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An Roinn Airgeadais
Department of Finance

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Meeting – 22/11/2012

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Ms Fiona Cashin
Committee Secretariat
Clerk of the Committee of Public Accounts
Leinster House
Dublin 2

20 November 2012


Dear Ms Cashin

I refer to my letter of 4 July 2012 which provided further information regarding matters arising during my appearance before the Committee of Public Accounts on 7 June 2012.

The Committee had sought details regarding the selection of auditors by AIB, Bank of Ireland, IBRC and Permanent tsb. In my letter I provided detail on this selection process. I also indicated that I intended to write to the banks to advise them of the concerns raised by the Committee in relation to their auditor selection.

The responses received from the four banks are enclosed. Having closely analysed the responses, the Department is continuing to engage with the banks, as required, to seek to ensure that the banks are implementing best practice in this.

Yours sincerely


John A Moran
Secretary General



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Ms Eileen Murphy,
Department of Finance,
Upper Merrion Street,
Dublin 2.

Dear Ms Murphy,

I refer to your letter of 12 July 2012 in relation to external auditors and have set out below the Bank's position on the matters raised.

On at least an annual basis the Group Audit Committee ("GAC") engages in a thorough, structured and comprehensive process to assess, formally review and evaluate the performance of its external auditors. This process covers a range of matters including:

- Quality of audit service to support a "true and fair view" opinion
- Quality of the audit team
- Level of independence and objectivity
- Auditors understanding and knowledge of the Group
- Value for money
- Corporate governance and best practice guidelines

This formal process is supported with input and challenge from all members of the GAC and from relevant Senior Management.

This process also involves a formal decision on whether the Group believes that a change of external auditor is necessary and, separately, whether the Group believes that it is appropriate to put the external audit to tender. This formal process involves a consideration of a range of factors including:

Availability of appropriate alternative auditors

- Consistent with other large financial services institutions across Europe, the Group believes that, owing to the size and complexity of Bank of Ireland, it is essential to have the audit completed by one of the very large audit firms with global reach, experience, expertise and depth. The number of such firms has reduced reflecting in part the significant mergers which took place in the period 1990-2003.

- Independence – the Group works to ensure that it identifies, understands and considers any actual or perceived independence issues that might need to be resolved before an audit firm could be eligible for appointment. This is also an important regulatory requirement e.g. under the Securities and Exchange Commission regulations.
- Reputational issues - the Group evaluates whether the current or potential audit providers have material reputational issues outstanding that could undermine the Group's confidence of that or its investors in the quality of the audit service that is expected and required.

Transition costs, risks and strategic priorities

- Changing auditors or tendering an audit service involves considerable cost to any company or institution given the time involved in supporting the new audit firm in documenting relevant processes and controls and developing a comprehensive understanding of the structure, complexities, business dynamics and associated judgemental issues. These costs are considered and evaluated against the Group's other strategic priorities.
- Studies indicate that changing auditors is expected to increase risk in the first few years following a change.

Fees and other considerations

- Fees – the Group assesses whether it believes that the audit fees are competitive and offer value for money while also ensuring that the fees are adequate to ensure that a comprehensive, robust, challenging and independent audit is completed.
- Other considerations – the Group considers the timing of any decision on tender or change of auditor with respect to other structural changes that may be arising within the Group e.g. a new Governor, a new Chief Financial Officer, a new Chairman of the Group Audit Committee etc.

Regulatory, shareholder and market perspectives

- Regulators and regulatory context- the Group notes the proposals that are currently being considered at a European level (the "Barnier proposals") in relation to issues such as mandatory change of auditors, mandatory tendering of the audit service, use of joint auditors etc. The Group will ensure that it will comply with any regulations that are ultimately enacted from this process in a manner which supports the responsibility of the Directors to act in the shareholders' best interests.
- Corporate Governance – the Group notes the initiatives published by relevant authorities such as the Financial Reporting Council in the UK who have proposed a "comply or explain" regime whereby companies or institutions would have to tender their audit on a regular basis or explain in their annual report the reasons why they have not gone to tender.

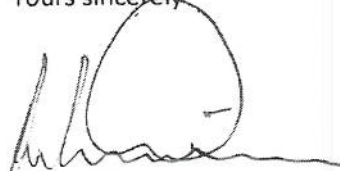
- Market practice – the Group reviews and considers the average audit tenure for listed UK and US companies to identify where it may be out of step with emerging market practice. In addition the Group notes that international experience indicates that the outcome of a tender has resulted in the incumbent being re-appointed in the substantial majority of situations. The average audit tenure of listed UK and US companies is as set out below:

FTSE 50	c.70% of companies are > 10 years
FTSE 100	c.70% of companies are > 10 years
FTSE 350	c.30 years
Fortune 100	c.30 years
Fortune 500	c.20 years

- Shareholders - the Group considers the nature and extent of any concerns that may be expressed by the shareholders either at the annual general meeting, through voting on auditor related resolutions or privately. By way of background at each of the AGM's in 2009, 2010, 2011 and 2012 the Bank's shareholders have formally voted (a) to receive the Report and Audited Accounts (including the external auditors report) and (b) to authorise the Directors to determine the remuneration of the external auditors. At each such AGM the votes cast in favour of both of these resolutions exceeded 99% of total votes cast.

I trust the above deals comprehensively with this matter.

Yours sincerely



Kent Atkinson

Chairman of Group Audit Committee

cc. Richie Boucher - Group Chief Executive Officer

Andrew Keating – Group Chief Financial Officer

Mr. Gary Hynds
Financial Services Division
Department of Finance
Upper Merrion Street
Dublin 2



23 August 2012

Dear Gary,

Thank you for your letter of 11 July 2012. Set out below is the Bank's response to the specific points raised.

Need to assess whether auditors are providing a true and fair view

- Under Irish company law the directors of the Bank are required to prepare financial statements which give a true and fair view of the state of affairs of the Bank as at the end of each financial period and of the profit or loss for that period.
- In this regard, the Bank's Audit Committee ('AC'), which reports to the Main Board, plays a very active role to ensure that the financial statements provide a true and fair view. This process includes:
 - Monitoring the integrity of the financial statements, and reviewing significant financial reporting issues and judgements which they may contain;
 - Reviewing and making recommendations to the Board (which is ultimately responsible for all matters relating to the presentation of the financial accounts) concerning the approval of the annual and interim financial statements, ensuring that they comply with company law and relevant accounting standards; and
 - Expressing, in the AC's opinion, whether the financial statements give a true and fair view of the state of affairs of the Bank, and the profit or loss, considering:
 - Critical accounting policies and practices, significant changes therein and the level of conformity with accounting policies and practices generally followed in the banking industry;
 - The methods used to account for significant or unusual transactions where different approaches are possible;
 - Whether management has made appropriate estimates and judgements taking into account the views of the External Auditor;
 - The clarity of disclosure in the Bank's financial reports and the context in which statements are made;
 - Any significant adjustments having a material impact on the financial statements; and
 - Whether the Bank, in accordance with the relevant provisions of the Companies Acts, 1963 to 2012, has kept proper books of account.
- Deloitte & Touche ('Deloitte'), as the Bank's External Auditor, is then required to audit the financial statements and, amongst other things, express an opinion as to whether these financial statements give a true and fair view. To date, since being appointed in 2009, Deloitte has been satisfied that the Bank's financial statements have provided a true and fair view.



- The AC is responsible for overseeing all matters relating to the relationship between the Bank and the External Auditor. These responsibilities, which are set out in the Terms of Reference of the AC, are summarised in Appendix 1.
- Certain of the Bank's annual and interim reports have been reviewed by the Irish Auditing & Accounting Supervisory Authority ('IAASA') in the past. These reviews have not given rise to any changes to the financial statements.

The tender process and how auditors are selected

- The Bank last engaged in an audit tender process in 2009. Requests for tender were sent to the following 6 firms:
 - PricewaterhouseCoopers ('PwC');
 - KPMG;
 - Ernst & Young;
 - Deloitte;
 - BDO Simpson Xavier; and
 - Grant Thornton.
- PwC, BDO Simpson Xavier and Grant Thornton declined to tender.
- A detailed review of the three submitted tenders was performed and an initial summary evaluation was prepared and provided for further consideration by the Bank's AC and senior management.
- The review considered the following areas:
 - Overall capabilities of the firm;
 - Banking expertise;
 - Skills of the professional team assigned to the engagement;
 - Proposed service offering (capability to add value);
 - Proposed methodology;
 - Understanding the assignment; and
 - Cost.
- Each of the three firms who submitted a tender was then invited to make a presentation to representatives of the Bank's AC and senior management.
- Based on detailed consideration of the tender documents and the presentations delivered, the AC recommended to the Board of the Bank that Deloitte be appointed as the Bank's External Auditor.

Auditors' fees

- The level of audit fees to be charged by the External Auditor is reviewed by the AC on an annual basis.
- In addition, the AC reviews all proposals for non-audit work submitted by the External Auditor, including the proposed fees. Non-audit engagements are only awarded to the audit firm if the AC is satisfied that the engagement and related fee will not affect the auditor's independence.
- Fees paid to Deloitte since their appointment in 2009 relating to audit and audit-related services, excluding VAT, are as follows:
 - 2009 – €0.9m
 - 2010 – €1.3m
 - 2011 – €1.3m
- The higher fees in 2010 and 2011 arose due to the requirement to audit a number of significant once-off transactions in 2010 and the merger with Irish Nationwide Building Society in 2011.
- The AC, in their review of fees, is very conscious of obtaining value for money and ensuring that the External Auditor provides a high quality audit.



Reselection of the same auditors year on year

- The AC is conscious that knowledge of the business is crucial to a high quality audit and that mandatory firm rotation, or changing auditors for the sake of it, is unlikely to enhance audit quality.
- While the subject of auditor rotation has received focus in recent years, including in the European Commission's Green Paper on Audit Policy, there are currently no legislative requirements to rotate audit firms.
- Several countries, including Spain and Turkey, have adopted and subsequently dropped mandatory audit firm rotation because it did not achieve what it was introduced to do.
- To maintain a level of independence audit partners are required to rotate off audits every 5 years. However, flexibility of up to an additional two years is permitted where the AC believes this is necessary to maintain audit quality.
- The AC is responsible for making recommendations to the Board, to be put to shareholder approval at the AGM, on the External Auditor's appointment / re-appointment / removal. The re-appointment of auditors is considered by the AC on an annual basis.

Exclusive use of 'big four' companies currently

- Credit institutions are complex entities and therefore the appointed audit firm needs to have the necessary resources, skills and expertise to be able to carry out the audit to the level required.
- As noted above, when the Bank engaged in the tender process in 2009 two firms outside of the big four were given the option to tender but opted not to.
- In Ireland there are only a limited number of auditing firms that have the necessary expertise to undertake the roll of auditor of the Bank.
- In accordance with the Bank's procurement policy, requests for tender are advertised through both the eTenders & OJEU procurement websites. This process ensures that any suitably qualified firm is provided with the opportunity to tender for the role of the Bank's External Auditor.

I trust that the above addresses the points that you have raised.

Yours sincerely,


Gary Kennedy

Chairman – IBRC Audit Committee



Appendix 1

The following responsibilities are set out in the Terms of Reference of the Bank's Audit Committee:

- Considering and making recommendations to the Board, to be put to shareholder approval the AGM, on the External Auditor's appointment / re-appointment / removal. In the case of a decision to appoint a new External Auditor, the AC will oversee the selection process;
- Approval of the remuneration of the External Auditor;
- Approval of the External Auditor terms of engagement;
- An annual assessment of the independence and objectivity of the External Auditor, taking into account relevant professional and regulatory requirements and the relationship with the External Auditor as a whole, including the provision of any non-audit services;
- Satisfying 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);
- Assessing annually External Auditor qualifications, expertise and resources and the effectiveness of the audit process which includes a report from the External Auditor on their own internal quality procedures;
- Reviewing any issues arising out of the potential employment of the Bank of any employee or former employee of the External Auditor to ensure that the External Auditor's independence from the Bank is not impaired;
- Monitoring the External Auditor's compliance with relevant statutory or regulatory requirements and other ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Bank compared to the overall fee income of the audit firm and other related requirements;
- Meeting regularly with the External Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The AC meets the External Auditor at least once a year without management being present to discuss their remit and any issues arising after the audit;
- Reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement;
- Reviewing the findings of the audit with the External Auditor, including but not limited to:
 - A discussion of any major issues which arose during the audit;
 - Any accounting and audit judgements; and
 - Levels of errors identified during the audit;
- Reviewing any representation letters requested by the External Auditor before any such letter is signed by management;
- Reviewing the management letter and management's response to the External Auditor's findings and recommendations; and
- Developing and implementing a policy on the supply by the audit firm of non-audit services.

Brian Corr
Department of Finance
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28 August 2012

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Dear Brian,

I refer to your letter of 11 July last in which you asked for our views on the issue of external Auditor selection. I note that the issue arose following the concerns raised at the Public Accounts Committee on 7 June last during an appearance before the Committee of the Secretary General of the Department of Finance. You kindly provided a link to the transcript of the debate that took place on that day and I have now studied the detail relating to the issues raised on external Auditors.

Your letter raised a number of questions directly related to those raised by the Committee. My response to each, in the order in which they are raised in your letter, is as follows:

1. Need to assess whether auditors are providing a true and fair view – I am not sure that it is appropriate to respond to this other than to say that it is a legal requirement under the Companies Acts for auditors to express a true and fair view. As such I presume all auditors will go to great lengths to ensure they abide by that requirement. In fact the time and resource put in by auditors to complete their audit would, in my view, demonstrate the extent to which auditors take this aspect of their work extremely seriously.
2. The Tender process and how auditors are selected – it has been some time since PTSB has carried out a tender process for an external auditor but it plans to do so shortly. It is planned that a Terms of Reference document will be drawn up and circulated to a range of auditing firms who, in the opinion of the Board, have the resources and skill levels necessary to carry out such an audit.
3. Auditors fees - By way of background external auditors would normally present their comprehensive audit strategy and plan to the Audit committee of the Board towards the end of each year. This plan would outline the key areas in the audit approach and the success factors to the audit plan including the proposed timetable on the reporting of the audit findings. Accounting matters that would need to be considered as part of the overall audit including areas that were likely to be complex in the light of environmental conditions would also be reviewed.

The Committee would then review this Plan and consult with management on potential issues that they may raise particularly the issue of independence mindful of the level of audit related and non-audit related work which the Auditors might also be involved in. A copy of the terms of the engagement letter would also be reviewed. Based on all of the above the Committee would form a view as to what might be an appropriate fee level mindful of that

proposed by the Auditor and following negotiation a fee level would generally be agreed.

4. Re-selection of the same Auditors year on year – Firstly I can confirm that KPMG have been Auditors to Permanent TSB since the merger between Irish Permanent and Irish Life in 1999. Ernst & Young had been Auditors to Irish Life prior to the merger. Following the merger the Board of the new entity, Irish Life & Permanent plc, appointed KPMG as the external Auditors.

External Auditors are deemed to be automatically appointed each year unless a resolution to the contrary is brought to the shareholders at the AGM. Replacement of Auditors requires the approval of shareholders at the AGM. The issue of the independence of the Auditor, over the period since KPMG's appointment, was addressed by requiring the senior audit partner to be rotated every three years. The current partner was appointed Senior Partner in August 2009.

However, as part of the separation of the Group, following the sale of Irish Life, and the proposed future strategy, the Board discussed the audit tendering process during their meeting on 12th June 2012. It was agreed in principle that the Bank should issue a tender for the audit for the period commencing 1st January 2013. The tendering process will be starting shortly now that the interim reporting period is about to be finalised. Please note that current auditors have not as yet been notified of the Bank's intention.

5. Exclusive use of "Big Four" companies currently – I can confirm that Permanent TSB is not wedded to the use of any particular external Auditor firm. It's only focus is on ensuring that whatever firm undertakes the external audit has sufficient resource and expertise to carry out what has become a very complex audit in a business that has gone through significant change and trauma over the last few years. It will not restrict its tendering process to the "Big Four".

I hope I have dealt adequately with the questions raised in your letter but should you have any further queries please do not hesitate to contact me.

Regards,



Emer Daly
Chair of Audit Committee



Mr. Ciaran Callaghan,
Department of Finance,
Upper Merrion Street,
Dublin 2.

31 August 2012

Dear Ciaran,

Matters relating to the Independent Auditor

I refer to your letter dated 12 July 2012 regarding the Independent Auditor selection process and other related matters, and, on behalf of the Audit Committee ('the Committee') and Board, respond as follows:

True and Fair View

The Directors are responsible for preparing the Annual Financial report of Allied Irish Banks, p.l.c. and subsidiaries ('the Group' or 'the Company') in accordance with applicable law and regulations. The Companies Acts require the Directors to prepare accounts for each financial year. Under the Acts, the Directors are required to prepare the Group accounts in accordance with International Financial Reporting Standards ("IFRSs").

The accounts are required by law and IFRSs to present fairly the financial position and performance of the Group. In preparing the accounts, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for taking all reasonable steps to secure that the Company keeps proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its accounts comply with the Companies Acts.

One of the more significant items in the accounts requiring the exercise of judgement and the use of estimates is in the area of impairment provisioning. In determining loan impairment provisions, the Directors apply the requirements of IAS 39 which uses an incurred loss model. This basis is consistent with other banks in the preparation of their financial statements.

In the responsibility statement included within the Annual Financial Report and which is a requirement of the Transparency Regulations, the Directors confirm that to the best of their knowledge:

- the financial statements of the Group and the Company have been prepared in accordance with IFRSs and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and of the Company;
- the Directors' Report and Financial Review and Risk Management sections included within the Annual Financial Report include a fair review of the development and performance of the business and the position of the Group as a whole, together with a description of the principal risks and uncertainties faced by the Group.

For clarification, as opposed to the Independent Auditor providing a true and fair view as suggested in your letter, the Independent Auditor's obligation is to report whether, in their opinion, the financial statements of Allied Irish Banks, p.l.c. and subsidiaries ('the Group' or 'the Company') give a true and fair view in accordance with relevant financial reporting standards and statutory provisions.

As stated in the Independent Auditor's Report in the Group's Annual Financial Report, the Independent Auditor's responsibility with regard to the audit of the financial statements is to:

- (a) audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland);
- (b) report to the Company's members their opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and, in the case of the Company applied in accordance with the provisions of the Companies Acts 1963 to 2009, and have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation;
- (c) report their opinion as to whether the financial statements comply with International Financial Reporting Standards as issued by the IASB;
- (d) report whether in their opinion: proper books of account have been kept by the Company; at the reporting date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and the information given in the Report of the Directors is consistent with the financial statements;
- (e) state whether they have obtained all the information and explanations necessary for the purposes of the audit, and whether the parent Company's statement of financial position is in agreement with the books of account;
- (f) report if, in their opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in their report;
- (g) report their opinion as to whether the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated financial statements, set out in the annual Corporate Governance statement is consistent with the consolidated financial statements; they are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures;
- (h) read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements; the other information comprises the Report of the Directors and the Financial Review; and,
- (i) consider the implications for their report if they become aware of any apparent misstatements or material inconsistencies of the other information in the Annual Report with the financial statements.

The Committee engages extensively with the Independent Auditor at the key stages of the statutory audit including planning, execution and reporting. The Committee is presented with reports detailing the audit strategy for the year and detailed audit plan. The Committee also receives reporting on the key audit findings, which will include any significant discussion items in relation to the Independent Auditor's Opinion and whether the financial statements provide a true and fair view in accordance with the relevant financial reporting standards and statutory requirements. In addition, the Audit Management Letter findings and the related management actions arising from the audit are presented and discussed with the Committee. On that basis, we are satisfied with the professionalism, rigour and independence of the current Independent Auditor, and, accordingly, that the Independent Auditor's Opinion with regard to the financial statements, which the Directors have prepared and approved, giving a true and fair view, and the basis on which that opinion is formed, is delivered in accordance with the required internationally recognised auditing standards and statutory requirements.

Tender Process and Selection of Auditor

SI 220 places a direct legal requirement that the Committee takes responsibility for the relationship with the statutory auditor including the performance and selection of the auditor, and recommendation to the Board in this respect. The Committee takes these duties seriously. The Committee undertakes an annual assessment of the independence and performance of the existing Independent Auditor, which includes, inter alia:

- the tenure of the current Lead Audit Engagement Partner, a position which is rotated at a minimum every five years in accordance with best practice;
- the level of fees charged;
- the nature and extent of other professional services provided by the audit firm to AIB (as set out in Note 16 to the Financial Statements on page 287 of the Annual Financial Report);
- a review and recommendation to the Board covering External Auditor's selection, appointment, re-appointment and removal, which is then put to the shareholders for their approval at the General Meeting;
- a review of 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;
- a review and monitor the independence and objectivity of the External Auditor, including approving, within pre-determined limits approved by the Board, the range and nature of non-audit services provided and related fees;
- review the External Auditor's terms of engagement, activities, 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; and
- any other items that are relevant in considering the role of the Independent Auditor.

Notwithstanding the above, the Independent Auditor is required to provide the Committee with an annual confirmation of their independence and also a full list of the fees and services (audit and non-audit) between the audit firm and the Group. On the basis of this reporting and assessment, the Committee makes a recommendation to the Board on whether the Independent Auditor should be retained for a further year or the Audit should be put to competitive tender. In arriving at such a recommendation to the Board, the Committee gives due consideration to the merits of conducting an Audit tender. AIB undertook Audit tenders in 1999 when PwC was reappointed and in 2002 when KPMG, the current Independent Auditor, was appointed. We have analysed the regularity of auditor turnover in a sample of peer institutions and none have changed their primary auditors over the last 10 years.

The competitive tender process involves an extensive commitment on the part of bank management to support the accompanying due diligence process. It is AIB's considered view that an annual competitive tender process would create an engagement commitment on bank management, deflecting them from day to day management of the company. Moreover, given the year-round engagement with the Independent Auditor and the other safeguards that are in place to ensure and to monitor the quality of the external audit, we are satisfied that a re-tendering process on an annual basis would also be unnecessary and unlikely to improve audit quality. The Committee considers re-appointment of the Independent Auditor annually and in each of the years since 2007, the Committee has given active consideration to the potential to place the audit for external re-tendering.

The Group had originally intended to undertake a tender process in early 2012, but, given the proposed timing of communication of the organisation strategy, and the expected disruption of the severance programme and exit of departing employees, details of which would be relevant to all potential applicants, a decision was taken by the Committee to defer the tender process until the second half of 2012, and the process has now commenced.

Auditor's Fees

The Committee is satisfied that the fees paid to the Auditor are commensurate with the level of professional, technical resources and work required to complete the AIB statutory audit and are not inconsistent with the audit fees of similar institutions.

The audit tender process and ultimate selection requires individual audit fee price quotes from participants providing a market based price comparative. In addition the audit fee is reviewed and negotiated annually as part of the annual decision process undertaken by the Board in retaining the auditor for a further year. In this context, AIB is at all times conscious of the need to ensure that the Bank is receiving value for money and that costs are kept at appropriate levels. We note that, in line with the increasingly difficult environment in which the Group has operated, the audit fees for the statutory audit have been reduced significantly by KPMG and have fallen by over one third between 2008 and 2011.

Reselection of Auditor

The reselection of the Independent Auditor is not automatic, with the performance of the auditor considered formally on an annual basis by the Committee and it is the subject of discussion at the AGM. The statutory audit of a financial institution is both technical and complex and the number of professional audit firms capable of committing to and fulfilling the breadth of work required is limited. Given the complexity of the issues facing the Bank and the senior management changes within the organisation in the recent past, a change could have introduced increased financial reporting risk, as the 'knowledge bank' of the auditors would have been lost at a time of significant change in the organisation. That said, the Committee considers the performance of the Independent Auditor on an on-going basis and has the option to re-tender at any point. The Bank is not passive about the audit relationship, the decision to continue with the Independent Auditor is a considered one and the relationship continues based on the ability to carry out the audit across all our jurisdictions, the quality of the audit and related communications.

In our view, the field of potential candidates for the AIB audit comprises KPMG, PWC, Deloitte, Ernst & Young, Mazars, and any other firm which is capable of demonstrating the capacity, breadth of experience and expertise required to complete the Group audit. These named firms have been considered under the current audit tender process, and we are considering a general advertisement of the tender process to allow other audit firms with the appropriate capacity to tender so that their suitability can be assessed.

The European Green Paper on external audit relationships currently proposes mandatory rotation of auditors, encourages the use of non-Big Four audit firms and places stronger restrictions on the provision on non-audit services by audit firms. AIB does not have a policy on exclusive use of Big Four audit firms. The criteria for selecting an independent auditor includes the appropriate depth of expertise and resources, knowledge and experience to perform an audit to the required standard for a Group such as AIB and these are generally found within Big Four audit firms. The Group's policy is to select the most appropriate audit firm (including assessment of relevant cost) to perform the independent audit irrespective of whether that firm is within the Big Four or not.

Yours sincerely,



Catherine Woods,
Audit Committee Chairman