



# **AIB Group plc**

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*(Holding Company)*

Remuneration Committee

Terms of Reference

Approved by the Remuneration Committee on 10 December 2020

Approved by the Board of AIB Group plc on 10 December 2020

- (A) References in this document to “**Board**” mean the Board of Directors of AIB Group plc and to “**Committee**” mean the Remuneration Committee that is a committee of the Boards 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 Remuneration 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.



## Remuneration Committee Terms of Reference

### 1. Purpose

The purpose of the Remuneration Committee (the “Committee”) is:-

- 1.1 to oversee the design and implementation of the Group’s overall Remuneration Policy for employees and directors, designed to support the long term business strategy, values and culture of the Group as well as to promote effective risk management and comply with applicable legal and regulatory requirements;
- 1.2 to oversee the operation of Group-wide remuneration policies and practices for all employees, with specific reference to Executive Directors, the Chief Executive Officer, Group Executive Committee Members, Heads of Control Functions<sup>1</sup>, the Group Company Secretary, and Material Risk Takers;
- 1.3 to perform any other functions appropriate to a Remuneration Committee or assigned to it by the Board.

### 2. Duties & Responsibilities

For the purpose of clarity, the remuneration of Non-Executive Directors (“NEDs”) is not a matter for the Remuneration Committee and is instead reviewed by the Chair of the Board in consultation with the Chief Executive Officer, the Chief Financial Officer, the Chief People Officer, the Chief Risk Officer and the Group Company Secretary. Non-Executive Directors’ fees shall be determined by the Board, with those NEDs whose remuneration is being decided not eligible to participate in this decision<sup>2</sup>, and within the limits set by shareholders in accordance with the Articles of Association. Having accepted the principle that no individual shall be involved in any decisions relating to his or her own remuneration, the Committee shall:-

#### Remuneration Policy

- 2.1. determine the Group-wide Remuneration Policy, taking into account the Group’s long term business strategy and sustainability, regulatory and shareholder requirements, alignment with the Group’s purpose, values and culture and the need to promote sound and effective risk management, having due regard to the interests of shareholders;
- 2.2. oversee the operation and effectiveness of the Remuneration Policy and conduct an annual review of same to ensure that an appropriate level of risk management and performance adjustment has been applied in relation to variable remuneration arrangements;
- 2.3. oversee the annual central and independent internal review of the Remuneration Policy with appropriate input from the Group’s risk and compliance management functions;

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<sup>1</sup> Being the Heads of Risk, Compliance and Internal Audit.

<sup>2</sup> This shall include a responsibility to determine and recommend to the Board for approval such additional remuneration to be paid to NEDs for the roles of Deputy Chair of the Board, Senior Independent Director, and Chairship/Membership of Board Committees where such roles are not remunerated as part of a wider NED role on a fixed fee basis, with those NEDs whose remuneration is being considered not eligible to participate in any decision in this regard. Non-Executive Directors are not entitled to variable remuneration including share options.

- 2.4. liaise with the Board Risk Committee and the risk management function on the adequacy of risk adjusted performance measures to confirm that the Remuneration Policy is in line with sound and effective risk management;
- 2.5. determine, in conjunction with the Board Risk Committee and the risk management function, whether an appropriate level of risk management and performance adjustment has been applied in performance assessments and remuneration awards for Executive Directors, members of the Group Executive Committee and the Group Heads of Risk, Compliance and Internal Audit functions, including an assessment of the application of malus and clawback provisions;
- 2.6. review an annual report from the risk management function to enable an assessment of the impact of the Remuneration Policy on the risk profile of the Group;
- 2.7. periodically review a number of possible scenarios to test how the remuneration system will react to future external and internal events;
- 2.8. consider such other matters relating to the Remuneration Policy, practices and processes as are periodically brought to the Committee's attention;

### **Directors<sup>3</sup>**

- 2.9. determine, in the absence of the Chair of the Board if that person is a member of the Committee, the total remuneration package of the Chair of the Board;
- 2.10. determine the total remuneration of the Chief Executive Officer, including fixed and variable pay components, pension arrangements and exit payments<sup>4</sup>;
- 2.11. determine, in consultation with the Chief Executive Officer, the total remuneration of each Executive Director (excluding the Chief Executive Officer), including fixed and variable pay components, pension arrangements and exit payments<sup>4</sup>. The Committee should assess the impact of any changes to all Executive Directors' pensionable remuneration and alignment of same to the employee arrangements in place;
- 2.12. approve the terms of service contracts, performance measures and targets, performance assessments and associated remuneration outcomes for each Executive Director;
- 2.13. approve proposals relating to any changes to the remuneration of Non-Executive Directors of material Irish subsidiary companies and AIB Group (UK) plc<sup>5</sup>, for onward submission to the Board;
- 2.14. approve the policy for authorising claims for expenses incurred by the Non-Executive Directors of the Board<sup>6</sup>;

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<sup>3</sup> The findings of the "Covered Institution Remuneration Oversight Committee (CIROC) Report to the Minister for Finance dated 27 February 2009" require the Group to seek pre-approvals from the Department of Finance when proposing changes to remuneration of certain roles. These impact, inter alia, the remuneration paid to Chairs and NEDs of AIB Bank and its material subsidiaries. The CIROC Report should be considered with regard to these Terms of Reference.

<sup>4</sup> If variable remuneration schemes are introduced in the future, the Committee will be empowered to use its discretion to override formulaic outcomes from incentives plans where such outcomes are not considered to reflect corporate performance.

<sup>5</sup> The Fee Schedule in place sets out the fees payable to NEDs of the material Irish subsidiary companies (AIB Mortgage Bank, EBS d.a.c. and EBS Mortgage Finance) and AIB Group (UK) plc. The remuneration of all other AIB Group subsidiary NEDs is managed by the relevant business area and will only be submitted for the Committee's consideration should this remuneration equal or exceed the fees as set forth in the Fee Schedule. It should be noted that AIB Group employees do not receive a fee for serving as Directors on subsidiary boards.

<sup>6</sup> The process for approving Executive Director expenses is managed internally where the Chair approves the CEO's expenses, and the CEO is responsible for approving other Executive Directors' expenses, noting that such approvals include expenses outside the scope of their Executive Director roles and include all expenses within their day to day business roles.

### **Group Executive Committee (ExCo)**

- 2.15. determine, in consultation with the Chief Executive Officer, the total remuneration of each member of the ExCo and the Group Company Secretary, including fixed and variable pay components, pension arrangements and exit payments;
- 2.16. approve, in consultation with the Chief Executive Officer, the terms of service contracts, performance measures and targets, performance assessments and associated remuneration outcomes for each member of the ExCo and the Group Company Secretary;

### **Risk, Compliance and Audit Functions**

- 2.17. determine the total remuneration of the Group Heads of Risk, Compliance and Internal Audit functions, including fixed and variable pay components, pension arrangements and exit payments;

### **Material Risk Takers**

- 2.18. approve the process for identifying employees as Material Risk Takers (“MRTs”), including an assessment of the criteria used in the identification process, and recommend annually the list of employees identified as MRTs for onward submission to the Board as the forum responsible for endorsing the appointment of people who may have a material impact on the risk profile of the credit institution and monitoring on an on-going basis their appropriateness for the role<sup>7</sup>;
- 2.19. approve any notification to, or request for approval from, any regulatory authority to exclude an individual from the list of MRTs;
- 2.20. approve annually the remuneration approach for MRTs to ensure that risk and remuneration are appropriately aligned, it being noted that the Committee delegates authority to management to approve individual remuneration proposals operated within the agreed policy, as considered appropriate, for MRTs outside the scope of Executive Directors, members of the Executive Committee, Group Heads of Risk, Compliance and Internal Audit functions, and the Group Company Secretary.

### **Remuneration Schemes**

- 2.21. determine, by agreement with the Board, the design of any short or long-term incentive plans for which Executive Directors, members of the ExCo and Group Heads of Risk, Compliance and Internal Audit functions are eligible and monitor the ongoing operation of such schemes to ensure that they are aligned with the Group’s purpose, values, culture and regulatory requirements;
- 2.22. determine, by agreement with the Board, the design of any employee share plans and consider the level of shareholder dilution arising from such plans;
- 2.23. determine and review the design of such other variable or commission schemes<sup>8</sup> as deemed appropriate and monitor the ongoing operation of such schemes to ensure

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<sup>7</sup> Where material changes are recommended to the MRT process, such changes should be reviewed in association with the Board Risk Committee.

<sup>8</sup> As agreed at the Committee meeting of October 2019, any minor changes to variable commission schemes may be made without the Committee’s prior approval. An annual review including details of any minor changes made to such schemes in the preceding 12-month period will be presented to the Committee.

that they are aligned with the Group's purpose, values, culture and regulatory requirements;

- 2.24. approve annual bonus pools and ensure that the proportion of risk-adjusted profits awarded in the form of variable remuneration is appropriate;

### **Reporting, Disclosure & External Engagement**

- 2.25. review and approve the Committee's Report and Remuneration Report, including the Report on Directors' Remuneration and Interests, for inclusion in the Annual Financial Report. The Directors' Remuneration Report, as published in the Annual Financial report, shall be put to a shareholder vote at the Annual General Meeting as an advisory resolution;
- 2.26. approve the remuneration disclosures for inclusion in the Group's annual Pillar 3 Report on remuneration policies, practices and the aggregate remuneration of MRTs, for onward submission to the Board;
- 2.27. set the criteria and appoint any external remuneration consultants or similar specialist advisors who may be appointed by the Group, seeking advice or input from the Board Risk Committee or Compliance function where appropriate regarding any potential conflicts of interest;
- 2.28. assess how executive remuneration aligns with the wider employee remuneration policy and the culture of the Group and ensure remuneration policies and practices are transparent to the wider employee population; and
- 2.29. the Chair of the Committee, or, in his or her absence, a Member of the Committee shall engage, as appropriate, with investors, shareholders and other stakeholders on remuneration matters and should be available at all general meetings to respond to related enquiries as required.

### **Committee Governance**

#### **3. 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 (including external professional or legal services) 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 their role;
- where it applies to the remit of the Committee, receive regular reports, ad hoc information, communications and opinions from the heads of internal control functions in relation to the current risk profile of the institution and its risk culture and decide on the information on risk to be provided to them;
- seek any information it requires from any employee of the Group; and
- delegate any of its powers to one or more of its Members or the Secretary of the Committee;

In performing its duties the Committee shall, to the extent possible and on an ongoing basis, take account of the need to ensure that the Board's decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the institution as a whole.

#### **4. Membership**

##### **4.1. Number of Members**

The Committee shall comprise at least three Non-Executive Directors, all of whom shall be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgment. Recognising the benefit of cross-committee membership and interaction, at least one member of the Committee shall be a member of the Board Risk Committee and, where board membership allows, at least one member of the Committee shall be a member of the Nomination & Corporate Governance Committee.

##### **4.2. Quorum**

The quorum for meetings 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 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.

##### **4.3. Membership**

The Board Chair may serve on the Committee as a Member (but not chair) if he or she was considered independent on appointment as Board Chair. Membership of the Committee will be reviewed each year by the Nomination and Corporate Governance Committee, in consultation with the Chair of the Committee, and changes as required will be recommended to the Board at that time.

##### **4.4. Chair**

The Chair of the Committee shall be appointed by the Board, subject to Central Bank fitness and probity assessment, and shall be an independent Non-Executive Director. As outlined in the UK Corporate Governance Code 2018, the person appointed as Chair of the Committee should ideally have at least 12 months' experience serving as a member of a remuneration committee<sup>9</sup>.

The Chair of the Board shall not be eligible to be appointed as Chair of the Committee.

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 of the Committee should also facilitate the effective contribution of all Members.

In the absence of the Chair of the Committee from any meeting, the remaining Members present shall elect one of their number to chair the meeting.

##### **4.5. Secretary**

The Group Company Secretary, or his or her nominee if approved by the Chair of the Committee, shall act as the Secretary of the Committee.

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<sup>9</sup> However in line with the UK Corporate Governance Code 'comply or explain' process, any deviation from this may be 'explained'.

#### **4.6. Attendees**

Appointed Members are the only individuals entitled to attend Committee meetings. The Chief Risk Officer (“CRO”) shall have an open invitation to attend all meetings of the Remuneration Committee to allow for appropriate input from the CRO into remuneration matters generally, except where the Committee is discussing the CRO’s remuneration. In addition, the CRO shall present an annual report on the risk exposure of the bank, including in relation to the management of risk and its link with rewards, and to ensure remuneration arrangements do not promote excessive risk taking. This presentation may coincide with the Committee’s consideration of items relating to the Remuneration Policy and Remuneration Schemes if deemed appropriate.

In addition to appointed Members, the Chair of the Committee may invite other persons to attend for all or part of any meeting.

#### **4.7. 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. 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

### **5. Voting**

Noting that only Committee Members have a right to vote on the business of the meeting, where the Chair of the Committee calls upon Members to vote on any issue, 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 to determine the outcome.

### **6. Meetings & Minutes**

The Committee shall meet at least twice a year. Additional meetings may be held as the Chair of the Committee or the Committee deem necessary. The Chair of the Committee or any other Member of the Committee may each request that a meeting be held at any time. Notice shall be given to each Member of the venue, time and date of the meeting. 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 of all meetings of the Committee. 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 if appropriate, approval.

### **7. Reporting**

The Chair will report formally 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 unless there is any matter therein which would make it inappropriate to do so, in which case, redacted versions shall be shared with the Board.



Outside of this reporting cycle, the Committee shall ensure the Board is informed promptly of all matters of material concern to the Committee.

#### **8. 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.

#### **9. Review of Operations**

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