committee shall approve the Group’s Pillar 3 disclosure policy, and the annual and biannual Pillar 3 disclosures for publication on the Group’s website.<sup>1</sup>

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<sup>1</sup> Quarterly Pillar 3 disclosures shall be prepared in accordance with the Pillar 3 Disclosure Policy and subject to review and approval by the Group Disclosure Committee.

## **2. Internal Control**

Monitor and review the design and effectiveness of the company's internal financial controls, accounting and financial reporting systems, and the Group's internal control frameworks and risk management systems. This shall include, but not be limited to, the adequacy and effectiveness of the Group's three lines of defence model and internal control framework, helping to ensure appropriate separation of duties and independent reporting lines underpin effective internal controls. The efficacy of the internal control framework shall be discussed with the Chief Risk Officer, in private session, at least annually.

## **3. Code of Conduct & Speak Up Policy**

Monitor and review the effectiveness of the Group's Code of Conduct Framework and the arrangements by which staff, and other external parties may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, and to ensure that arrangements are in place for the proportionate and independent investigation of such matters for appropriate follow-up action.

## **4. Internal Auditor**

Monitor and review the scope, nature and effectiveness of the work of the internal audit function, including co-sourced activity. The Committee shall also have oversight of the delivery of the annual audit plan, ensuring that the function has the necessary skilled resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards.

## **5. External Auditor**

Monitor and review the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements.

Make recommendations to the Board, for it to put to the shareholders for approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.

Ensure the implementation of the policy relating to the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board in respect of any matters it identifies as requiring action or enhancement.

## **Committee Governance**

### **6. Subsidiary Oversight**

In addition to the information provided to the Committee in management reports, the Committee will receive, as and when they are issued, the minutes of all the subsidiary company audit committees. The Committee will meet the Chairs of the subsidiary audit committees at least once a year, to receive reports on the scope of audit activity and significant issues emerging therefrom. Such formal dialogue will not preclude continuing, informal dialogue between the Committee Chairs. The Audit Committee Chairs shall meet at least twice per annum to discuss matters of interest to both sides outside of regular scheduled Committee meetings.

## **7. Authority**

The Board authorises the Committee to:

- investigate any matter falling within its Terms of Reference or undertake or consider on behalf of the Chair of the Board or the Board such other related tasks or topics as the Chair of the Board or the Board may from time to time entrust to it, and make any recommendations to the Board which it deems appropriate on any area within its remit where action or improvement is needed;
- call on whatever resources and information it considers necessary to so do, and shall receive appropriate funding to that effect, and the Board directs that all Directors and all employees co-operate with any requests made by the Committee;
- have access to all relevant information and data necessary to perform its role;
- sub-delegate any or all of its powers and authority as it sees fit, including, without limitation, the establishment of sub-committees to analyse particular issues or themes and to report to the Committee, to facilitate the effective carrying out of its responsibilities, and
- seek any information it requires from any employee of the Group.

The Committee shall work and liaise as necessary with all other Committees of the Board. Where there is a perceived overlap of responsibilities between Committees, the respective Committee Chairs shall have the discretion to agree the most appropriate Committee to fulfil any obligation.

An obligation under the Terms of Reference of the Board Audit or Board Risk Committee will be deemed by the Board to have been fulfilled providing it is dealt with by either of the Committees.

The Committee have the right to seek independent professional or legal advice, subject to the procedures and limitations set out within the Board Governance Manual.

## **8. Membership**

### **8.1 Number of Members**

The Committee shall comprise at least three Members, all of whom will be Independent Non-Executive Directors (“NEDs”) with an appropriate mix of skills and experience. The Chair of the Board and the CEO will not be Members of the Committee.

At least one Member shall have recent and relevant accounting or related financial expertise. To ensure co-ordination with the work of the Board Risk Committee, the Chair of the Board Risk Committee should be a member of the Board Audit Committee. To ensure co-ordination with the work of the Sustainable Business Advisory Committee (“SBAC”), one Member of the Committee shall also be a Member of the SBAC.<sup>2</sup>

### **8.2 Quorum**

The quorum for any meeting 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

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<sup>2</sup> This is a target state, but in times of heightened succession challenges, it may not always be feasible to achieve this joint Membership.

powers exercisable by the Committee. A Member's participation in a meeting by video link or audio link shall be regarded as valid for these purposes.

### **8.3 Membership**

Members of the Committee shall be appointed by the Board on the recommendation of the Nomination and Corporate Governance Committee ("NomCo"), in consultation with the Chair of the Committee

Membership and succession planning of the Committee will be reviewed each year by the NomCo, in consultation with the Chair of the Committee, and changes as required will be recommended to the Board at that time.

### **8.4 Chair**

An Independent NED shall be appointed by the Board, on the recommendation of the NomCo and is subject to the Central Bank Fitness and Probity Assessment.

In the absence of the Committee Chair the remaining Members present shall elect one of themselves to chair the meeting.

The Chair of the Committee will be responsible for leadership of the Committee and for ensuring its effectiveness in all aspects of its role. The Chair should also facilitate the effective contribution of all Members.

The Chair will attend meetings with the Central Bank, JST and with the External Auditors as and when required.

### **8.5 Secretary**

The Head of Corporate Governance, or a nominee if approved by the Chair of the Committee, shall act as the Secretary of the Committee.

### **8.6 Attendees**

The Chief Financial Officer, the External Auditor, the Group Head of Internal Audit, and the Chief Risk Officer will normally attend meetings. In addition, the Committee may invite any Director, executive or any other person to attend any meeting(s) of the Committee as it sees fit.

The attendance at meetings by the Chief Executive Officer or Chair of the Board shall be by invitation and shall be managed to ensure the independence of the Committee and the maintenance of appropriate relationships with other parties including the internal and external auditor.

### **8.7 Training**

The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on a continual basis for all Members, in order to ensure they have the appropriate background and technical knowledge base,

and are informed of relevant developments within accounting and finance should it be deemed required. The Chief People Officer and the Group Company Secretary will be responsible for ensuring this training is provided and this may form part of the wider Board Continuous Education Programme.

## **9. Voting**

Each Member present shall have one vote and will be entitled to vote on all matters, save for those where a perceived, potential or actual conflict of interest exists. All decisions will be by way of simple majority. In the event of a split decision, the Chair of the Committee shall exercise a casting vote.

## **10. Meetings & Minutes**

Meetings are generally held at least six times per year, at appropriate times in the reporting and audit cycle. Additional meetings may be held as the Chair or the Committee deem necessary.

The Chair of the Committee, members of the Committee or the Chair of the Board may each request that a meeting be held at any time. The Chief Financial Officer, the Chief Risk Officer or Group Head of Internal Audit may each request the Chair to convene a meeting at any time. The Committee shall meet with the Chief Financial Officer, Chief Risk Officer, Chief Credit Officer, Group Head of Internal Audit and lead External Audit partner in private session, at least annually

Notice shall be given to each Member of the venue, time and date of the meetings. As a general rule, the agenda and papers shall be circulated to Members five business days in advance of the meeting.

The Secretary shall minute the proceedings and resolutions of all formal meetings of the Committee, including the names of those present and in attendance and the existence of any conflicts of interest. Draft Minutes of meetings will be circulated to the Committee Chair within a reasonable timeframe following the holding of each meeting for review and comment in advance of their formal circulation to the Committee at the time of the next scheduled meeting for review and thereafter, approval.

## **11. Reporting**

The Chair will report verbally or in writing on the key aspects of the proceedings of the Committee to the subsequent full meeting of the Board and the minutes of the Committee should be tabled at the Board as soon as possible for noting and/or discussion as necessary.

The Committee shall ensure the Board is informed promptly of all matters of material concern to the Committee. Committee papers will be made available to all Board Members via Diligent, the online Board portal.

The Committee shall compile a report for inclusion in the Group's AFR, describing its membership and its duties and activities during the year. In compiling the report, 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 Company is a going concern.

## **12. Responsibility of Management**

The Committee shall be entitled to rely on the integrity and expertise of persons providing information to the Committee and on the accuracy and completeness of such information.

Management will ensure that all information relevant to the discharge by the Committee of its responsibilities is provided to the Committee. Management will also ensure that matters of material concern that are relevant to the Committee's responsibilities are brought to the attention of the Committee promptly.

## **13. Review of Operations**

The Committee shall conduct, in line with agreed Board policy and processes, an annual review of the Committee's effectiveness and Terms of Reference and make recommendations to the Board for changes where it deems them appropriate.

## **Board Approved Appendix to the Board Audit Committee Terms of Reference**

In carrying out its duties and responsibilities under the Board-approved Terms of Reference, the Board Audit Committee shall, inter alia, monitor, review and challenge, and approve, where relevant, the following matters:

### **Financial Reporting & Narrative Reporting**

- significant financial reporting judgements, alternative accounting treatments and assumptions made by management;
- the reported Profit & Loss and Balance Sheet provisions, namely credit, operational, and conduct provision amounts;
- the reported legal provision amounts, following review of a bi-annual litigation update;
- the material drivers of Expected Credit Loss levels under IFRS9;
- new accounting policies and significant changes to existing accounting or tax policies requiring audit committee consideration prior to their implementation;
- an annual update regarding matters of material judgement or contention in relation to positions taken with taxation authorities;
- the judgement by management as to the valuation of assets and liabilities, significant accounting accruals, reserves, including adequacy of provisions, and other significant contingencies having a material impact on the financial statements;
- the recommendations, and matters considered by, the Group Disclosure Committee<sup>3</sup>;
- the clarity and completeness of disclosures in the financial statements;
- the clarity and completeness of Non-Financial Disclosures in the Annual Financial Report;
- whether the Group has, in accordance with the relevant provisions of the Companies Act, kept proper books of account;
- whether the Annual Financial Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, risks, business model and strategy. As part of this review, the Committee should assess whether the narrative reporting is aligned to the financial reporting information;
- to consider the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's/Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the Company's long-term viability and formulate and review an annual long-term viability statement (including an assessment of the prospects of the Group looking forward over an appropriate and justified period);
- whether or not to recommend to the Board that it should approve the annual report and financial statements of the Group, the half-yearly financial report, and any material related releases.

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<sup>3</sup> 4 Group Disclosure Committee is responsible for ensuring the compliance of financial information with legal and regulatory requirements prior to publication.

## **Internal Control**

- the adequacy and effectiveness of the Group’s internal control framework and three lines of defence model, helping to ensure appropriate separation of duties and independent reporting lines underpin effective internal controls;
- the integrity of internal financial control systems and helping to ensure that internal policies and procedures are managed effectively and contribute to a positive culture of control awareness and execution;
- periodic reports from management on key internal controls including in respect of fraud prevention, and detection, as well as the adequacy and effectiveness of IT and information security systems and processes;
- the manner in which management ensures and monitors the adequacy of the nature, extent and effectiveness of the finance and accounting systems and
- recommend to the Board, for approval, the appropriateness of Directors’ statements concerning internal controls to be included in the Annual Financial Report.

## **Code of Conduct Framework, Speak Up Policy and Conflict of Interest Policy**

- the Group Code of Conduct Framework;
- an annual report of the operation of the Code of Conduct Framework, Speak Up and Conflict of Interest Policy in line with evolving industry best practise;
- oversight of the arrangements for dealing with individual concerns received from staff (including confidential, anonymous submissions) and from external sources regarding accounting, financial reporting, internal controls or other matters, and for addressing and overseeing their independent investigation and resolution as appropriate.

## **Internal Auditor**

- the Committee Chair shall act as the direct reporting line for the Group Head of Internal Audit, and shall complete a review of annual performance objectives, as well as ongoing performance review in line with the existing Group performance review framework;
- the scope, nature and effectiveness of the work of the internal audit function, which should include but not be limited to the following activities:
  - (i) confirm the independence of the Group Internal Audit function, and approve the appointment<sup>4</sup>, job description, period of tenure and replacement of the Group Head of Internal Audit;
  - (ii) consider and approve (a) the Group Internal Audit Charter, (b) the bi-annual Audit Opinion (c) the Annual Internal Audit Plan and (d) any material changes to the Plan during the year;
  - (iii) review the three year Audit Plan at least annually;
  - (iv) review and consider the findings of internal audit reports and management’s response, ensuring a timely response by management to all audit findings;
  - (v) ensure that the internal audit function is adequately resourced and has appropriate standing within the organisation and is free from constraint by Management;
  - (vi) ensure private meetings are held with the Group Head of Internal Audit, at least once a year without management being present:

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<sup>5</sup> Notwithstanding the reporting line from the Group Head of Internal Audit to the Board Audit Committee Chair, as the Head of a Control Function, succession planning for the Group Head of Internal Audit is included with overall Executive Committee level succession planning. The NomCo receive regular updates on Executive Committee/Head of Control Function succession plans.

- (vii) in the context of the Group Internal Audit function, ensure regular review of:
  - (i) the objectives, policy, plans and effectiveness of the internal audit function;
  - (ii) the quality of internal audit personnel and training available to them;
  - (iii) the proposed and actual audit coverage;
  - (iv) significant matters and the implementation or otherwise by management of related internal audit recommendations.
- obtain an independent external assessment of the Group Internal Audit function, in line with the Chartered Institute of Internal Auditors' Standards at least once every five years.
- in relation to GIA's approach for ensuring adherence to Article 191 of the Capital Requirements Regulation as clarified in Chapter 6 of the ECB Guide to internal models, the Committee will approve the following:
  - Results of the Annual General Risk Assessment (A-GRA) and audit prioritisation for Internal Ratings Based ("IRB") models;
  - Procedures for the production of the A-GRA;
  - GIA 3 year annual deep dive plan including risk assessment and audit prioritisation;
  - GIA guidelines for the Risk Assessment of aspects of Internal Models used for the purpose of capital calculation.

### **External Auditor**

The performance of, and relationship with, the External Auditor should include but not be limited to the following activities:

- (i) review and make recommendations to the Board, to be put to the shareholders for their approval in General Meeting, on the External Auditor's selection, appointment, re-appointment and removal;
- (ii) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (iii) ensure that the audit services contract is put out to tender, in line with required timelines, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other firms; and in respect of such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- (iv) agree the External Auditor's terms of engagement and review the scope of the statutory audit and its cost-effectiveness, including the degree of work co-ordination between the internal and external audit functions, and to recommend to the Board the External Auditor's remuneration;
- (v) regularly review activities, key accounting and audit judgements, findings, conclusions and recommendations and management's responses, ensuring a timely response is provided to any issues raised in the External Auditor's Management Letter;
- (vi) review the External Auditor's audit work plan, including levels of materiality and proposed resources to execute, any changes to the work plan including changes to perceived audit risks and the work undertaken by the External Auditor to address those risks;

- (vii) review levels of errors identified during the audit and identified significant deficiencies and material weaknesses arising from internal controls over financial reporting, ensuring a timely response to any issues identified;
- (viii) review and make recommendations to the Board regarding the Audit Representation Letter giving particular consideration to matters where representation has been requested that relate to non-standard issues;
- (ix) review and monitor the independence and objectivity of the External Auditor, including:
  - (a) approving, within pre-determined limits approved by the Board, the range and nature of non-audit services provided and related fees within the Non-Audit Fee Policy;
  - (b) agreeing with the Board a policy on the employment of former employees of the External Auditor;
  - (c) monitoring compliance with applicable ethical guidelines and professional best practice regarding the rotation of the Lead Audit Partner.
- (x) monitor the application of the Group's policies on the provision of non-audit services by the External Auditor and the employment of former employees of the External Auditor, with due regard to any potential direct or material effect on the audited financial statements, how the Committee will assess and explain the estimation of the effect on the financial statements and how the Committee will consider the External Auditors' independence.
- (xi) monitor the effectiveness of the External Auditor through consideration of the work undertaken in that regard and the feedback received from management in respect of the audit process; and
- (xii) to meet with the External Auditor, at least once a year without Management being present, to:
  - (a) discuss the adequacy and effectiveness of the internal auditing, accounting, financial and operational controls, and risk management systems of the Group; and
  - (b) elicit any recommendations the Auditor may have for improvement of such control procedures or particular areas where new or more detailed controls or procedures are desirable.