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REMUNERATION REVIEW OF COVERED INSTITUTIONS

On behalf of the Department of Finance

March 2013

MARSH & McLENNAN COMPANIES

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Scope of the Review

The Department of Finance has commissioned Mercer to provide this report as part of their Review of Remuneration Practices and Frameworks at the Covered Institutions. This Review was committed to in the Programme for Government - Government for National Recovery 2011 – 2016. The commitment stated that: “All remuneration schemes at banks subject to State support will undergo a fundamental review to ensure an alignment of interest between banks, their employees and the taxpayer.”

For the purposes of this Review, the banks subject to State support (Covered Institutions) are:

- Allied Irish Bank (AIB), including employees of EBS who have transferred into AIB.
- Bank of Ireland (BoI).
- Irish Bank Resolution Corporation (IBRC, formerly Anglo Irish Bank), including employees of Irish Nationwide Building Society (INBS) who have transferred into IBRC.

  With effect from 7 February 2013 IBRC has been put into liquidation by a Ministerial Order under the Irish Bank Resolution Corporation Act. Current employees have had their contracts of employment terminated although some of them have been re-employed on a month to month basis by the Joint Special Liquidators. The review reflects the position immediately prior to the liquidation.
- Permanent TSB (PTSB), which is the banking division of the former Irish Life and Permanent Group.

The purpose of our report is:

- To provide detailed analysis of all elements of remuneration and benefits provided to employees in each of the Covered Institutions.
- To compare the remuneration levels between the Covered Institutions with the wider market, including financial services and other business sectors in Ireland and European financial services organisations.

- To identify elements of a new Remuneration Framework that could simplify remuneration structures in the Covered Institutions while discouraging excessive risk taking, and align remuneration to long term value creation.

As part of the process, the Covered Institutions submitted detailed current and historical remuneration data to Mercer as well as information on recent and proposed changes to their remuneration structures. In addition, meetings were held with the Covered Institutions to understand the issues they are currently addressing relating to remuneration.

Mercer also met with officials of the Department of Finance to understand the context in which the future Remuneration Framework would be developed and to understand the Government's expectations in relation to the Framework.

Our report is structured as follows:

- Section 2 provides a high level summary of the key features of the Report.
- Section 3 sets out the current regulations that impact on the Covered Institutions and other financial services organisations.
- Section 4 sets out current remuneration trends in Irish financial services and other industry sectors in Ireland.
- Section 5 provides an overview of current trends in the International Financial Services market.
- Section 6 outlines the current remuneration practices in the Covered Institutions.
- Section 7 compares remuneration in the Covered Institutions in Ireland with a range of market sectors.
- Section 8 sets out a range of options for a future Remuneration Framework.

In the preparation of our report we acknowledge the co-operation we received from each of the Covered Institutions and the input from Officials in the Banking Division of the Department of Finance.

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Summary of Report

Section 3 sets out the significant regulatory developments in financial services remuneration:

- Inappropriate remuneration practices are considered to have been a significant contribution to the global financial crisis as they put too much emphasis on short term gains without due attention to the longer term risks.

- There has been considerable effort globally, therefore, to develop and implement appropriate policies and practices which will help to avoid a similar crisis in the financial services market in the future. The new arrangements provide that any incentives awarded are subject to mandatory deferral and clawback if performance on which the incentive is awarded is not maintained or discovered to be ill-founded.

- In Ireland the remuneration practices are regulated by the Central Bank of Ireland based on relevant EU Directives. In addition further restrictions have been placed on the Covered Institutions by the Department of Finance in respect of the financial support provided to them since 2009. These include a salary cap, a prohibition on the payment of incentives and limits on pensions and termination payments.

Section 4 sets out general market data for the financial services sector and other industry sectors in Ireland:

- While broad-based salary increases generally have not been paid in the Covered Institutions since 2009, over 60% of participants in the Mercer remuneration databases paid increases in 2012, averaging around 2%, and a slightly higher proportion expect to do so in 2013.

- The majority of financial services companies in Ireland provide short term incentives for their employees. Target payments vary from 6-8% of salary at the more junior levels up to 50% (or higher) for senior level positions; actual payments for strong performance can be higher than the target.

- The majority of organisations also provide long term incentives, but typically only for more senior employees.

- None of the Covered Institutions have provided short or long term incentives in the last few years.

Section 5 sets out the recent trends in remuneration arrangements for financial services organisations across the globe:

- Significant changes have occurred in remuneration arrangements; these have been driven by a number of factors including the global financial crisis, the change in the regulatory environment, lower economic growth and increased investor and public attention.

- The main changes, as reported in the Mercer Pan European Financial Services Surveys in 2012, were a significant use of salary freezes for executives, lower payments on short term incentive plans and the introduction of mandatory deferral, clawback and malus provisions.

Section 6 provides details on the current remuneration structures in the Covered Institutions.

- These Institutions all have overseas operations, mainly in the UK, but the majority of employees (over 80% in all cases) are based in Ireland. The average length of service in AIB, BoI and PTSB is broadly the same (between 12 and 14 years) but significantly less in IBRC (6 years) where approximately one third of employees were recruited in the last 2 years. Reflecting the absence of a branch network, IBRC has fewer lower level employees than the other institutions.

- Overall there has been a significant reduction in overall remuneration costs in all four Institutions between 2008 and 2012, mainly as a result of a reduced headcount and the withdrawal of incentives. Remuneration by employee is now very largely fixed, comprising salary, pension contributions and fixed allowances.

- Across all employees, average salaries have increased since 2008 with the exception of AIB. In respect of continuing employees (those in employment over the period) average salaries have increased in all Institutions as a result of increases provided in 2009 and individual promotions. Total remuneration by employee fell significantly due to the withdrawal of incentives.

- Employee turnover is an issue in all the Institutions but is only higher than the financial industry generally in some cases. In some areas – risk management, IT and debt collection - the turnover rates are significantly higher and this is an issue of concern for the Institutions.

Section 7 also provides a comparison of remuneration against relevant comparators:

- In the case of Chief Executives, salary levels vary from 63% (AIB) to 99% (IBRC) of the market median of the European Financial Services Group and from 91% (BoI) to 62% (AIB) of the market median of Irish quoted PLCs.

- In the case of senior executives, salary levels in IBRC are ahead of the median of the European Financial Services Group, behind in the case of BoI and significantly behind in the case of AIB and PTSB. When compared to the median of Irish PLCs, BoI are in line with the market median, IBRC is slightly behind the median and PTSB and AIB are significantly behind.

- For other executives, on average, salary is significantly lower than the market median in the European Financial Services Group and higher than the Other Industry[1] market median.

- For all other roles and levels – senior managers/managers, assistant managers/ senior specialists, senior clerical/specialists and clerical roles salary is broadly in line with the Irish financial services market and somewhat ahead of Other Industry.

- Total remuneration at senior levels is significantly behind the market in all cases since participants in the comparator groups (excluding the Covered Institutions where appropriate) are generally receiving some level of incentive. At lower levels, total remuneration is somewhat behind the Irish financial services market while somewhat ahead of Other Industry.

Section 8 considers the development of a future Remuneration Framework for the Covered Institutions.

- Our discussions with the Department of Finance indicate that the central objective of the Government's future policy on banking remuneration for the Covered Institutions will be to "require management in each Institution to reduce the cost base to a sustainable level with the aim of aiding their return to profitability and ultimately their removal from public support and ownership."

- While the Covered Institutions have reduced their cost base significantly since 2008 the benefit of this has been negated by larger falls in revenue and significant levels of bad debts such that they are still loss making.

- Losses are eroding the Institutions' capital levels which have been supported by a huge quantum of taxpayers money. As a result, all the Institutions have indicated that they are targeting further cost reductions.

1 Other Industry refers to General Industry excluding Financial Services companies

- In addition to restoring profitability other considerations in designing a Framework include the different positions of the Covered Institutions and their differing trajectories to profitability, current best practice and regulation on remuneration design and the ability to hire and retain key employees.

- The Review sets out a number of options which could be incorporated into the Framework. The first four of these are options to reduce remuneration in the short to medium term. This could be achieved through an across the board reduction for all employees or by a more targeted approach. A further six options seek to address current issues arising from existing approaches to remuneration.

- Any changes to remuneration will require careful consideration in respect of compliance with employment law and contracts of employment, as well as the impact on employee morale and will necessitate detailed consultation with employees and their representatives.

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Current Regulatory Environment

Overview

In recent years there have been significant developments from a regulatory perspective in financial services remuneration. These developments have been on a global, regional and national basis and have resulted from the following;

- An understanding of the root causes of the global crisis.
- The common principles for reforming financial markets.
- An action plan launched at the 2008 G20 Washington summit.

The Financial Stability Board (FSB) issued a document “Principles of Sound Compensation Practices”. Its purpose was to provide a level playing field and ensure a coordinated response to reforming remuneration practices globally in the financial services sector.

In practice regulators in the G20 countries and around the world have taken some differing approaches to the implementation of these Principles. For example, the US is considered to have taken a principles-based approach (setting guidelines on what is expected and allowing institutions flexibility on how the guidelines are interpreted and applied). Within the European Union the approach (and the approach of regulatory bodies within countries in the EU) has been more prescriptive (for example, specifically stating how to structure deferral of incentive awards and the types of remuneration instruments to be used). Other countries such as Switzerland, China, Japan and Australia have taken their own specific approaches. All approaches, however, reflect the key themes of the Principles of Sound Compensation Practices (and subsequent guidance).

In Ireland, the remuneration practices of financial services institutions are regulated by the Central Bank of Ireland. Regulation is based on European Directives. This framework of governance as it applies to remuneration is important, as it is in this context that remuneration practices for institutions that have benefited from state intervention are set. Additional restrictions on remuneration have been placed upon the Covered Institutions by the Department of Finance following on from the financial support provided to them since 2008.

As the Covered Institutions have employees primarily located in Ireland and in the United Kingdom - and in the case of AIB and the BoI, the United States - this Section considers regulation in Europe, including the UK and Ireland, and the US.

Financial Stability Board

The Financial Stability Board (FSB) was established in April 2009. It brings together national authorities responsible for financial stability in significant international financial centres and international financial institutions. On 2 April 2009, the FSB issued its Principles of Sound Compensation Practices. The main topics addressed in the Principles include:

- Effective governance of remuneration.
- Adjustment of remuneration based on types of risk, risk outcomes and time horizons.
- Supervisory oversight and engagement by stakeholders.

Its purpose was to provide a level playing field and ensure a coordinated response to reforming remuneration practices globally in the financial services sector.

To strengthen adherence to the Principles the FSB issued Implementation Standards in September 2009. These set out detailed proposals for remuneration, governance, structure and disclosure. These are aimed at “significant” financial institutions. However, the concepts are generally regarded as best practice and serve as a foundation for government led regulation.

In June 2012, the FSB issued its latest progress report on the implementation of the global remuneration principles. The FSB found continued progress by regulators and institutions, while acknowledging the “long-term challenge” of implementing the Principles consistently within and across borders. Concern continues about the effectiveness of the implementation of the Principles. This was borne out by a FSB workshop (in which Mercer participated) on 19 November 2012 where 15 global banks and 20 country regulators discussed a number of topics including:

- Alignment of remuneration with ex ante risk taking.
- Alignment of remuneration with performance.
- Identification of material risk takers.

EU

National regulation is based on the guidelines outlined below, although as noted above, countries have chosen to implement and interpret the guidelines differently.

In November 2010, the European Parliament and the Council adopted Directive 2010/76/EU (known as CRD III). CRD III contains rules on the remuneration policies of credit institutions. The objective of these rules is to ensure that credit institutions develop risk-based remuneration policies and practices that are aligned with the long term interests of the institution and avoid short-term incentives that can lead to excessive risk-taking.

Annex 1 of CRD III contains approximately 20 separate items which institutions are required to have implemented in respect of remuneration policies. This covers factors such as the definition of remuneration policy, promotion of effective risk management, remuneration for control functions and senior executives, approach to variable remuneration (including appropriate amounts, inclusion of deferrals, malus and clawback), termination payments, pensions policy and the construction and the role of the Remuneration Committee.

Remuneration policies of financial institutions are required to reflect CRD III requirements. Institutions must develop lists of Identified Staff whose professional activities have a material impact on the institution’s risk profile. CRD III requirements apply to Identified Staff. This includes employees in significant subsidiaries that may represent a material risk to the Group. Institutions are required to demonstrate how they have assessed and selected Identified Staff. Certain employees, for example the chief executive, other executives and those heading control functions or significant business lines will be automatically deemed identified unless the institution can demonstrate they have no material impact on the institution’s risk profile.

The requirements permit the “Proportionality Principle”. This allows institutions to match remuneration policies to their risk profile and business strategy. The Principle allows some institutions to apply the requirements in a different way according to their size and the nature, scope and complexity of their activities. In addition institutions can neutralise certain remuneration requirements for Identified Staff if this is reconcilable with the risk profile and strategy of the Institution. However where proportionality or neutralisation occur the rationale must be documented and available for assessment / challenge by the national supervisor. The application of the proportionality principle does not diminish the obligation to produce and apply remuneration policies that promote sound and effective risk management.

CRD III has specific requirements on disclosure for Identified Staff and also, to some extent the wider remuneration policies of the institutions. This includes disclosure on the process for determining remuneration policy, the structure and rationale for variable remuneration (including deferral mechanisms), the methods of performance measurement and risk adjustment and quantitative information on remuneration for senior roles and Identified Staff.

In December 2010, the Committee of European Banking Supervisors (CEBS) issued a set of guidelines (CEBS Guidelines on Remuneration Policies and Practices) based on the CRD III rules. The CEBS guidelines came into effect on the same date as CRD III.

On 1 January 2011, CEBS was succeeded by the European Banking Authority (EBA). We understand the CEBS (now EBA) guidelines, described below, are being followed in Ireland.

The main points from the Guidelines are as follows:

- National supervisors can require credit institutions to limit variable remuneration to a certain percentage of total net revenue if the payment of such remuneration is inconsistent with the maintenance of a sound capital base.
- Credit institutions should have robust governance arrangements in place. These should include a clear organisational structure and remuneration policies and practices should promote sound and effective risk management.
- The guidelines apply to the remuneration of senior management, risk takers, and control functions.
- The policies should cover total remuneration and not just salaries.
- Employees engaged in control functions should be independent from the businesses that they oversee. In addition, they should have the appropriate level of authority and their remuneration should be based on objectives linked to their function and should be independent of the business areas they control.
- Both financial and non-financial criteria should be considered when reviewing individual performance and it should not be based solely on short-term performance (i.e. longer term performance should also be considered).
- Performance related remuneration should be based on the performance of the individual, the specific business area and the overall organisation.
- There should be an appropriate balance between the fixed and variable elements of remuneration.
- At least 50% of variable remuneration should be in the form of shares or share-like instruments that reflect the long term credit quality of the institution.

- Variable remuneration should be based on long term performance.

- A significant portion of variable remuneration should be deferred. In general the deferred portion should be at least 40% of the total variable amount, increasing to 60% for significant amounts. The deferral period should be at least three to five years and should be appropriately aligned with the performance on which the variable remuneration was granted.

- The deferred portion of variable remuneration should only vest if it is sustainable according to the financial situation of the credit institution and is still justified.

- Malus and clawback arrangements should be in place to recapture paid and/or granted variable remuneration where warranted by financial performance or other criteria.

- Variable remuneration should not be guaranteed with some limited exceptions (for example, when hiring new employees, and then limited to the first year of employment).

- The EBA and the national supervisors in the EU member states should carry out comparative studies of remuneration in the financial sector.

- Severance payments should not reward failure.

- National supervisors should collect information on the number of employees who receive remuneration in excess of €1 million.

There are specific guidelines for credit institutions that benefit from government support. These state that priority should be given to building up the capital base and providing recovery of taxpayer assistance and variable remuneration should reflect these priorities. Directors in institutions receiving support should not receive variable remuneration unless this is justified.

UK

Financial institutions operating in the UK (including the subsidiaries of Irish Covered Institutions) are governed by the Financial Services Authority (FSA). The FSA is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000.

The FSA introduced their Remuneration Code (the Code) for the largest institutions at the beginning of 2010. This was modified and extended in scope to apply the CRD III remuneration provisions. The current version of the Code came into force on 1 January

2011. The overall objective of the Code is to ensure that remuneration practices in these institutions do not encourage inappropriate risk taking and do not pay out more than the institutions can afford. All institutions that have to meet the Code are required to ensure that their remuneration policies and practices are consistent with and promote sound and effective risk management.

The main features of the Remuneration Code include:

- Proportionality: The Remuneration Code is applied on a proportionate basis. This takes into account the institution’s size, internal organisation and nature and complexity of activities. A four-tiered proportionality framework has been established with minimum expectations of compliance for each level.

- Code Staff: the Remuneration Code applies to specified groups of employees known as Code Staff. These groups of employees include senior management, risk takers and employees in control functions.

- Deferral: For all Code Staff, at least 40% of any annual incentive must be deferred for at least three years. For the most senior management roles, or when an individual’s annual incentive is in excess of £500,000, at least 60% of the annual incentive must be deferred.

- Form of payment: at least 50% of any annual incentive made to Code Staff must be paid in shares, share-linked instruments or other equivalent non-cash instruments. These shares should be subject to an appropriate retention period.

- Guaranteed annual incentives: guaranteed annual incentives of more than one year are prohibited. Guaranteed annual incentives may only be provided to new hires in their first year of service in exceptional circumstances.

- Disclosure: Institutions need to disclose details of their remuneration policies at least annually.

Recent Developments

CRD IV

Following on from CRD III, in July 2011, the European Commission published proposed legislation on new capital requirements in financial institutions (known as CRD IV). This was originally intended for adoption in January 2013 although is currently subject to delay while the details of the proposals (including a potential “cap” on annual incentive awards at 100% of salary) are finalised.

On 27 February, the European parliament and EU country representatives (through the Irish presidency of the EU) reached an agreement whereby the maximum incentive payable would be 100% of salary. However, this can be increased to 200% of salary with the backing of a majority of shareholders. Up to 25% of incentives can be awarded in instruments which are deferred for more than five years (subject to clawback and bail-inable). The value of these can be discounted in the calculation of the maximum allowable payments. The agreement has to be approved by a majority of EU member states before it is final. It is expected that the bonus cap will be effective from January 2014.

High-level Expert Group on reforming the structure of the EU banking sector

A High-level Expert Group on reforming the structure of the EU banking sector was set up in February 2012. Erkki Liikanen, Governor of the Bank of Finland and a former member of the European Commission, was appointed Chairman. Their report was published in October 2012. The report includes a discussion of remuneration structures in the sector.

The Report states that “one essential step to rebuild trust between the public and bankers is to reform banks' remuneration schemes, so that they are proportionate to long-term sustainable performance”. It also recommends that, in addition to CRD III requirements, 50% of variable remuneration be in the form of shares or other share related instruments and subject to appropriate retention policies; also a proportion of variable remuneration should be in the form of bail-in bonds. These are debt instruments that could be written down and/or converted to equity by a bank resolution. It is considered that this would better align senior management decision-making with longer term performance.

The Report also recommends that the proposed restriction (contained in CRD IV) on the level of variable to fixed remuneration should be assessed. It recommends that consideration be given to a regulatory approach that would stipulate more absolute limits to overall remuneration (for example, limiting the total amount that could be paid out in annual incentives so that it does not exceed the amount paid in dividends).

Bank of England Financial Stability Report, November 2012

The Bank of England Financial Stability Report (November 2012) also includes recommendations on remuneration structures in financial service organisations. It indicates that inappropriately structured remuneration systems can lead to risks being mismanaged and that remuneration structures should provide sufficient incentives to consider the full implications for long-term business performance. It highlights three areas of concern:

- Some elements of remuneration are still tied to short term targets that are not adjusted for risk (for example, return on equity). Reliance on these types of measures has decreased. However there is further progress to be made.

- The period over which performance is measured and the period over which executives' decisions have an impact are not aligned. Typically, long-term incentive performance periods are three years whereas the length of the typical business or credit cycle can be substantially longer.

- Executive remuneration could be better structured to expose executives to the potential downside of the longer term risks they take. Typically, remuneration consists of cash and shares but greater alignment between risks and rewards could occur if remuneration packages contained a greater proportion of suitable debt instruments (including the bail-in instruments referenced in the High-level Expert Group on reforming the structure of the EU banking sector).

There has already been some moves to these types of approaches in the UK. For example, Royal Bank of Scotland made some annual incentive awards in 2009 in the form of subordinated debt bonds, and Barclays Bank created the facility to allow some annual incentive awards to be made in form of contingent capital (CoCos).

Summary of Regulations

The various regulations and guidelines can be summarised as follows:

- Variable remuneration or incentive payments are not prohibited but should not be excessive and there should be an appropriate balance between fixed and variable remuneration;

- Variable remuneration should not encourage excessive risk taking and should be aligned with long term performance, thereby placing greater emphasis on long-term variable remuneration (versus short term variable remuneration);

- Variable remuneration should be risk adjusted ex-ante (before the event) and ex-post (what actually happened); awards should be made in the context of the risk-free profit of the institution, and with the ability to consider and execute clawback or reduce payments if performance on which those awards are made subsequently deteriorates. Appropriate incentive deferrals should, therefore, be in place.

- There should be greater emphasis on fixed remuneration for employees in control functions and their variable remuneration should not be significantly influenced by the factors that affect annual incentives for risk takers.

Approaches to Remuneration Governance in Financial Services organisations

As noted above, the approach to remuneration governance which derived initially from the FSB's "Principles of Sound Compensation Practices" has varied across G20 countries, between regions, and within the EU from country to country.

In the same way, the approach to remuneration governance in the cases where governments have intervened to provide state support to financial service organisations has also varied.

Ireland

In Ireland the Government of the day provided financial support to specified Irish banks (the Covered Institutions) through the Credit Institutions (Financial Support) Act 2008. As a result:

- The Covered Institutions were required to structure remuneration packages that reflect the objectives of the Act.

- Remuneration terms were subject to review by the Covered Institution Remuneration Oversight Committee set up by the Minister for Finance.

- The Government accepted the recommendations of the Committee in full, but decided that a lower than recommended maximum salary cap of €500,000 should apply to the senior executive positions at the Covered Institutions.

A number of further changes were introduced subsequently:

- As part of the conditionality underpinning the State's investment in Bank of Ireland (BoI) and Allied Irish Banks (AIB) in 2009 further measures on remuneration were imposed including reductions in aggregate remuneration and a prohibition on the payment of bonuses for 2009 and 2010 for senior executives (pre-existing contractual commitments could be honoured in line with the prevailing legal advice).

- In the 2011 Finance Act, the Government introduced the “excess bank remuneration charge” – in effect a 90% tax on annual incentives in excess of €20,000 paid to employees in the Covered Institutions.

- The policy on remuneration has been tightened as further State investment was required in December 2010 (AIB) and in the summer of 2011 (AIB, BoI and Irish Life & Permanent). The present policy provides that no director, senior executive, employee or service provider, may receive annual aggregate remuneration (excluding pension contributions) of more than €500,000.

- Further restrictions on remuneration were also put in place, including a prohibition on paying any incentive for a period of 2 years save only in exceptional circumstances such as on foot of a Court Order. After this period prior approval for any payment will be required. Except with the consent of the Minister for Finance no new or additional benefits can be provided and no cash allowances can be made in compensation for the “pensions cap” imposed by the Finance Act 2006. Restrictions were also put in place around certain pension matters including no pension improvement and limits on contractual payments for any compensation on termination, except with the prior consent of the Minister. As with previous iterations of the policy pre-existing contractual commitments could be honoured in line with the prevailing legal advice.

- By virtue of the State’s ownership of Irish Bank Resolution Corporation and the approved Relationship Framework with that institution similar arrangements regarding remuneration now apply there as for the 3 Covered Institutions listed above.

UK

In the UK, UK Financial Investments (UKFI) was created in November 2008 and is responsible for managing the UK government’s shareholdings in The Royal Bank of Scotland (RBS) and Lloyds Banking Group (LBG). UKFI is also responsible for managing the Government’s shareholding and loans in UK Asset Resolution (UKAR) which was formed during 2010 to integrate the activities of Northern Rock (Asset Management) and Bradford & Bingley, and previously the restructured Northern Rock prior to its sale in January 2010 to Virgin Money.

Initially, UKFI took a bank by bank approach to remuneration. However, more recently the approaches for RBS and LBG in particular have coalesced and both organisations have fully adopted the requirements of the FSA (see above).

In addition to FSA requirements, any variable remuneration awards made to both code staff and non-code staff are subject to further restrictions, with any payments above £2,000 for employees earning a salary of greater than £39,000 being subject to deferral over 3 years, with awards made in the form of restricted shares or subordinated debt bonds.

We note that in UKAR, there are annual incentive and incentive schemes (as well as a recognition programme) in place to recognise and reward good performance and achievement in role in line with their over-arching business strategy.

UKFI's Framework Document states that it should not intervene in relation to individual remuneration decisions with Lloyds and RBS, except in relation to Directors through their vote on the Directors Remuneration Report at the Annual General Meeting. However, as the largest shareholder for each institution they have worked closely with the Boards to ensure that remuneration is aligned with the interest of shareholders, and appropriatly focussed on long term performance.

While awards were made to senior employees in covered institutions in the UK, many annual incentive awards have been waived by the individuals concerned, including the most recent award to the Chief Executive of RBS.

US

The Troubled Asset Relief Program (TARP) under the Emergency Economic Stabilization Act (EESA) subjected companies receiving federal assistance to a number of executive remuneration and corporate governance standards.

There are restrictions on:

- Incentive remuneration that encourages executives to take "unnecessary and excessive" risks.
- Severance payments (called "golden parachutes").
- Annual incentives, retention awards or incentive remuneration. In general, these organisations have been restricted from paying any variable compensation in cash (as in the UK) but can do so through stock awards.

Other requirements are that companies "claw back" incentives paid on the basis of materially inaccurate financial statements or other performance metrics, implement policies on excessive or luxury expenditures, seek non-binding shareholder approval of executive remuneration programs ("say on pay"), have independent remuneration committees, and certify compliance with all TARP standards.

Other countries

Across Europe, countries have taken very different approaches to managing executive remuneration in bailed-out institutions, from taking no action to reducing executive remuneration. We set out four further examples below:

Spain - reducing executive remuneration

- In Spain, legislation was passed in 2012 which limited executive remuneration at the four nationalised banks to €300,000 and €600,000, depending on the economic support provided. This led to a 75% remuneration reduction for the Chairman of Bankia, whose salary was reduced from €2.3m to €600,000. In addition, executives of Bankia were ordered to pay back annual incentives paid before the bailout.

- While variable remuneration is still allowed, by law the banks are now required to ensure at least 50% of variable remuneration consists of shares or other instruments linked to company performance, and at least 40% is deferred for at least 3 years. Any deferred component will only be paid if it is economically sustainable for the institution as a whole to do so. Severance payments must be based on employee performance and not reward economic losses.

- Recent reports from Spain indicate that employees in Bankia have been facing lay-offs and remuneration cuts as part of a restructuring plan.

Portugal - no action has been taken to date

- In Portugal, 3 banks have received a bailout of public money; however there are currently no regulatory restrictions on executive remuneration or annual incentives for the executives or employees in these institutions.

Greece - the right of “Veto” has been introduced

- In Greece there have been no formal regulatory limits placed on executive remuneration. However, the HFSF (Hellenic Financial Stability Fund) has a representative on the Board of the National Bank, with a right to veto any decision of the Board, including annual incentive policy; nevertheless, at this stage no specific actions have been reported.

Iceland – banks were allowed to fail

- Iceland were not in a position to bailout its three largest banks and, therefore, allowed them to fail. No formal limits on executive remuneration have been introduced as a result. The country is now in the process of prosecuting those considered culpable.

4

General Irish Market Information

Irish Market Overview

This Section summarises current market data for the financial services sector in Ireland. Data is drawn from the Mercer Financial Services Remuneration Guide (FSRG) which had 35 participants in 2012. Remuneration data for the Covered Institutions has been removed from the database for the purposes of this report where applicable.

The Mercer FSRG contains a broad range of financial services organisations operating in Ireland. Survey participants come from the banking, investment, insurance and financial shared service centre sectors. They are generally well known organisations which provide a broad range of positions across the financial services sector, both local and international organisations. The Guide covers all levels within participating organisations.

In addition, commentary is provided on market trends from other industry sectors. This data is drawn from the Mercer Total Remuneration Survey (TRS) for 2012. This general industry survey has 132 participants, across a diverse range of business sectors.

The Mercer TRS includes a broad range of well known organisations, operating in Ireland. Industry sectors include Consumer Goods, Pharmaceutical and Healthcare, Food, Electronics, Durable Goods, Energy, Technology, Finance, Retail/Wholesale and Transport/Distribution. The Survey includes both Irish organisations (private and quoted) and subsidiaries of multinationals. It covers all levels within participating organisations.

Generally, the data in the Mercer surveys is more representative of larger Irish-headquartered companies and subsidiaries of multinational organisations. These are the type of organisations which the Institutions compete with for employees; this was confirmed to us during discussions in the course of our review with the HR representatives in the Institutions on employee recruitment and turnover. The survey data is not representative of smaller domestic Irish companies, particularly those in the retail, hospitality and construction and related industries which have experienced the greatest reductions in employee remuneration levels in recent years.

Salary

Salary Target Positioning

Organisations typically target salary at the market median, however a small number have a more aggressive approach, particularly at senior levels. The following table summarises salary target positioning by employee level within the Irish financial services market. A similar pattern is seen across other industry sectors.

	25^{th} Percentile	Median	75th Percentile
Head of Organisation	0%	76%	18%
Executives	6%	72%	16%
Senior Professionals	0%	88%	3%
Junior Professionals	0%	88%	3%
Other Employees	0%	90%	2%

Source: Mercer Financial Services Remuneration Guide, 2012

Distribution of Salary Increases in 2012

The majority of the organisations participating in the Guide provided salary increases to all employees in 2012. This varies by employee level with fewer organisations providing increases at more senior levels.

The following table summarises the distribution of salary increases by employee level in 2012:

	No Change	Increase Provided
Head of Organisation	38%	62%
Executives	31%	69%
Senior Professionals	27%	73%
Junior Professionals	26%	74%
Other Employees	35%	65%

Source: Mercer Financial Services Remuneration Guide, 2012

The prevalence of salary increases was somewhat higher in other industry sectors in 2012 with over 70% of organisations reporting salary increases for all employee levels.

Actual Salary Increases for 2012

The median salary increase provided in 2012 was 2.0% with the exception of the Head of Organisation where the median reported increase was 1.3%. The following table summarises salary increases by employee level in 2012:

	25th Percentile	Median	Average	75th Percentile
Head of Organisation	0.0%	1.3%	1.6%	3.0%
Executives	0.0%	2.0%	1.8%	3.0%
Senior Professionals	0.0%	2.0%	1.9%	3.0%
Junior Professionals	0.0%	2.0%	2.0%	3.0%
Other Employees	0.0%	2.0%	1.8%	3.0%

Source: Mercer Financial Services Remuneration Guide, 2012

Participants in the Guide indicated that individual increases are determined by a range of factors with the most frequent ones mentioned being individual performance (97%), overall organisation performance (71%), position in salary range (48%), reference to inflation data (42%) and market position (35%).

The overall median increase in other industry sectors for 2012 was 2.0%.

Forecast of Salary Reviews for 2013

The percentage of financial services organisations forecasting a salary increase for 2013 is higher than the percentage that provided an increase in 2012. The following table summarises the distribution of forecast salary increases by employee level in 2013:

	No Change	Increase
Head of Organisation	17%	83%
Executives	15%	85%
Senior Professionals	15%	85%
Junior Professionals	17%	83%
Other Employees	20%	80%

Source: Mercer Financial Services Remuneration Guide, 2012

Forecast Salary Increases for 2013

The median forecast increase is up somewhat compared to 2012 (2.3% for most employee categories compared to 2.0% in 2012).

The following table summarises forecast salary increases by employee level for 2013:

	25th Percentile	Median	Average	75th Percentile
Head of Organisation	1.0%	2.3%	2.1%	3.0%
Executives	1.3%	2.3%	2.1%	3.0%
Senior Professionals	1.3%	2.3%	2.1%	3.0%
Junior Professionals	1.0%	2.3%	2.1%	3.0%
Other Employees	1.0%	2.0%	2.1%	3.0%

Source: Mercer Financial Services Remuneration Guide, 2012

The median projected salary increase across other industry sectors remains at 2.0% for 2013.

*Short Term Incentive Plans**

Eligibility

Financial services organisations generally provide short term incentives for at least some of their employees. Eligibility for these increases varies with employee level, with the most senior executives having the highest rates of eligibility.

Short Term Incentive Plan Targets

Short term incentive plan targets tend to increase with organisational level. Target levels are generally in the range of 6% to 8% of salary at more junior levels, increasing to 50% or more of salary at the most senior levels. Larger organisations typically have higher target levels at the senior executive level.

Maximum incentive targets are typically set at 1.5 times to 2 times the target incentive.

Additional details on trends in short-term incentive plans are provided in Section 6 - International Financial Services Remuneration Trends.

** Note: Short Term Incentive Plans are frequently known as Annual Incentives or Annual Bonus Plans.*

Short Term Incentive Plan Payouts

The performance criteria in short-term incentive plans are generally a mix of financial and non-financial measures.

Financial measures are typically based on the achievement against the agreed budgets, typically profitability and one or more further relevant measures. They may apply a combination of corporate, business unit and individual measures.

Within the financial services sector, the Covered Institutions have not paid short term incentives in recent years. However, based on the Mercer Financial Services Remuneration Guide other financial services organisations including insurance companies, asset managers, financial shared service centres etc, have continued to pay short term incentives, although the quantum has declined in line with business performance.

Long Term Incentive Plans

Eligibility

Long term incentives are also commonly provided in financial services organisations. 66% of organisations in the Mercer Guide report that they provide them. These are typically restricted to more senior executives.

Plan Design

In the case of participants in the Guide, the majority of long term incentive arrangements are provided through shares or share options or other share-like instruments. The location of the parent organisation influences the type of long term incentive offered with restricted shares or share options more common in US headquartered organisations and performance shares or share options more common in European organisations.

Additional details on trends in long term incentive plan design are provided in Section 6 - International Financial Services Remuneration Trends.

Voluntary Turnover

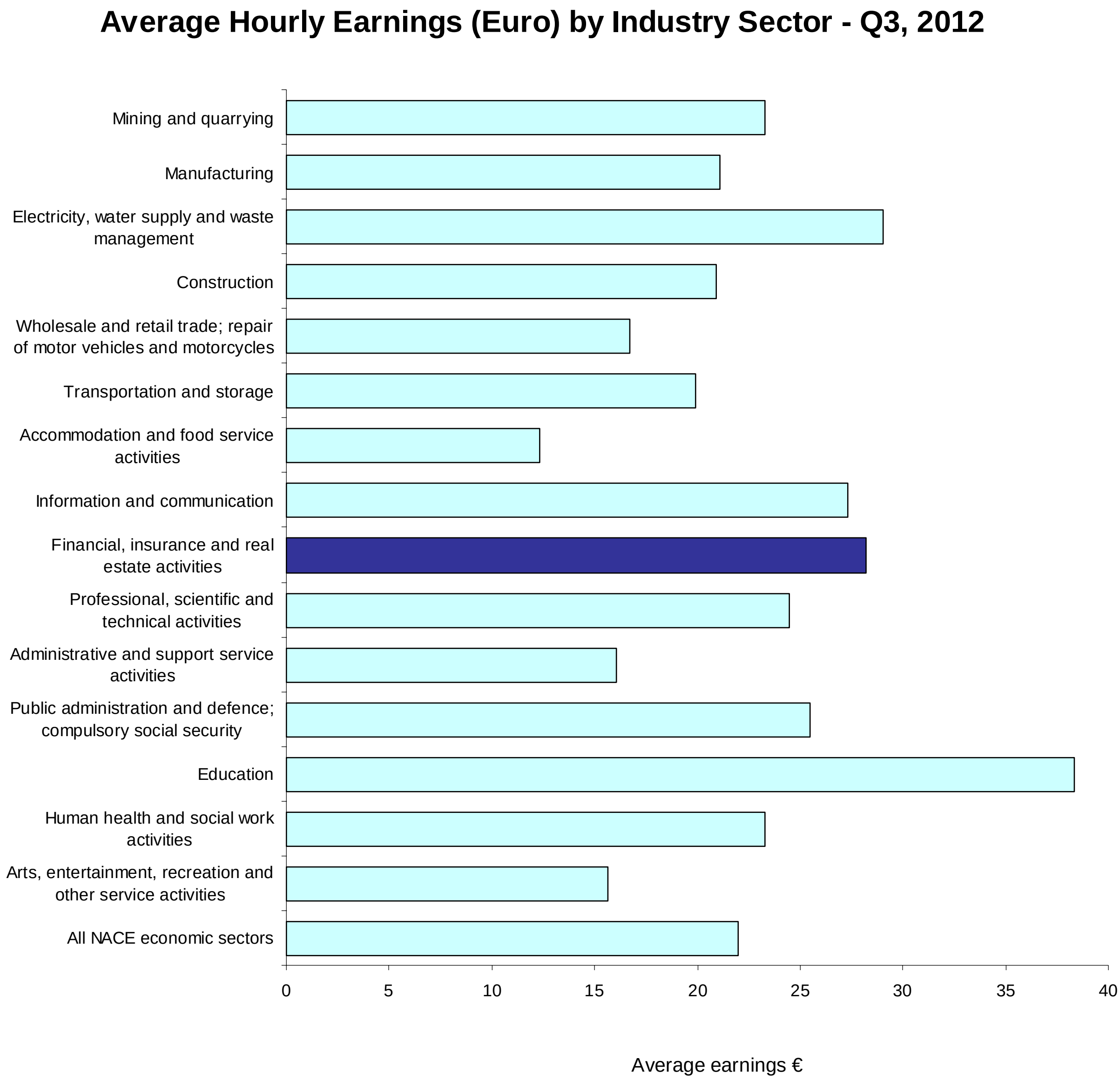
The following tables summarises voluntary turnover rates in the financial services sector and across other industry sectors. Redundancies are excluded from the analysis. The reported turnover levels in the financial services sector are significantly higher than in other industry sectors. This probably reflects the competition for key employees and is consistent with the experience of the Covered Institutions.

	25th Percentile	Median	Average	75th Percentile
Financial Services	3%	6%	8%	11%
Other Industry	1%	3%	5%	8%

Sources: Mercer Financial Services Remuneration Guide & Mercer Total Remuneration Survey 2012

Earning Levels in Ireland

Across industry, average earnings are higher in the financial services sector and in larger organisations. The chart below presents data from the Central Statistics Office (CSO) for average hourly earnings by industry sector and by size of enterprise (measured by the number of employees).

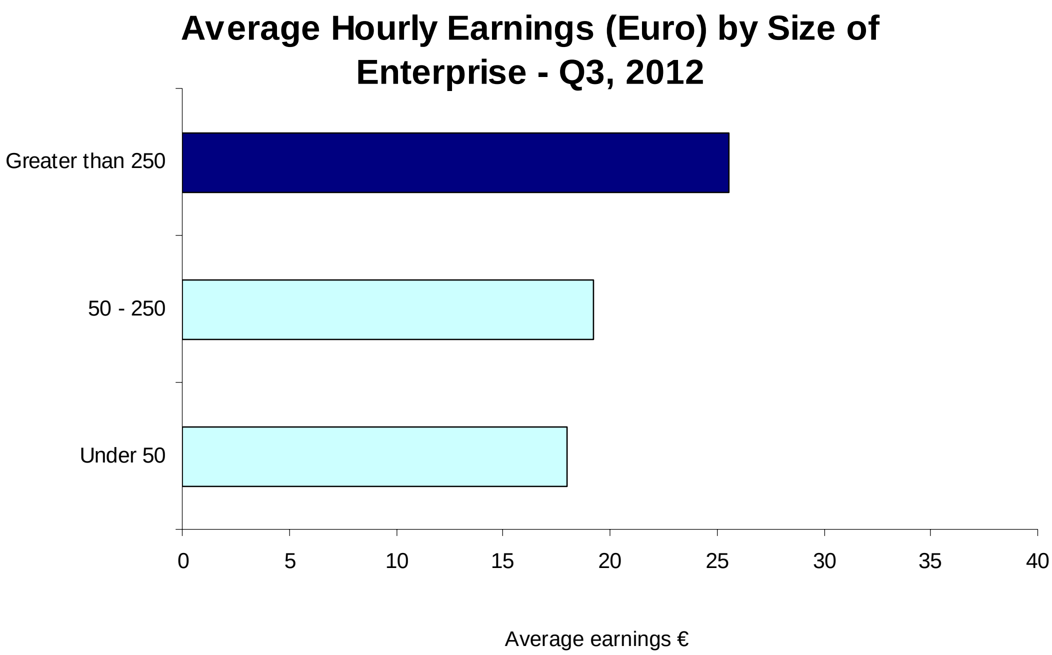


Source: Central Statistics Office

The above chart indicates that earnings in the financial services sector are above the majority of other sectors (on average 28% above the average of all other sectors).

Average earnings in the financial sector are most closely aligned to those in the Information and Communication Sector and significantly behind those in the Education Sector.

The chart below indicates that the earnings levels in larger organisations significantly exceed that of smaller organisations.



Source: Central Statistics Office

5

International Financial Services Remuneration Trends

This Section sets out recent trends in the remuneration arrangements for financial services organisations globally. It draws on a range of surveys carried out by Mercer in 2012.

In recent years, there have been significant changes made to the remuneration arrangements of financial services organisations. In addition to a changing regulatory environment, these changes have been driven by many factors including the global financial crises, weak economic growth and increased investor and public attention.

Mercer has recently undertaken two international surveys in this area. A summary of some of the main findings from these surveys provides a good overview of the changes taking place.

European Trends

The Mercer Pan-European Financial Services Survey (completed by 34 large financial services organisations across Europe in June 2012) highlights the following trends.

- Economic uncertainty and increased attention on executive remuneration have generally reduced the level of total remuneration.

- Results show a significant use of salary freezes for executives in 2012. Whereas the majority of organisations were back to providing salary reviews for the majority of employees in 2011, most chief executives did not see an increase in salary in 2012.

- Short term incentive plan payouts are also decreasing for most executive level positions. When comparing target incentives with the incentives actually paid, actual incentive payment as a percentage of targets declined between 2011 and 2012.

- The majority of international banks, and a significant number of other financial services organisations, now defer a part of their short term incentives on a mandatory basis.

- The majority of financial services organisations have also introduced clawback and malus provisions to accompany the deferrals.

- Regulatory pressure, legislative considerations and alignment with business strategy are the major drivers for changes to remuneration policies. Over the past year, most organisations have reviewed salary levels, short term incentives and long term incentives, including mandatory deferrals.

- As a result of all the change, remuneration programs have become more complex.

Global Trends

In 2012 Mercer also undertook a global study of changes in the market (Mercer Financial Services Executive Compensation Snapshot Survey, July 2012). This survey had responses from 63 financial services organisations globally, including banking and insurance companies. The main trends in the market from this survey are set out below.

Variable Remuneration Deferral

Significant portions (40% to 60%) of variable remuneration for executives are now being deferred. Senior executives and risk-taking positions generally now have a larger proportion of variable remuneration in multi-year programs. Senior Executives now have 60% of variable remuneration delivered as mandatory deferral or forward-looking long term incentive plans.

Of the mandatory deferral remuneration programs reported;

- Cash and stock tracking mechanisms are the most common ways in which organisations pay out the annual incentive deferral, for both service-based and performance-contingent plans. The mix of vehicles is shifting from cash and stock options to stock, and to some extent to co-investments and contingent capital.

- Approximately half of the organisations make their entire mandatory deferral contingent on performance measures and place the payout at risk for their most senior executives. Performance-contingent payout of mandatory deferral programs is more prevalent in Europe than in North America (where service-related payout is more prevalent).

- For “risk-taking” positions, performance-contingent payouts are more common with service-based payouts more prevalent at lower in the organisations.

- Mandatory deferral payout is more commonly based on corporate performance rather than business unit or individual performance.

- The two most prevalent performance metrics used to determine final deferral payouts are net/operating profit or loss (42%) and relative or absolute Total Shareholder Return (TSR) (27%).

- Pro-rata (or instalment) vesting is more prevalent than “cliff” or single period vesting.
- Two-thirds of the organisations, mostly banks, indicate that they treat material risk takers differently. The most prevalent difference among respondents (36% of organisations) is having a larger percentage of deferred remuneration for material risk takers.

Long-term Incentive Programs

The majority of survey respondents reported forward-looking long-term incentive programs. Organisations typically use multiple instruments in their long-term incentive plan design.

The majority of organisations report the use of stock mechanisms to pay out long-term incentives. Typically, performance conditions are attached to the pay out. Alternatively, service may be the only condition attached to the pay out of the long-term incentives (more common in North American than in Europe).

Performance conditions for long-term incentive schemes in almost all organisations are based on corporate performance. The two most commonly used performance metrics to determine long-term incentive payouts are Return on Equity (ROE) and relative or absolute TSR. In the majority of organisations performance conditions may lead to up-and-downward adjustment of the long-term incentive payment.

The vesting period and performance period for cash and stock tracking instruments is typically three years, while for stock options it is three or four years. Cliff vesting is more prevalent for cash and stock tracking instruments, while stock options typically vest on a pro-rata basis.

Remuneration Mix and Philosophy

According to the Mercer Global Survey the trend over the last few years has been to reduce the level of incentives and increase the weight of mandatory deferral.

Almost half of European organisations indicated that remuneration levels/opportunities have decreased compared to three years ago, whereas half of the organisations in Asia Pacific indicated an increase.

Within the UK and US incentives have continued to be paid in the financial services sector.

Organisations anticipate higher capital requirements having an impact on remuneration programs with the majority of survey respondents expecting to make changes to their programs based on this.

Also one of four banking participants in the Survey believes that higher capital requirements will lead to caps on their annual incentive pool.

Clawback and Malus Clauses

Clawback and malus provisions are now common in financial services organisations, particularly in banking. Thirty-nine percent of organisations had clawback provisions in place prior to 2011 and 17% introduced them in 2011. Eighty percent of banking organisations reported malus provisions in place. Clawback and malus provisions are typically applied to both the cash and share related deferred remuneration.

Typically, a clawback is triggered by criteria on an individual level, whereas malus is used when business unit and institution-wide criteria are not met. The most prevalent criteria to trigger a clawback are individual breaches of Code of Conduct and individual non-compliance or breach of authority level. The most prevalent criteria to trigger malus are firm and business unit downturns/loss in financial performance, and general breaches of Code of Conduct.

The majority of organisations indicated that no actual payments made have been clawed back, although outside this survey we are aware of individual cases in a small number of institutions where both clawback and malus have been applied.

Material Risk Takers

The roles commonly defined as material risk takers differ. The most prevalent criteria used to define material risk takers are 1) individuals at a specific organisational level and above, 2) senior risk management roles, 3) individuals who can impact the P&L in excess of a specific amount, 4) senior finance roles, 5) groups of individuals who – acting together – may put the organisation at significant risk.

Remuneration Levels in Financial Services

Globally, remuneration has generally been higher in the financial services sector than in other sectors of the economy over a sustained period of time.

Economic studies have demonstrated that regulation impacts on remuneration, both directly and indirectly. The work done in the US by Phillipon & Reshef and published in 2009 in their paper “Wages and Human Capital in the US Financial Industry 1909-2006” demonstrated over time that the relative rate of remuneration inflation in financial services outstripped remuneration inflation in other sectors in correlation with their financial services deregulation index. In other words during periods of high deregulation (for example 1980 to 2007) relative remuneration inflation was significantly higher than in other sectors, as the chart below demonstrates.

Source: Phillipon & Reshef, 2009

With a change in the regulatory framework requiring higher levels of capital adequacy generally, and specifically against higher risk products, the level of profitability in banks may decline over time. With shareholders requiring the same level of returns, it is likely that this will reduce the amount of available spend on remuneration for bank employees.

6

Covered Institutions Remuneration

This Section provides detail on current remuneration structures in the Covered Institutions. In addition, remuneration data for 2008 is presented for comparative purposes and to show how remuneration has changed since then. The data was provided to Mercer by the Institutions and our subsequent analysis was provided to the Institutions for their review. Joint Ventures are excluded from the analysis.

IBRC has been put into liquidation by a Ministerial Order under the Irish Bank Resolution Corporation Act with effect from 7 February 2013. As a result the majority of employees have been made redundant although we understand a number will be re-employed on a month to month basis by the Joint Special Liquidators.

Data Notes

- To provide consistency for comparison purposes, the data methodology for this report used annualised data for salary and other benefits and the standard Mercer methodology for remuneration analysis. This along with different effective dates for the data and different exchange rates may have resulted in some differences compared with the data provided in recent Parliamentary Questions or Annual Reports.

- All average data is presented on a Full Time Equivalent (FTE) basis to facilitate comparison (i.e. for employees that work on a part-time basis, the full time equivalent salary is used for purposes of calculating average salary). Thus a part time employee working 50% of the normal working week on a reduced salary of €15,000 is treated as an employee with an annual salary of €30,000. Employee numbers are based on actual number of employees whether full-time or part-time.

- All 2012 data is effective 30 September 2012 except IBRC where data has been provided as of 31 October 2012. All 2008 data is effective as at 31 December 2008. The data excludes entities or divisions that have been disposed of since 2008.

- Data is presented on an annualised basis – full 2012 data is either the actual annual rate of remuneration (for example, salary) or has been annualised based on remuneration paid year-to-date (for example, other payments such as overtime).

- To protect individual data confidentiality, data is not presented on an individual basis (with the exception of the Chief Executive role where the information is in the public arena). In a number of cases, to protect confidentiality certain data has been excluded from the charts or tables.

- Where relevant, all remuneration data has been converted to Euros using an average 2012 year-to-date exchange rate. 2008 data has been converted at the same exchange rate for consistency purposes and to facilitate comparison over time (i.e. by removing the effect of changes in the exchange rate).

- The employer pension contribution for each employee is as provided by the Covered Institutions. The employer contribution rates for Defined Benefit Pension Schemes are based on the overall cost of the scheme of which the employee is a member. The rate is based on an actuarial valuation. Employer contributions are not directly attributable to the cost of benefits for individual employees, but are typically expressed, for convenience, as a consistent percentage of salary or pensionable salary of current employees who are members of the scheme. There are many factors that impact on the contribution rate. In addition to the benefits being provided these include economic and demographic assumptions such as future interest rates, returns on investments, life expectancy and mortality. These can vary between the Institutions. Even in the absence of any benefit changes, employer contribution rates can vary from one valuation to the next and, in recent years, contribution rates have tended to increase significantly. Therefore an increase in an employer contribution rate may not directly reflect an increase in the value of the benefit being provided to the employees.

  For Defined Contribution Schemes, the contribution rate is the rate paid by the employer into the Defined Contribution Scheme.

Employee Profiles

The following tables summarise current employee numbers and demographic details at the Covered Institutions. These details are provided by location, employee grade and years of service. The majority of employees are located in Ireland.

Total Number of Employees[1]

	AIB		BoI		IBRC		PTSB	
	2008	2012	2008	2012	2008	2012	2008	2012
Total number of employees	16,978	14,452	16,582	14,321	2,091	1,001	2,791	2,355
Total full time equivalent	16,025	13,711	15,489	13,271	2,046	986	2,469	2,146

[1] The data is based on the effective dates outlined in the data notes and excludes entities or divisions that have been disposed of since 2008.

In total there were 38,442 employees in 2008 (as at 31 December). This has reduced to 32,129 employees in 2012 (the 2012 data is as at 30 September 2012 with the exception of IBRC which is as at 31 October).

All of the Institutions have had a reduction in employee numbers over the period 2008 to 2012 and there have been further reductions since then, with additional reductions planned.

At IBRC, employee numbers have reduced more significantly than in the other Institutions. Of the 2,091 employees at the end of 2008, 1,528 employees or 73% of the employees are no longer in employment at IBRC. During this period, there have also been a significant number of new hires; in 2012, there are 438 employees or 44% of the current employee population who were not employed in 2008.

Distribution of Employees by Location

	AIB	BoI	IBRC	PTSB
Ireland	83%	83%	83%	95%
Other	17%	17%	17%	5%

All employees outside of Ireland at IBRC and PTSB are based in the UK; in 2008, IBRC had other overseas offices in the US, Germany and Austria. At AIB and BoI, the majority of employees outside of Ireland are based in the UK.

Distribution of Employees by Years of Service

	AIB	BoI	IBRC	PTSB
Less than 2 years	15%	8%	31%	16%
2-5 years	4%	9%	16%	6%
5-10 years	29%	26%	34%	28%
10-15 years	22%	27%	14%	20%
15-20 years	6%	7%	3%	8%
20-25 years	7%	7%	1%	8%
25 + years	16%	18%	1%	14%
Average Years of Service	12.8	14.4	5.6	12.3

The average service across AIB, BoI and PSTB together is 13.2 years, ranging from 12.3 years (PTSB) to 14.4 years (BoI). The average at IBRC is significantly less at 5.6 years; 31% of employees at IBRC have been hired in the past 2 years.

Distribution of Employees by Grade

	AIB	BoI*	IBRC	PTSB
Chief Executive and Executives	1%	1%	5%	1%
Senior Manager / Manager	15%	23%	29%	12%
Assistant Manager / Senior Specialist	24%	17%	22%	24%
Senior Clerical / Specialist	11%	25%	24%	22%
Clerical	49%	34%	20%	42%

** Excludes employees in the US who are not in the corporate grading structure*

The Grades are based on information on the grading structures provided by the Covered Institutions.

The distribution of employees across the Covered Institutions varies. IBRC has the highest proportion of employees at higher grades, which reflects in part the absence of a retail network. This has an impact on average salary and average total remuneration (a greater proportion of employees in higher grades increases average salary and total remuneration). In addition the distribution of employees by grade at IBRC has changed (in 2008, 26% of employees were in grades at manager level or above while in 2012 this has increased to 34%). This has been driven by a number of factors including transferring parts of the business to other Covered Institutions, the closure of the INBS branch network and changes to roles, responsibilities and skills needed as the business winds down (for example, an expanded legal team).

AIB has a much lower proportion of employees in the senior clerical / specialist grade and a correspondingly higher number of employees in the clerical grade. This in turn results in a higher average salary and higher average total remuneration in these two grades compared with the other Covered Institutions (see comparison in Section 7).

Components of Remuneration

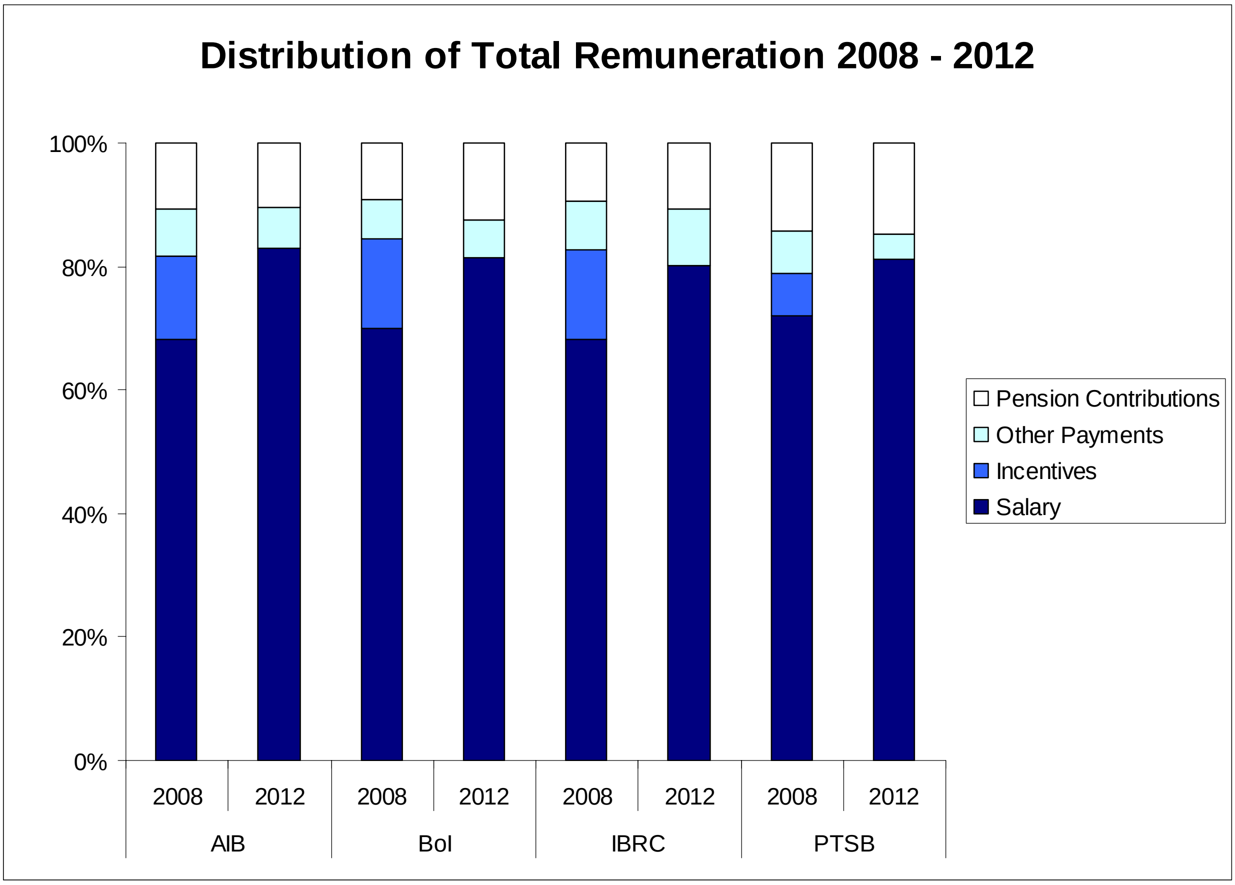
For the purposes of this Review, Total Remuneration is broken-out into the following components:

- Salary: annual salary
- Incentives: any short term (annual) incentive payments received by employees. All incentive payments have ceased at the Covered Institutions. For 2008, incentives included profit sharing plans where payments were made. Sales commission is excluded and included in Other Payments (this applies to a minority of employees).
- Pension Contributions: the employer pension contribution for each employee as provided by the Covered Institutions (see data notes above).
- Other Payments: this includes a range of other payments provided to employees including overtime, shift and on-call allowances, car allowances, sales commissions and benefits-in-kind representing the value of benefits paid such as company cars and healthcare. There are a range of allowances paid at each of the Covered Institutions, many of them resulting from historical contractual commitments. On average, Other Payments represents 7% of Total Remuneration across the Covered Institutions in 2012.
- Total Remuneration: the Total Remuneration received by employees comprising Salary, Incentives, Pension Contributions and Other Payments.

- Total Direct Remuneration: Salary plus Incentives (excluding Pension Contributions and Other Payments). Total Direct Remuneration is used for the executive group (chief executive, senior executives and executives) market comparisons outlined later in the report, as Total Remuneration data is not available for Pan European financial services organisations due to differences in benefits provision across countries. Total Remuneration data is also not available for Irish Quoted Companies due to a lack of consistency in publicly disclosed data.

Total Remuneration

The following chart shows the distribution of the components of total remuneration at each of the Covered Institutions in 2008 and 2012.



There has been a shift in the distribution of total remuneration at each of the Covered Institutions away from short term incentives and almost all remuneration is now fixed (with the exception of limited commission payments).

Total Remuneration Costs

The table below shows total remuneration costs for 2012 and 2008. It excludes entities or divisions that have been disposed of since 2008 and is based on actual annual payments to employees (i.e. not based on Full Time Equivalent employees).

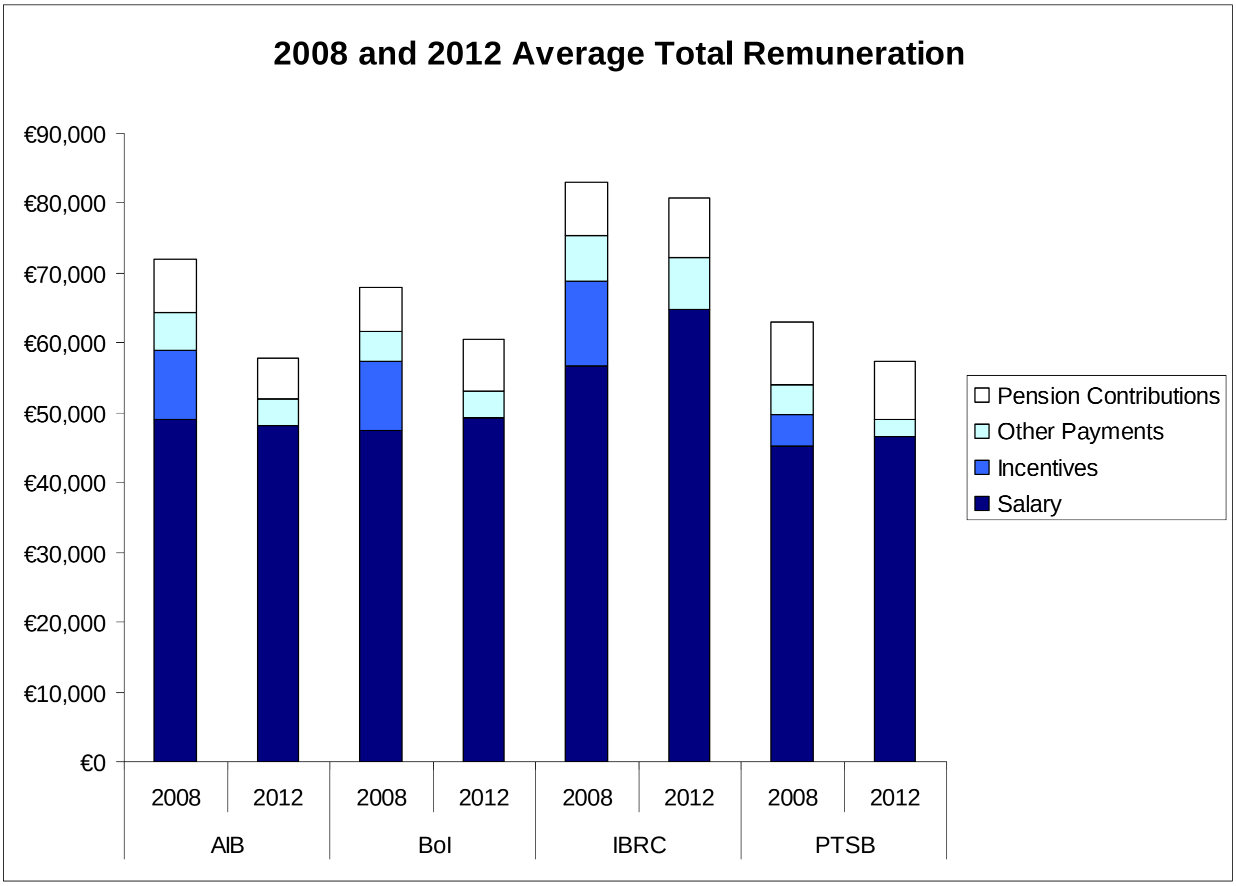
	AIB		BoI		IBRC		PTSB	
	2008	2012	2008	2012	2008	2012	2008	2012
Salary (€m)	792	662	743	663	118	64	110	101
Incentives (€m)	162	0	157	0	25	0	12[1]	0
Other Payments (€m)	88	54	69	50	14	8	12	6
Pension Contributions (€m)	123	83	103	108	16	8	22	18
Total Remuneration (€m)	1,165	799	1,072	821	173	80	156	125
	-31%		-23%		-54%		-20%	

[1] *In 2008, there was a €5 million payment to five executives in PTSB finance division. These payments were long term incentive payments relating to a specific scheme in the PTSB finance business. The targets were met and the pay-out took place under contractual terms. This payment comprises the majority of total incentive payments in PTSB in 2008.*

Overall, there has been a significant reduction in total remuneration costs, ranging from 20% to 54%. This has been achieved primarily through reductions in headcount and cessation of incentives.

Overall Levels of Remuneration

The following chart provides details on the overall average (per FTE) of remuneration at each of the Covered Institutions in 2008 and 2012, based on all employees in each year.



The chart reflects that incentives have been removed across all Institutions by 2012 and that average total remuneration has declined over the period as a result.

Remuneration by Geographic Location

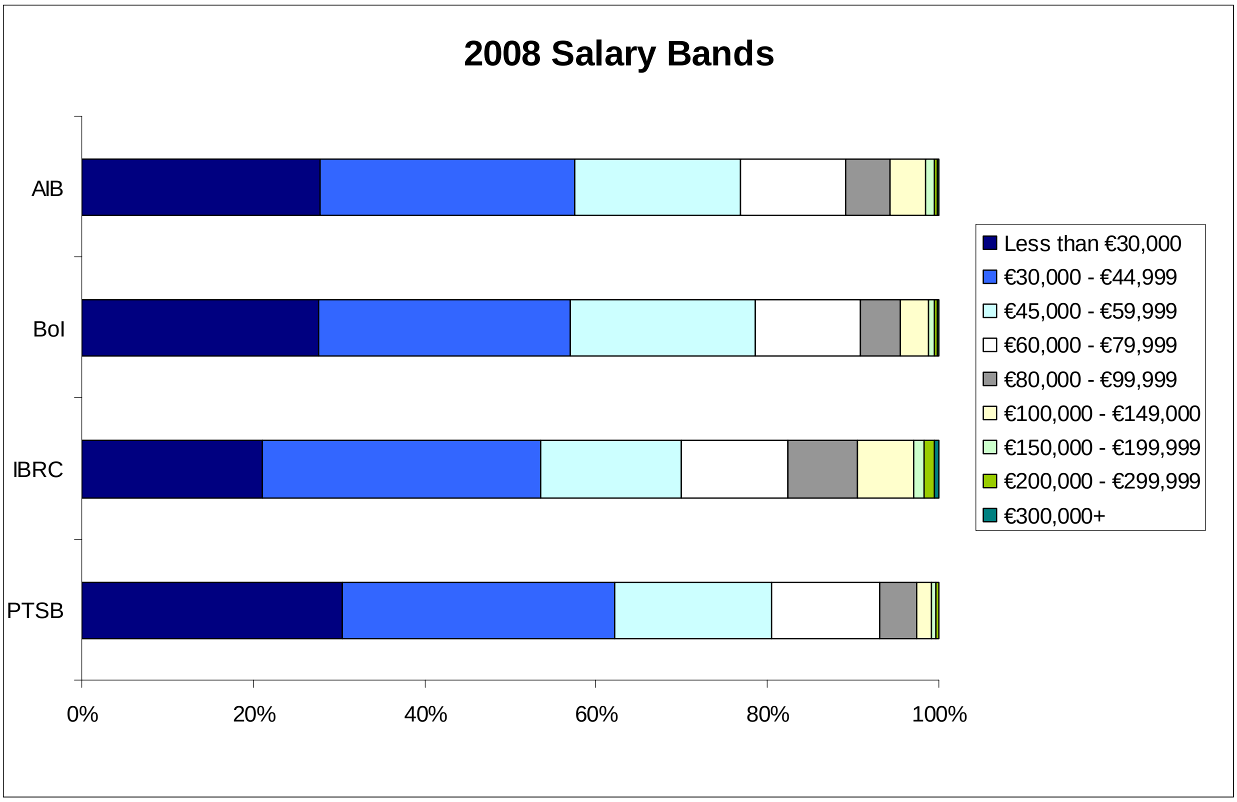
The following table shows the average salary and the average total remuneration by geographic location for 2012.

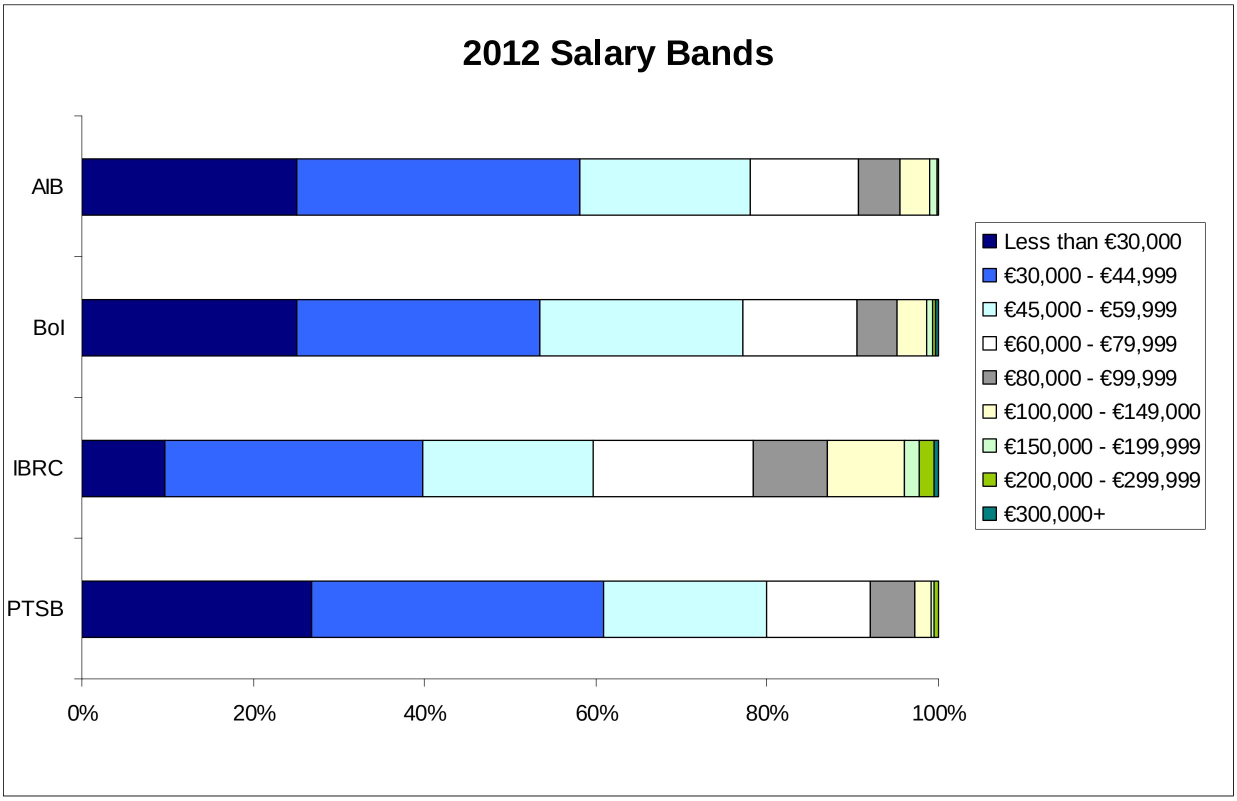
		AIB	BoI	IBRC	PTSB
Ireland	Number of employees	11,936	11,899	826	2,239
	Salary	€48,900	€49,600	€63,200	€46,900
	Total Remuneration	€58,200	€61,300	€78,700	€58,000
Other	Number of employees	2,516	2,422	175	116
	Salary	€44,000	€48,300	€71,800	€39,800
	Total Remuneration	€56,700	€56,700	€91,000	€45,300
Total	Number of employees	14,452	14,321	1,001	2,355
	Salary	€48,100	€49,400	€64,700	€46,600
	Total Remuneration	€57,900	€60,500	€80,800	€57,400

The average salary and average total remuneration are typically higher in Ireland than in other locations across all Institutions (with the exception of IBRC), which in part reflect that senior executives are generally located in Ireland.

Distribution by Salary Band

The following charts show the salary distribution at each of the Covered Institutions for 2008 and 2012.





The two largest institutions (AIB and BoI) have a very similar pattern while PTSB has more employees at lower salary levels. All three institutions have extensive retail branch networks. IBRC, which does not have a branch network, has a greater concentration of employees in the higher salary bands.

The following table shows the number of executives in AIB, BoI and IBRC with salaries and total remuneration in excess of €300,000 in 2008. For reasons of data confidentiality it is not possible to show this analysis for PTSB.

	AIB		BoI		IBRC	
	Salary	Total Rem.	Salary	Total Rem.	Salary	Total Rem.
€300,000 – €399,999	7	102	9	84	3	21
€400,000 – €499,999	7	50	4	41	2	9
€500,000 or over	3	66	7	71	5	17

The following table shows the number of executives in AIB, BoI and IBRC with salaries and total remuneration in excess of €300,000 in 2012[1]. IBRC have 6 employees with base salaries above €300,000. However for data confidentiality reasons we cannot provide a further breakdown for IBRC and it is not possible to show this analysis for PTSB. Details for the Chief Executive and Senior Executives for all Institutions are shown later in this section (Remuneration by Employee Grade).

	AIB		BoI	
	Salary	Total Remuneration	Salary[2]	Total Remuneration
€300,000 – €399,999	7	11	20	34
€400,000 – €499,999	3	11	12	15
€500,000 or over	0	0	6	11

[1] *There are differences in data methodology, timing and exchange rates which account for differences in the data presented here and that shown in responses to parliamentary questions*

[2] *21 of the 38 employees (including a majority of those in the '€500,000 or over' tier) shown here are overseas employees where we have been advised that it has been necessary to provide salaries at these levels to retain them in the absence of incentives. 17 of the 21 overseas employees contractual changes to remuneration were notified to the Department of Finance in 2011 and approved on commercial grounds. The remaining four were hired/promoted in 2012 and did not require Department of Finance approval under the terms of the Minister's letter.*

Remuneration by Years of Service

The table below shows the average salary and average total remuneration of employees at each Covered Institutions at varying service levels for 2012.

		AIB	BoI	IBRC	PTSB
Less than 2 years	Number of employees	2,210	1,077	315	368
	Salary	€38,100	€38,600	€50,200	€32,600
	Total Remuneration	€42,700	€43,000	€56,500	€34,200
2-5 years	Number of employees	644	1,226	159	133
	Salary	€43,000	€45,500	€69,800	€38,000
	Total Remuneration	€51,900	€54,100	€88,000	€42,500
5-10 years	Number of employees	4,201	3,653	344	663
	Salary	€38,900	€41,800	€68,500	€35,900
	Total Remuneration	€45,900	€51,100	€87,700	€43,800
10-15 years	Number of employees	3,212	3,819	144	481
	Salary	€48,400	€46,900	€74,100	€45,700
	Total Remuneration	€57,500	€58,200	€97,100	€58,300
15-20 years	Number of employees	812	942	26	184
	Salary	€51,100	€52,700	€92,900	€57,400
	Total Remuneration	€63,200	€65,800	€123,900	€73,600
20-25 years	Number of employees	1,045	1,046	7	197
	Salary	€60,100	€55,800	€121,500	€60,400
	Total Remuneration	€73,900	€69,100	€174,600	€76,400
25 + years	Number of employees	2,328	2,558	6	329
	Salary	€68,600	€66,200	€61,100	€74,000
	Total Remuneration	€87,200	€82,700	€90,500	€95,400

Traditionally, many longer established larger organisations, including public service organisations and the Covered Institutions, have incremental salary scales where salary levels increase with service. This results in higher salary levels for longer service employees.

Within the Institutions, a number of senior managers and executives have been hired in recent years which has impacted on the averages in the shorter service bands (2-5 years band in particular).

In general, the average salary and average total remuneration increase with service across all Institutions. This is to be expected as a result of incremental scales, annual reviews and the requirement to have acquired experience for promotional positions. The trend is reasonably consistent across all the Covered Institutions.

Remuneration by Employee Grade

The table below shows the average salary and average total remuneration of employees at each Covered Institution at different grades for 2012.

		AIB	BoI[2,]	IBRC	PTSB
Chief Executive	Number of employees	1	1	1	1[4]
	Salary	€425,000	€623,000[3]	€500,000	€400,000
	Total Remuneration	€488,800	€776,400	€683,600	€460,000
Senior Executives[1]	Number of employees	8	8	7	9
	Salary	€327,200	€408,300[3]	€365,100	€209,300
	Total Remuneration	€434,200	€517,400	€535,700	€269,600
Executives	Number of employees	118	103	46	20
	Salary	€174,800	€198,700	€184,100	€173,900
	Total Remuneration	€230,100	€251,800	€253,900	€220,100
Senior Manager / Manager	Number of employees	2,199	3,326	291	271
	Salary	€87,100	€76,800	€87,200	€83,000
	Total Remuneration	€108,300	€96,600	€115,600	€109,200
Assistant Manager / Senior Specialist	Number of employees	3,508	2,405	219	554
	Salary	€51,500	€49,800	€55,100	€52,700
	Total Remuneration	€62,300	€61,200	€61,900	€65,200
Senior Clerical / Specialist	Number of employees	1,584	3,617	237	518
	Salary	€44,100	€41,800	€40,400	€43,800
	Total Remuneration	€54,600	€49,900	€45,100	€54,900
Clerical	Number of employees	7,034	4,789	200	982
	Salary	€32,600	€29,600	€31,300	€30,000
	Total Remuneration	€37,300	€35,800	€34,500	€34,400

[1] *The Leadership Team in AIB*
[2] *US employees are not included in the corporate grading structure and are therefore not included in this analysis*
[3] *Salary figures are net of a voluntary waiver where applicable*
[4] *2012 Chief Executive data extracted from responses to recent Parliamentary Questions.*

Within each grade, there is variation in average salary and average total remuneration across the Covered Institutions, which is more significant at senior levels.

Remuneration Changes 2008 – 2012

The following tables show average salary and average total remuneration for each of the Covered Institutions, and how this has changed between 2008 and 2012. As these are averages the impact on individual employees will vary. Changes in employee numbers and grade over the period impact on the averages. Data has been provided on two bases;

1) All employees in 2008 and 2012, and

2) Continuing employees who have remained in employment over the period (i.e excluding employees who left between 2008 and 2012 and new hires in the period).

The data is based on the effective dates outlined in the data notes and excludes entities or divisions that have been disposed of since 2008

For continuing employees, further analysis is provided in the Appendix.

AIB

All employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	16,978	14,452	-15%
Salary	€49,100	€48,100	-2%
Total Remuneration	€71,900	€57,900	-19%

Continuing employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	11,734	11,734	N/A
Salary	€47,400	€49,700	+5%
Total Remuneration	€68,200	€60,400	-11%

In addition to the reduction in total remuneration continuing employees will have a further reduction in their pension benefits due to measures announced by the Bank in 2012 and currently under negotiation. The value of this reduction will depend on the outcome of current discussion between the Institution and their employees.

Average salaries have reduced slightly for all employees and have increased for continuing employees due to salary increases in 2009 for employees below manager level (average 3.2%), promotions and employees otherwise taking on extra responsibilities and market pressures to retain key employees and skills in critical areas. This follows extensive restructuring across the Bank in 2012 and significant employee departures through the severance programme.

In the case of all employees and continuing employees average total remuneration has reduced over the period by 11% and 19% respectively as a result of the withdrawal of incentives, the withdrawal or reduction of other benefits such as car allowances and changes in the employers contribution rate for pensions.

BoI

All employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	16,582	14,321	-14%
Salary	€47,600	€49,400	+4%
Total Remuneration	€68,000	€60,500	-11%

Continuing employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	12,559	12,559	N/A
Salary	€48,400	€50,100	+4%
Total Remuneration	€67,000	€61,900	-8%

In addition to the reduction in total remuneration continuing employees have had a reduction in their pension benefits valued at 13% of salary.

Average salaries for all employees and for continuing employees have increased slightly over the period due to some broad based salary increases paid in January 2009, some market adjustments for employees in overseas locations, promotions and employees otherwise taking on additional responsibilities.

In both cases average total remuneration has reduced over the period as a result of the withdrawal of incentives and the withdrawal or reduction of other payments or benefits such as company cars, mortgage subsidies or healthcare for new employees as well as changes in the employer's contribution rate for pensions.

IBRC

All employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	2,091	1,001	-52%
Salary	€56,700	€64,700	+14%
Total Remuneration	€83,200	€80,800	-3%

Continuing employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	563	563	N/A
Salary	€61,700	€71,300	+16%
Total Remuneration	€91,100	€92,200	+1%

There have been significant changes in the employee population at IBRC between 2008 and 2012 (in total number of employees and grades). Of the employees who left, 81% were below management level with the result that there were a higher proportion of employees in more senior grades in 2012 compared to 2008. This has resulted in higher average salaries for remaining employees. In addition, there has been a change in the nature of the work and the skills required. For instance, there has been a significant increase in the number of lawyers employed in IBRC.

There are 563 continuing employees across the period, equivalent to 27% of the employees in 2008. 50% of these employees have not received an increase since at least January 2009.

The increase in average salary and to a lesser extent average total remuneration therefore is primarily driven by the higher proportion of employees in higher grades and employee promotions. In addition to a potential change in salary, if an employee changes grade, they may be eligible for increased payments or payments that they were not previously entitled to (for example, a car allowance).

In December 2008 IBRC informed employees that half of their bonus would be paid in shares. These shares were never granted and the 2008 total remuneration figures do not include this. However, if this award were to be included in total remuneration in 2008, there would be a decrease in average total remuneration - a reduction of 8% from €99,300 to €92,200 for continuing employees.

The majority of employees in IBRC are in defined contribution pension schemes with a small number in defined benefit schemes.

PTSB

All employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	2,791	2,355	-16%
Salary	€45,300	€46,600	+3%
Total Remuneration	€63,000	€57,400	-9%

Continuing employees

	Average Per Employee		
	2008	**2012**	**% Change**
Number of Employees	1,896	1,896	N/A
Salary	€46,200	€49,000	+6%
Total Remuneration	€65,500	€61,800	-6%

No increments have been paid since February 2009. The Labour Relations Commission (LRC) determined that two salary payments of 2.5% were to be awarded in 2009 and 2010 up to a maximum of €1,375 per person, in lieu of all other increases.

In both cases average salaries increased over the period due to the LRC determination, promotions and employees otherwise taking on additional responsibilities.

Average total remuneration has reduced over the period as a result of the withdrawal of incentives and the withdrawal or reduction of other payments such as staff loans, car benefits, commissions and other sales related awards.

The majority of employees are in a number of defined benefit pension schemes. The contribution rates being paid for these schemes are below those required to maintain the current level of benefits and either contributions will have to be increased, including member contributions, and / or benefits will have to be reduced.

Remuneration Changes 2008 – 2012: Senior Executives

The following tables show salary, incentives, pension contribution, other payments, and total remuneration for senior executive positions (chief executive and senior executives) and how this has changed between 2008 and 2012. In the majority of positions there are different incumbents now in place (i.e. the majority of employees in these roles in 2012 are either new hires or have been promoted into the role).

Note that there may be some differences in amounts in our report compared to figures reported in Annual Reports for executive directors due to timing of incentive payments, executives who were hired during the relevant year, differing exchange rates and how pension costs are dealt with.

The comparative analysis is not presented for PTSB because the roles in 2008 and 2012 are not comparable as PTSB was part of the Irish Life & Permanent Group in 2008.

AIB

	2008	2012	% Change
Chief Executive			
Number of Employees	1	1	
Salary	€905,200	€425,000	-53%
Incentive[1]	€862,700	€0	-100%
Other Payments	€40,000	€0	-100%
Pension Contributions	€207,000	€63,800	-69%
Total Remuneration	€2,014,900	€488,800	-76%
Senior Executives[2]			
Number of Employees	6	8	
Salary	€491,900	€327,200	-33%
Incentive[1]	€522,400	€0	-100%
Other Payments	€97,200	€59,100	-39%
Pension Contributions	€111,300	€47,900	-57%
Total Remuneration	€1,222,700	€434,200	-64%
Chief Executive - EBS			
Number of Employees	1		
Salary	€490,000	Now included in AIB Leadership Team	
Incentive	€0		
Other Payments	€45,100		
Pension Contributions	€394,600		
Total Remuneration	€929,700		

[1] *Includes profit share award*

[2] *The Leadership Team in AIB. None of the Leadership Team in 2008 are members of the team in 2012.*

Total remuneration attributable to senior executives (including the Chief Executive) in AIB has decreased from €10.28 million in 2008 to €3.96 million in 2012.

BoI

	2008	**2012**	**% Change**
Chief Executive			
Number of Employees	1	1	
Salary [1]	€1,185,000	€623,000	-47%
Incentives	€1,234,300	€0	-100%
Other Payments	€974,800	€34,000	-97%
Pension Contributions [2]	€192,000	€119,400	-38%
Total Remuneration	€3,586,100	€776,400	-78%
Senior Executives			
Number of Employees	7	8	
Salary [1]	€553,300	€408,300	-26%
Incentives	€491,500	€0	-100%
Other Payments	€286,800	€67,800	-76%
Pension Contributions [2]	€71,700	€41,300	-43%
Total Remuneration	€1,403,200	€517,400	-63%

[1] *Salary figures are net of a voluntary waiver where applicable*

[2] *Pension contributions are based on average employer contributions to the pension scheme of which the employee is a member. Note that this may differ from contributions calculated on an individual employee basis.*

Total remuneration attributable to senior executives (including the Chief Executive) in BoI has decreased from €13.41 million in 2008 to €4.92 million in 2012.

IBRC

	2008	2012	% Change
Chief Executive - IBRC			
Number of Employees	1	1	
Salary	€1,200,000	€500,000	-58%
Incentives	€659,400	€0	-100%
Other Payments	€45,400	€58,600[2]	+29%
Pension Contributions	€715,900	€125,000	-83%
Total Remuneration	€2,620,700	€683,600	-74%
Senior Executives			
Number of Employees	5	7	
Salary	€490,200	€365,100	-26%
Incentives	€274,100	€0	-100%
Other Payments	€42,400	€97,400	130%
Pension Contributions	€180,600	€73,200	-59%
Total Remuneration	€987,400	€535,700	-46%
Chief Executive - INBS			
Number of Employees	1		
Salary	€893,200		
Incentives[1]	€2,000,000		
Other Payments	€524,000		
Pension	€0		
Total Remuneration	€3,417,200		

[1] *This represents two separate bonus payments - €1 million paid in January 2008 for 2007 performance (reported in 2007 Annual Report) and €1 million paid in late 2008 for 2008 performance.*
[2] *Includes the value of flights provided through a contractual entitlement*

Total remuneration attributable to senior executives (including the Chief Executive) in IBRC has decreased from €10.97 million in 2008 to €4.43 million in 2012.

Recent Changes to Remuneration in the Covered Institutions

The following Section provides details on the recent changes to remuneration in each of the Covered Institutions and should be read in conjunction with the earlier parts of this Section.

AIB

Salary Reviews (not including former EBS employees)

The last salary review for executives and managers was in April 2008.

- 75% of executives received an increase, averaging 4.0% of salary and the majority of managers received an increase, averaging 3.2% of salary.

The last salary review for other employees (i.e. employees below manager level) was in July and October 2009 for Great Britain and Republic of Ireland respectively when 92% of employees received an increase, averaging 3.2% of salary.

Salary Reviews (former EBS employees)

For employees on performance related remuneration structures (excludes employees on incremental scales), the last salary review was in January 2008. 100% of employees at manager level and above received an increase and over 96% of employees in other grades received an increase.

2012 Pay and Benefits Review

In 2012, AIB announced a Pay and Benefits review for all staff. The review included reductions of up to 15% in salary and pay related allowances to Leadership Team members with effect from 1 September 2012. Further reductions of up to 10% and 7.5% in salary and pay related allowances were applied to executives and senior managers relative to market benchmarks. AIB also introduced a general pay freeze until the end of 2014 as well as the elimination of certain longstanding benefits. AIB advises that annual savings arising from the Pay & Benefits Review will amount to €40m in 2013 and a further €125m over the 5 years 2014 to 2018.

Incremental Salary Awards (not including former EBS employees)

The last increment was awarded in July 2009.

- In the Republic of Ireland junior management and clerical employees (975 employees) received an average increment of 0.7% of salary and service employees (582 employees) received an average increment of 0.8% of salary.

- In Northern Ireland junior management and clerical employees (1,245 employees) received an average increment of 1.9% of salary and service employees (40 employees) received an average increment of 0.8% of salary.

Incremental Awards (former EBS employees)

Grades covered by incremental pay structures are from clerical level up to assistant manager. The last increment was awarded in April 2010 (400 employees) and the average increment provided was 3% of salary.

Short Term (Annual) Incentives (other than Capital Markets and former EBS employees)

Employees last received an incentive payment in April 2008 in respect of performance in 2007.

- The average payments were 58.6% of salary for executives, 31.5% of salary for senior managers, 19.2% for managers and 5.9% of salary for other employees.

Short Term (Annual) Incentives (Capital Market employees)

Employees were last due to receive an annual incentive award in March 2009 in respect of 2008 performance.

- The average incentive awarded was 88.0% of salary for executives, 52.7% of salary for senior managers, 39.8% of salary for managers and 21.4% of salary for other employees.

However, payment of the annual incentive was put on hold. As a result of legal action payment was made to 437 overseas employees in December 2009. To date the payment has not been made to 1,471 Irish based employees that received an award.

Short Term (Annual) Incentives (former EBS employees)

Employees last received a performance related incentive payment in March 2008.

Employees were also eligible to receive a 13th month payment (one additional month's salary). This was withdrawn in 2011.

- The average total incentive payment for 2008 was 10% of salary across all employee groups. This includes the 13th month payment.

Pension Benefits

AIB has a number of pension schemes, both defined benefit and defined contribution, including some in respect of former EBS employees. The main AIB Defined Benefit Scheme was closed to new entrants in 1997 and a new Defined Contribution Scheme was introduced with effect from 1 January 1998. With effect from 1 December 2007 a new Hybrid Scheme was introduced for new hires; this provides defined benefits up to a salary limit and defined contribution benefits on salary in excess of the limit.

In the main AIB Defined Benefit Scheme 5% member contributions were introduced in 2010 for those who were not making contributions previously and the calculation of final pensionable salary was altered to an average of the last 5 years prior to retirement, (subject to an underpin of 87.5% of current pensionable salary) compared with actual pensionable salary at retirement previously.

Previously pension increases were discretionary although the practice was to increase pensions annually in line with CPI. No pension increases have been paid since 2008 and no increases will be paid before 2018.

The Bank announced in June 2012 that all employees who are currently members of a Defined Benefit Pension scheme, including Hybrid arrangements and schemes for former employees of EBS, would transfer to a Defined Contribution scheme. This transfer is currently under discussion with the unions. The change would only apply to future service and accrued benefits would increase at the statutory revaluation rate of CPI up to a maximum of 4% per annum up to retirement.

AIB has committed to paying contribution of 10% of salary to the Defined Contribution Scheme and is engaged in discussions with the unions on the potential to match additional contributions made by employees up to a maximum of an additional 2%.

Other Payments

The following changes have been made to other benefits;

- During 2012 (where applicable) a number of benefits were withdrawn including: Club subscriptions, assurance payments, preferential employee rates on deposits, preferential loan terms on new facilities.

- In September 2012, a reduced non pensionable allowance of €20,000 was introduced for executives replacing the existing car allowance and health reimbursement which averaged €25,000. This change represents an average reduction of 20%.

- In January 2013, reduced non pensionable allowances of €10,000 and €7,000 were introduced for managers replacing the existing car allowances of €12,500 and €7,750 respectively. These changes represent a reduction of between 10% and 20%.

- Company cars are only provided for specific roles where needed for business purposes.

- For EBS employees, club subscriptions have been withdrawn for managers (benefit did not apply to other staff) and the payment of a 13th month amount was withdrawn in 2011. As part of the fuller integration of EBS staff into AIB, it is anticipated other benefits will change in line with the terms and conditions of AIB employees.

BoI

Salary Reviews

Salary reviews typically occurred in April, May June and July depending on employee category and jurisdiction.

- The last salary review for managers and executives was in 2008 (timing depending on jurisdiction, with the last actual review occurring in July 2008).

- The last salary review for other employees was in 2008 or January 2009 (depending on jurisdiction and grade).

Incremental Salary Awards

The last increment was awarded in January 2009 to non-managerial grades.

Short Term (Annual) Incentives

Employees last received contractual non-discretionary incentive awards in 2010 in respect of performance in 2009.

- 164 employees were paid contractual non-discretionary incentives totalling €11.07m in 2010.

The last discretionary incentive payment was made in 2009.

- 313 employees were paid discretionary incentives totalling €0.873m in 2009.

Pension Benefits

The Bank operates a number of defined benefit and defined contribution schemes in Ireland and overseas. The largest scheme is the Staff Pensions Fund. The defined benefit schemes were closed to new entrants in 2006 following which new employees in Ireland are eligible to join the new Group Pension Fund which is a hybrid scheme, with benefits provided on a cash balance basis for career average earnings, and an additional optional defined contribution top-up plan, with limited employer contribution matching.

As a result of the deficit position of the Staff Pensions Fund and other schemes at the end of 2009, the Bank agreed a number of significant changes to scheme benefits with its staff during 2010. These include:

- A freeze on increases to pensionable salaries for a period of 2 years.
- Following the 2 year period above, a cap on pensionable salary.
- A freeze on pension increases at retirement for up to 3 years and thereafter a cap on future pension increases.
- The introduction of member contributions where these have not been made previously.

The agreed changes resulted in a deficit reduction of €750 million. The remaining deficit is €750 million which will be met by an additional contribution over a 5-7 year period. This contribution has not been included in any of the analysis.

Based on actuarial analysis, the reduction in the value of accrued benefits is equivalent to an annual loss of approximately 8% of salary on average. In addition, if the changes had not been made the future employer contribution would have been 5% higher than the rate at the last valuation.

Other Payments

The following changes have been made to other benefits:

- Club subscriptions were removed for all new hires and frozen for all employees at current level, even if promoted.

- Entrance fees associated with clubs were removed for all new hires and when any employee is promoted, and they were removed for all pensioners.
- The provision of company cars, which is not a feature in ROI was removed for new or promoted managers in the UK and was replaced with an allowance. However, historical contractual commitments to provide a company car remain in place in some areas.
- Mortgage subsidies (which were not widespread) are no longer provided to any new hire. The Bank is also phasing out this arrangement for current employees where possible, taking into account contractual constraints.
- Health insurance for Republic of Ireland employees (which was not widespread) is no longer provided to any new hires.

IBRC

Salary Reviews (not including former INBS employees)

The last salary review for executives and managers was in January 2008.

- 83% of the executives and senior managers and 91% of managers received a review in the range 4% to 5% of salary.

Other employees, including some lower grade managers, last received a review in January 2009.

- 91% of employees received an increase averaging 5% of salary.

Salary Reviews (former INBS employees)

Within INBS employees were typically entitled to two increases, a salary increase and a cost of living increase.

Employees received a salary increase on an individual basis on the anniversary of their date of hire unless they reached the ceiling of their salary range.

- In general, anniversary of hire salary increases during 2009 were capped at 2.0% of salary.
- All annual anniversary of hire salary increases ceased during 2010.

Cost of living increases were also awarded in April each year to employees earning a salary below €34,500 (the top of the Bank's salary scale). The last cost of living increase was made in April 2008.

Short Term (Annual) Incentives (not including former INBS employees)

Executives last received an incentive award in December 2008 (December 2007 for Board members).

- Last payments were made to executives in December 2008 and deferred incentive awards from previous years were paid in December 2008 and December 2010. The last payment was a pre-existing contractual agreement.

Managers and other employees last received an incentive in December 2008.

- The incentive payments represented 21% of the salaries in 2008.

Short Term (Annual) Incentives (former INBS employees)

Within the former INBS there were three forms of Annual Incentive:

- A Christmas payment was paid to the majority of employees in December each year.
  - The last payment was December 2008 with an average payment of 4% of salary, with some exceptions.
- Branch manager commission which was generally paid in January each year for the preceding year.
  - The last payment was in 2008; payment is based on a formula with regard to branch performance. Employees in receipt of the commission were excluded from receiving the Christmas annual incentive.
- Executive annual incentives were awarded to two individuals in 2008; these were paid in March and November 2008.

Incremental Salary Awards

No IBRC or former INBS employees are on incremental scales.

Pension Benefits

The following changes have been made:

- The former Anglo Defined Benefit Scheme was effectively closed to new members in 1995. The Scheme has relatively few active members. A Section 50 application was approved by the Pensions Board in 2011 which removed guaranteed post-retirement increases.

- The former Anglo Defined Contribution Scheme was closed to new entrants on 31 December 2011. From June 2012 employer pension contributions to the Defined Contribution Scheme were caped at a maximum for 20% of salary at General Manager level, down from 25%. The maximum rates of 20% for Assistant General Managers and Senior Managers and 15% for employees up to and including other managers still apply. The new cap applies to promotions but pre-existing benefit levels have not been altered.

- From January 2012 a new IBRC Defined Contribution Scheme was established with an employer contribution of 10% of salary and mandatory employee contributions of 5%. All new employees are eligible for this Scheme. The Scheme is in effect the same as the previous INBS Defined Contribution Scheme which was re-branded and adopted IBRC wide.

Other Payments

The following changes have been made to other benefits;

A new combined benefit allowance is being applied for new starters and promotions at management level and above to replace a number of existing allowances including car allowance, club subsidy and mortgage subsidy.

- The new benefit allowance is 8% of salary (to be reviewed in line with the market).

Within INBS Christmas vouchers of €250 per person were provided annually.

- The vouchers were last awarded in December 2010.

PTSB

Salary Reviews

The last salary review for executives and senior managers (non-UK) was in January 2008.

- All executives and senior managers received an increase of on average 5% of salary.

For other employees, the last review followed a determination from the Labour Relations Commission. The Commission determined that two salary payments of 2.5% each were to be awarded in respect of 2009 and 2010 up to a maximum of €1,375 per year, per person in lieu of all increases and increments. This applies with one exception where a single case was referred to the Rights Commissioner who found against the Institution. This decision is currently being appealed to the Employment Appeals Tribunal.

Incremental Salary Awards

No increments have been paid since February 2009. (See salary review above)

Short Term (Annual) Incentives (PTSB employees other than those transferring from Irish Life)

All employees, including executives, were last awarded an annual incentive in 2008. A reduction of 75% applied on all payments and therefore only 25% of the incentive that would have otherwise been paid was made. The payment was made on 31 March 2009.

Short Term (Annual) Incentives (Irish Life employees transferring to PTSB)

All employees including executives were last awarded an annual incentive (within Irish Life) on 31 March 2010. A reduction of 74.2% was applied on all payments and therefore only 25.8% of the incentive that would have otherwise been paid was made. The payment was made on 31 March 2011.

Short Term (Annual) Incentives (UK subsidiary employees)

UK based employees were last awarded an incentive in December 2007 (when the payment was made).

- The average incentive paid was 30% of salary for executives and senior managers,15% of salary for managers and 10% of salary for other employees.

Pension Benefits

The company has employees in both Defined Benefit and Defined Contribution Schemes.

- The company closed the Defined Benefit Schemes to all new entrants from 31 December 2006. PRSAs were made available and in 2012 the company introduced a Defined Contribution Scheme, with significantly lower levels of employer contributions.

- The Defined Benefit Schemes are significantly in deficit and the contribution rates being paid for these schemes are below those required to maintain the current level of benefits and either contributions will have to be increased, including member contributions and / or benefits will have to be reduced.

Other Payments

The following changes have been made to benefits;

- The renewal period for company cars was extended from 4 to 5 years. It was further extended to 6 years from late 2012.

- Club Subscriptions have been ceased for new appointees at any level. They continue for a small number of existing employees.

- Healthcare has been ceased for any new appointee. This was not widely available.

Share Plans

Prior to the financial crisis all the Covered institutions provided all employee share purchase plans and in addition had share based long term incentive plans for senior employees. The share plans have no effective value following the move to public ownership.

Employee Turnover – Comparison within the Covered Institutions

The following table shows the recent turnover rates being experienced by the Covered Institutions.

	AIB	BoI	IBRC	PTSB
2012 estimated turnover rate	5.4%	5.2%	20.0%	8.9%

In the main, a rate of between 5% and 7% is experienced with the exception of IBRC where the reported rate is 20%. In the market, a rate of between 3% and 8% is typical in Irish financial services companies (median 6%). In other industry sectors the market median is 3%.

All the Institutions are experiencing significant turnover in specialised units including credit and collections, IT and Risk. In many of these areas turnover rates of over 20% are being reported, which the institutions believe is placing significant strain on these areas of their businesses.

The Institutions are competing against a range of alternative employers, including each other. They have all recently lost employees to other banks (including Covered Institutions), to a range of financial services organisations (both domestic and international) including state organisations, and also to large domestic and multinational employers across a range of other market sectors.

While the profile of competing employers differs, they are typically large organisations with strong employment brands.

More detail on each Institution is reported below, focussing on the areas that each Institution has identified as having particular retention issues.

AIB

The annual turnover rate (excluding redundancy) is estimated to be 5.4% for 2012 (based on actual data to the end of October). The most recent reported annual turnover rate at EBS is 9.8%. Turnover rates vary considerably across the bank. In some areas (Credit, Risk and some finance teams turnover rates of up to 20% are reported)

The Bank advises that the following areas are experiencing particular difficulty:

- IT (specialists and analysts).
- Credit (arrears, NAMA Specialists, collections roles).
- Corporate Banking (relationship managers).
- Finance (qualified accountants).
- Risk (analysts).
- Audit (internal auditors).
- Legal (qualified solicitors).

BoI

The Bank's turnover rate (excluding redundancy) is 5.2% for the first 6 months of 2012 compared to 3.5% in the first 6 months of 2010.

The Bank advises that the following areas are experiencing particular difficulty:

- Capital Markets.
- Credit and market risk (credit modellers and experience of challenged assets).
- Specific IT roles.
- Collections / mortgage arrears roles.
- Business Banking.

The Bank has also stated that retention of employees has been particularly challenging outside Ireland.

IBRC

The Bank's turnover rate (excluding redundancy) is 20% for 2012. For UK based employees, the reported turnover rate is 22% for 2012.

The Bank advises that the following areas are experiencing particular difficulty:

- Risk and compliance.
- Corporate & Institutional Recovery (Asset and wealth management).
- Investment & Loan Servicing (NAMA and Mortgage).
- Finance and Treasury (Group Finance and treasury markets).
- Legal Republic of Ireland (NAMA Services and residential legal).
- Operations & IT, particularly in the UK.

Permanent TSB

The annual turnover rate (excluding redundancy) is estimated to be 8.9% for 2012 (based on actual data to the end of September). Turnover rates vary considerably across the Institution. Turnover rates in the UK subsidiary are reported at 5.7%.

The Bank advises that the following areas are experiencing particular difficulty, with turnover rates in excess of 18%:

- Finance.
- Treasury.
- Asset Management Unit.
- Credit.
- Information Technology.

7

Market Review

In this Section we compare the current remuneration arrangements of the Covered Institutions against each other and against other market sectors.

Comparison of Remuneration within the Covered Institutions

The following tables show the current data by employee level within each of the Covered Institutions.

Executives

The tables below relate to the executive group for 2012. For these employees we have shown salary and total remuneration for the chief executive position and average salary and average total remuneration for the executive positions.

Chief Executive

	Salary	Total Remuneration
AIB	€425,000	€488,800
BoI	€623,000	€776,400
IBRC	€500,000	€683,600
PTSB	€400,000	€460,000
Average	€487,000	€602,200

Senior Executives

	Average Salary	Average Total Remuneration
AIB	€327,200	€434,200
BoI	€408,300	€517,400
IBRC	€365,100	€535,700
PTSB	€209,300	€269,600
Average	€327,500	€439,200

To protect confidentiality of individual data, the above table is based on employees in all geographic locations.

Executives

	Average Salary	Average Total Remuneration
AIB	€177,800	€228,900
BoI	€193,700	€243,900
IBRC	€172,700	€236,500
PTSB	€175,200	€223,600
Average	€179,900	€233,200

Based on employees in Ireland

Senior Managers and Other Employees

The tables below show the management and employee grades. For these we have shown average salary and average total remuneration for 2012.

Senior Managers / Managers

	Average Salary	Average Total Remuneration
AIB	€87,900	€107,800
BoI	€79,000	€100,700
IBRC	€85,600	€114,000
PTSB	€83,300	€110,200
Average	€84,000	€108,200

Based on employees in Ireland

Assistant Managers / Senior Specialists

	Average Salary	Average Total Remuneration
AIB	€52,500	€62,700
BoI	€53,600	€66,400
IBRC	€53,800	€60,300
PTSB	€53,400	€66,200
Average	€53,300	€63,900

Based on employees in Ireland

Senior Clerical / Specialists

	Average Salary	Average Total Remuneration
AIB	€48,500	€58,800
BoI	€44,200	€53,100
IBRC	€39,700	€44,000
PTSB	€43,800	€54,900
Average	€44,100	€52,700

Based on employees in Ireland

Clerical

	Average Salary	Average Total Remuneration
AIB	€33,400	€38,100
BoI	€30,400	€36,900
IBRC	€30,200	€33,100
PTSB	€30,300	€34,800
Average	€31,100	€35,700

Based on employees in Ireland

Market Comparisons

For comparison purposes, we have categorised the Covered Institutions into two levels based on the scope of the organisation: Level 1 (AIB and BoI) and Level 2 (IBRC and PTSB). In defining the levels, we have considered the assets and employee numbers within the organisations. The market data is presented for two organisation levels for the executive group only as it is only for these positions that the scope of the organisation will significantly impact on the remuneration levels.

In this Section, market data is presented for a range of comparator groups:

- **Irish PLCs** data is based on 21 large Irish quoted companies (excluding financial services and natural resources). Data has been extracted from 2011 Annual Reports (see Appendix for more information).

- **European Financial Services** data is extracted from the Mercer Pan-European Financial Services Survey 2012. This contains data from 34 large financial services organisations in Europe. The data is extracted from the database based on equivalent sized roles.

- **Irish Financial Services** data is drawn from the Mercer Financial Services Remuneration Guide (FSRG) which has 35 participants in 2012. Remuneration data for the Covered Institutions is excluded from the comparison.

- **Irish Other Industry Sectors are** drawn from the Mercer Total Remuneration Survey (TRS) for 2012 which has 132 participants, across other industry sectors in Ireland.

As noted in Section 4, the data in the Mercer surveys is representative of larger Irish-headquartered companies and subsidiaries of multinational organisations. It is not representative of smaller domestic Irish companies, particularly those in the retail, hospitality and construction and related industries, which have experienced the greatest reductions in remuneration levels in recent years.

The chief executive and other senior executives have been compared to the quoted Irish Companies and to participants in the Mercer European Financial services survey. The comparison is based on the relative size of the organisation (calculated on employee numbers and assets) and the responsibilities of the position. Thus for example the position of a chief executive in one of the Covered Institutions is based on the chief executive role of similar scoped organisations and less senior executive roles of equivalent scope in larger organisations. Employees at management level and below have been compared to the Irish Financial Services database and the Irish Other (general) Industry database.

For the Pan European database and the Irish quoted companies market data is available for salary and total direct remuneration. Values are not available for pensions and other benefit payments at this level due to differences in provision across countries and the lack of consistency in disclosed data.

Executive Group

The tables below show the market data for the executive group. For these we have shown the market position for salary and total direct remuneration, including the value of incentives.

Chief Executive

	25th Percentile	Median	75th Percentile	Covered Institutions Range
European Financial Services (Level 1 Larger Institutions)				
Salary	€516,000	€680,000	€861,200	€425,000 (AIB) to €623,000 (BOI)[1]
Total Direct Remuneration [4]	€1,188,000	€1,701,900	€2,510,100	
European Financial Services (Level 2 Smaller Institutions)				
Salary	€395,400	€505,600	€629,700	€400,000 (PTSB) to €500,000 (IBRC)[2]
Total Direct Remuneration [4]	€824,900	€1,139,300	€1,635,500	
Irish PLCs				
Salary	€499,000	€681,000	€746,000	€400,000 (PTSB) to €623,000 (BoI)[3]
Total Direct Remuneration [4]	€1,076,000	€1,442,000	€2,245,000	

Source: Irish PLCs based on 21 large Irish quoted companies (excluding financial services and natural resources. Data extracted from 2011 Annual Reports (see appendix for more details).
European Financial Services data, extracted from the Mercer European Financial Services database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade for 2012.

Notes [1] *Level 1 institutions AIB and BoI*
[2] *Level 2 institutions PTSB and IBRC*
[3] *AIB, BoI, PTSB and IBRC*
[4] *With the absence of incentives, salary and total direct remuneration are identical for the four Covered Institutions*

Senior Executives

	25th Percentile	Median	75th Percentile	Covered Institutions Range
European Financial Services (Level 1 Larger Institutions)				
Salary	€361,800	€458,000	€567,300	€327,200 (AIB) to €408,300 (BoI)[1]
Total Direct Remuneration [4]	€730,500	€996,600	€1,417,900	
European Financial Services (Level 2 Smaller Institutions)				
Salary	€277,200	€340,600	€414,800	€209,300 (PTSB) to €365,100 (IBRC)[2]
Total Direct Remuneration [4]	€507,200	€667,100	€923,900	
Irish PLCs				
Salary	€331,000	€404,000	€490,000	€209,300 (PTSB) to €408,300 (BoI)[3]
Total Direct Remuneration [4]	€563,000	€730,000	€1,170,000	

Source: Irish PLCs based on 21 large Irish quoted companies (excluding financial services and natural resources. Data extracted from 2011 Annual Reports (see appendix for more details).
European Financial Services data, extracted from the Mercer European Financial Services database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade for 2012.

Notes [1] *Level 1 institutions AIB and BoI*
[2] *Level 2 institutions PTSB and IBRC*
[3] *AIB, BoI, PTSB and IBRC*
[4] *With the absence of incentives, salary and total direct remuneration are identical for the four Covered Institutions.*

Executives

	25th Percentile	Median	75th Percentile	Covered Institutions Range
European Financial Services (Level 1 Larger Institutions)				
Salary	€212,400	€253,200	€303,300	€177,800 (AIB) to €193,700 (BoI)[1]
Total Direct Remuneration [4]	€352,200	€446,600	€602,000	
European Financial Services (Level 2 Smaller Institutions)				
Salary	€177,900	€207,900	€246,100	€172,700 (IBRC) to €175,200 (PTSB)[2]
Total Direct Remuneration [4]	€276,200	€341,700	€452,500	
Irish Other Industry (Level 1 Larger Institutions)				
Salary	€142,700	€178,400	€231,800	€177,800 (AIB to €193,700 (BoI)[1]
Total Direct Remuneration [4]	€171,000	€252,200	€352,100	
Irish Other Industry (Level 2 Smaller Institutions)				
Salary	€123,200	€151,500	€191,400	€172,700 (IBRC) to €175,200 (PTSB)[2]
Total Direct Remuneration [4]	€154,200	€202,100	€292,500	

Source: Irish Other Industry data extracted from the Mercer Ireland remuneration database 2012. European Financial Services data, extracted from the Mercer European Financial Services database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade for 2012.

Notes [1] *Level 1 institutions AIB and BoI*
[2] *Level 2 institutions PTSB and IBRC*
[4] *With the absence of incentives, salary and total direct remuneration are identical for the four Covered Institutions.*

Managers and Other Employees

The tables below show the market data for managers and other employees. For these grades we have shown the market position for salary and total remuneration.

Senior Managers / Managers

	25th Percentile	Median	75th Percentile	Covered Institutions Range
Irish Financial Services				
Salary	€71,200	€84,100	€104,900	€79,000 (BoI) to €87,900 (AIB)
Total Remuneration	€87,400	€112,500	€153,500	€100,700 (BoI) to €114,000 (IBRC)
Irish Other Industry				
Salary	€68,600	€78,800	€89,000	€79,000 (BoI) to €87,900 (AIB)
Total Remuneration	€87,900	€100,800	€120,800	€100,700 (BoI) to €114,000 (IBRC)

Source: Irish Other Industry data extracted from the Mercer Ireland Total Remuneration Database 2012. Irish Financial Services data, extracted from the Mercer Financial Services Remuneration Database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade for 2012.

Assistant Managers / Senior Specialists

	25th Percentile	Median	75th Percentile	Covered Institutions Range
Irish Financial Services				
Salary	€45,700	€54,000	€67,000	€52,500 (AIB) to €53,800 (IBRC)
Total Remuneration	€54,000	€68,700	€90,800	€60,300 (IBRC) to €66,400 (BoI)
Irish Other Industry				
Salary	€44,700	€51,100	€58,000	€52,500 (AIB) to €53,800 (IBRC)
Total Remuneration	€52,300	€62,100	€72,300	€60,300 (IBRC) to €66,400 (BoI)

Source: Irish Other Industry data extracted from the Mercer Ireland Total Remuneration Database 2012. Irish Financial Services data, extracted from the Mercer Financial Services Remuneration Database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade across the Institutions for 2012.

Senior Clerical / Specialists

	25th Percentile	Median	75th Percentile	Covered Institutions Range
Irish Financial Services				
Salary	€34,700	€40,900	€50,800	€39,700 (IBRC) to €48,500 (AIB)
Total Remuneration	€39,200	€49,600	€64,300	€44,000 (IBRC) to €58,800 (AIB)
Irish Other Industry				
Salary	€33,200	€38,500	€44,400	€39,700 (IBRC) to €48,500 (AIB)
Total Remuneration	€38,200	€45,700	€53,700	€44,000 (IBRC) to €58,800 (AIB)

Source: Irish Other Industry data extracted from the Mercer Ireland Total Remuneration Database 2012. Irish Financial Services data, extracted from the Mercer Financial Services Remuneration Database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade across the Institutions for 2012.

Clerical

	25th Percentile	Median	75th Percentile	Covered Institutions Range
Irish Financial Services				
Salary	€26,700	€31,500	€39,000	€30,200 (IBRC) to €33,400 (AIB)
Total Remuneration	€29,600	€37,300	€47,400	€33,100 (IBRC) to €38,100 (AIB)
Irish Other Industry				
Salary	€25,400	€29,900	€35,000	€30,200 (IBRC) to €33,400 (AIB)
Total Remuneration	€28,700	€34,700	€41,100	€33,100 (IBRC) to €38,100 (AIB)

Source: Irish Other Industry data extracted from the Mercer Ireland Total Remuneration Database 2012. Irish Financial Services data, extracted from the Mercer Financial Services Remuneration Database 2012. The Covered Institutions data is taken from the average remuneration level for the employee grade across the Institutions for 2012.

Market Review – Executive Group

The table below shows how each of the Covered Institutions compares to the market median of the various comparator groups in respect of salary and total direct remuneration. The latter comparison is based on total direct remuneration data as market data for benefits including pensions is not available for this level due to differences in benefits provision across countries and lack of consistency in publicly disclosed data for quoted organisations.

Salary

Grade	AIB	BoI	IBRC	PTSB	Average
Chief Executive					
European Financial Services	63%	92%	99%	79%	83%
Irish Publicly Quoted	62%	91%	73%	59%	72%
Senior Executives					
European Financial Services	71%	89%	107%	61%	82%
Irish Publicly Quoted	81%	101%	90%	52%	81%
Executives					
European Financial Services	70%	77%	83%	84%	79%
Irish Other Industry	100%	109%	114%	116%	109%

Note: For the executive group the comparison has been made against market data at two levels; level 1 larger organisations (BoI and AIB) and Level 2 smaller organisations (IBRC and PTSB). The sizing has been based on employee numbers, assets and role size.

Total Direct Remuneration

Grade	AIB	BoI	IBRC	PTSB	Average
Chief Executive					
European Financial Services	25%	37%	44%	35%	35%
Irish Publicly Quoted	29%	43%	35%	28%	34%
Senior Executives					
European Financial Services	33%	41%	55%	31%	40%
Irish Publicly Quoted	45%	56%	50%	29%	45%
Executives					
European Financial Services	40%	43%	51%	51%	46%
Irish Other Industry	70%	77%	85%	87%	80%

Note: For the executive group the comparison has been made against market data at two levels; level 1 larger organisations (BoI and AIB) and Level 2 smaller organisations (IBRC and PTSB). The sizing has been based on employee numbers, assets and role size.

Market Review – Managers and Other Employees

The table below shows how each of the Covered Institutions compares to the market median of the various comparator groups in respect of salary and total remuneration.

Salary

Grade	AIB	BoI	IBRC	PTSB	Average
Senior Managers / Managers					
Irish Financial Services	105%	94%	102%	99%	100%
Irish Other Industry	112%	100%	109%	106%	107%
Assistant Managers / Senior Specialists					
Irish Financial Services	97%	99%	100%	99%	99%
Irish Other Industry	103%	105%	105%	105%	104%
Senior Clerical / Specialists					
Irish Financial Services	119%	108%	97%	107%	108%
Irish Other Industry	126%	115%	103%	114%	114%
Clerical					
Irish Financial Services	106%	97%	96%	96%	99%
Irish Other Industry	112%	102%	101%	101%	104%

Total Remuneration

Grade	AIB	BoI	IBRC	PTSB	Average
Senior Managers / Managers					
Irish Financial Services	96%	90%	101%	98%	96%
Irish Other Industry	107%	100%	113%	109%	107%
Assistant Managers / Senior Specialists					
Irish Financial Services	91%	97%	88%	96%	93%
Irish Other Industry	101%	107%	97%	107%	103%
Senior Clerical / Specialists					
Irish Financial Services	119%	107%	89%	111%	106%
Irish Other Industry	129%	116%	96%	120%	115%
Clerical					
Irish Financial Services	102%	99%	89%	93%	96%
Irish Other Industry	110%	106%	95%	100%	103%

Summary of Market Comparison

The market comparison varies by role, level, and Institution. At the senior executive level and above salaries are typically behind the market for both comparators and significantly behind the market when the value of incentives is taken into account. At the Executive level, salaries are behind the financial services market, while somewhat ahead of other industries. When incentives are taken into account, the executives are behind both comparator groups.

At management level, salaries are in line with the financial services market while ahead of other industry. Total Remuneration is somewhat behind the financial services market, while ahead of other industry.

At the lower to middle level grades salaries are typically in line with the financial services market and somewhat ahead of other industry. Total remuneration for these grades is somewhat behind the median for the financial services comparator group and somewhat ahead of other industry.

The overall analysis indicates that the withdrawal of incentives has had a significant impact on the comparative position of the roles, particularly at the more senior levels.

Incentives have been suspended in all the Covered Institutions and salary reviews have been restricted in recent years. Salary reviews and incentives have continued within both the broader financial services market in Ireland and also within Other Industry (see Section 3).

Chief Executives

The salary levels range from 59% (PTSB) to 91% (BoI) when compared to the market median of Irish quoted companies and from 63% (AIB) to 99% (IBRC) when compared to the market median from the Mercer European Financial Services database.

In respect of Total Direct Remuneration, the corresponding ranges are 28% (PTSB) to 43% (BOI) and 25% (AIB) to 44% (IBRC).

Senior Executives

The salary levels range from 52% (PTSB) to 101% (BoI) when compared to the market median of Irish quoted companies in our database and from 61% (PTSB) to 107% (IBRC) when compared to the market median from the Mercer European Financial Services database.

In respect of Total Direct Remuneration, the corresponding ranges are 29% (PTSB) to 56% (BOI) and 31% (AIB) to 55% (IBRC).

Executives

The salary levels range from 100% (AIB) to 116% (PTSB) when compared to the market median of Irish Other Industry database and from 70% (AIB) to 84% (PTSB) when compared to the market median from the Mercer European Financial Services database.

In respect of Total Direct Remuneration, the corresponding ranges are 70% (AIB) to 87% (PTSB) and 40% (AIB) to 51% (IBRC and PTSB).

Senior Managers / Managers

The salary levels range from 100% (BoI) to 112% (AIB) when compared to the market median of the Irish Other Industry database and from 94% (BoI) to 105% (AIB) when compared to the market median from the Irish Financial Services database.

In respect of Total Remuneration, the corresponding ranges are 100% (BoI) to 113% (IBRC) and 90% (BoI) to 101% (IBRC).

Assistant Managers / Senior Specialists

The salary levels range from 103% (AIB) to 105% (BoI, IBRC and PTSB) when compared to the market median of the Irish Other Industry database and from 97% (AIB) to 100% (IBRC) when compared to the market median from the Irish Financial Services database.

In respect of Total Remuneration, the corresponding ranges are 101% (AIB) to 107% (BoI and PTSB) and 88% (IBRC) to 97% (BoI).

Senior Clerical / Specialists

The salary levels range from 103% (IBRC) to 126% (AIB) when compared to the market median of the Irish Other Industry database and from 97% (IBRC) to 119% (AIB) when compared to the market median from the Irish Financial Services database.

In respect of Total Remuneration, the corresponding ranges are 96% (IBRC) to 129% (AIB) and 89% (IBRC) to 119% (AIB).

Clerical

The salary levels range from 101% (IBRC and PTSB) to 112% (AIB) when compared to the market median of the Irish Other Industry database and from 96% (IBRC and PTSB) to 106% (AIB) when compared to the market median from the Irish Financial Services database.

In respect of Total Remuneration, the corresponding ranges are 95% (IBRC) to 110% (AIB) and 89% (AIB) to 102% (AIB).

8

Future Remuneration Framework

As part of our Report we were asked to provide input into the development of a new Remuneration Framework for the Covered Institutions. In this Section we set out the context in which the Framework is required and we outline the various options for consideration, and the implementation challenges associated with these.

Background to the report

In the following paragraphs we set out the context in which it may be appropriate to develop a future Remuneration Framework. This is based on our discussions with the Department of Finance and material which they provided to Mercer.

Future policy direction

Our discussions with the Department of Finance indicate that the central objective of the Government’s policy on banking remuneration for the Covered Institutions will be to:

> *“Require management in each Institution to reduce the cost base of their bank to a sustainable level with the aim of aiding their return to profitability and ultimately their removal from public support and ownership.”*

In our experience, strong leadership would be required from the management of the Institutions in order to execute this policy with industrial relations difficulties to be addressed and managed. In the circumstances, the key to achieving successful change is always a clear management agenda and focus on achieving the targeted results. Proposals to achieve the targeted level of savings will have to be negotiated with employee representatives with the assistance (if necessary) of the State industrial relations agencies. Clear and consistent communication to employees and union representatives as to the need for any course of action would be an imperative. It should be noted that many companies in the private sector have successfully navigated such a process in order to secure their viability.

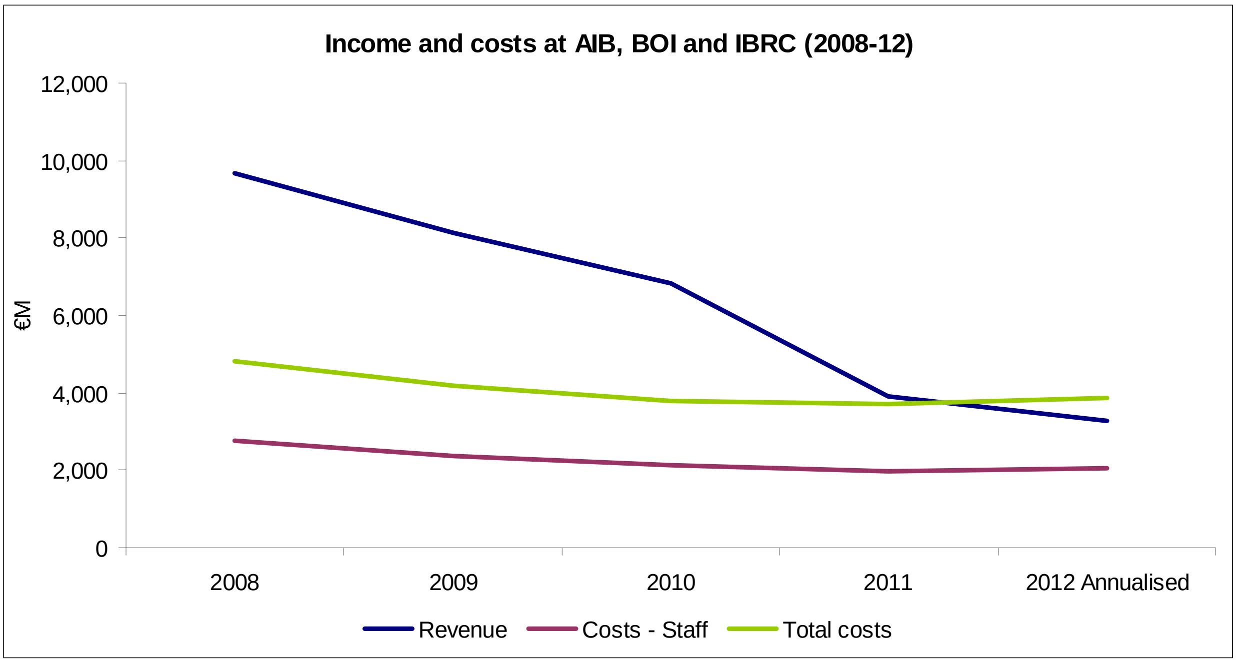
Without agreement, management may need to act unilaterally to achieve the necessary savings though this would, of course, have some knock on impact on employee morale and retention levels in some areas.

Covered Institutions are loss making

The Covered Institutions have incurred substantial losses in recent years requiring enormous capital injections from the State totalling around €64bn. While huge strides have been made in fixing their balance sheets including stabilising customer deposits, shrinking the asset base and paying down Central Bank funding, the Institutions are still incurring losses and are not expected to return to profitability until 2014 at the earliest.

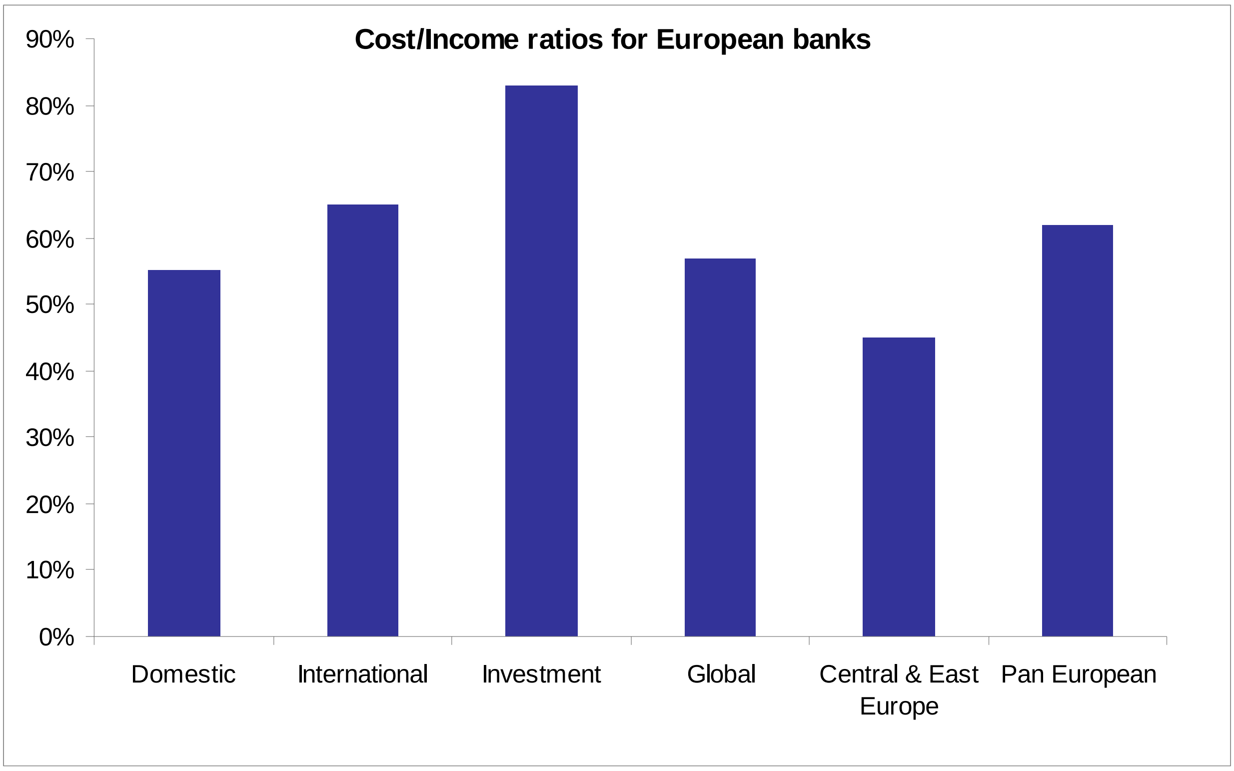
Aside from the clear need to address substantial SME and mortgage arrears which represent problems carried over from the boom years, the Institutions are still grappling with the fundamental challenge of returning themselves to meaningful levels of profitability at the pre-provisions or operating profit level. Unless an Institution can generate a higher income on its key product areas to pay for the raw material of funding, with sufficient margin to cover its overheads, it cannot hope to be a viable entity in the longer term. Pre- provision or operating profits are necessary to cover the cost of risk (bad debts) while Institutions must also generate some level of residual profit to support reserves and a level of return to their shareholders.

As the graph below shows, the Covered Institutions have reduced their cost base substantially since 2008 and the changes in employment costs have been discussed at length in this Report, particularly on a like for like basis i.e. ignoring disposals. Employment costs form the largest percentage of costs at the Covered Institutions though they still typically account for around 55% of total costs.



Source: Department of Finance (2012 figures are H1 annualised). Figures taken from reported accounts and hence data for staff costs will differ from those used in this report

The real problem for the Covered Institutions, however, is as indicated in the graph above, that revenues have fallen by more than costs, due to the prolonged downturn in Ireland and the global financial crisis which has disrupted their business models. With operating costs generally close to or in excess of income, the traditional cost/income ratio used in the industry to measure efficiency (see chart below) is almost a meaningless statistic as it is now close to or in excess of 100%.



Source: Department of Finance (2012 figures)

The longer an Institution remains unprofitable, the more it eats into its capital base which is necessary to support and protect its business. Simultaneous with this pressure, banks across Europe - including the remaining Covered Institutions - are also under pressure to increase capital reserves to provide business stability and therefore meet tougher capital rules associated with Basel III, and expected to be implemented via CRD IV.

We understand from the Department of Finance that the Covered Institutions to varying degrees plan further cost efficiencies that are not taken account in this Review. Many of the Institutions have publicly talked about the targets they have in mind:

- BoI indicated some time ago that they were targeting a cost/income ratio of 50% or less by 2014. Achieving this target by next year is now seen by some in the market as being challenging, partly due to lower interest rates in Europe, but we understand that this would still be a medium to long term ambition of the BoI.

- AIB have indicated that they are targeting minimum cost reductions of €350m by 2014 with a cost income ratio of 60%-65%, with further improvements in this ratio expected over time as the Institution moves back to normalised profits.

- PTSB commenced a significant voluntary severance and branch closure programme in 2012, the results of which will only become apparent in 2013; associated forecasts have not been publicly disclosed.

While there has been a sharp reduction in overall remuneration costs at the Covered Institutions, our Review highlights that this has been achieved primarily through headcount reductions and the elimination of incentives. These incentives were linked to the high levels of profits being recognised during the boom years, which have subsequently proved to be illusory. Salaries on the other hand have increased in all of the entities over the 2008-12 period, and this is the fixed cost that the Institutions must recover on an annual basis through their revenue line.

Given that incentives (now eliminated) were generally offered to more senior staff, it is no surprise that the market review shows that it is those at middle and lower levels (where the vast bulk of employee numbers and overall cost lies) within the Covered Institutions, that are shown to have salary and total remuneration levels close to, or above their comparator groups.

Other important contexts

With the liquidation of IBRC two of the remaining three Covered Institutions are owned and controlled by the State. During our discussions, the Department of Finance indicated that it is important to acknowledge that this Report has been prepared against the backdrop of further moves to reduce the public service pay bill.

Public servants incurred a pension related deduction from salaries averaging approximately 7%, introduced in March 2009. They also experienced a reduction in salary effective from January 2010. The combined impact of these was an overall reduction of 14%. Since then a number of their core terms and conditions of employment, including paid leave and allowances, have been reviewed and reduced or eliminated for serving staff and new entrants. The Government, in an effort to meet its fiscal targets and restore order to the public finances entered into discussions with the Public Services Committee of the Irish Congress of Trade Unions to secure an additional saving of €1 billion in the salary and pensions bill in the period by 2016, €300 million of which has to be achieved this year. In the proposals issued by the Labour

Relations Commission following those discussions, substantial workplace reforms and reductions in core salaries for higher paid public servants of between 5.5% and 10%, increment freezes and other reductions in non-core pay are set out. These proposals are now being put to formal ballot; the Government has indicated that it intends to secure the necessary savings in the paybill in any event.

The Review does not include a comparison of remuneration arrangements in the public sector compared with the Covered Institutions, although Mercer are aware of significant reductions in remuneration and pension benefits in each.

The Department of Finance has also indicated to Mercer that without significant taxpayer support the Covered Institutions would not have survived and significant job losses would have occurred. The remaining Institutions have indicated that they have programmes in place to further reduce employee numbers; however such reductions in headcount may not be sufficient to achieve the required savings without further reductions in employee costs.

Based on the analysis on Total Remuneration Costs in Section 6, the remaining Covered Institutions (excluding IBRC) had a salary payroll in 2012 of approximately €1.43bn and total remuneration costs of approximately €1.75bn. Therefore;

- A 5% cut in salary across the board in all Institutions would generate approximately €71m in salary savings in a full year, or €87m if it flowed through to total remuneration.

- A 10% cut in salary across the board in all Institutions would generate approximately €143m in salary savings in a full year or €175m if it flowed through to total remuneration.

Another important context is that of the broader competitiveness agenda which we note is also a Government priority. Operating costs ultimately have to be recovered through revenues and in a low growth environment we understand that the Government is mindful of the impact that higher than necessary costs could have on loan interest rates and fees paid by SMEs and personal customers.

Aside from the domestic context, the international context also merits some comment here and it is clear that the economic downturn across Europe has prompted other countries to take radical action in the area of remuneration too. For instance recent reports from Spain indicate that Bankia has reached agreement with their trade unions on the terms of a restructuring plan. This provides for a reduced number of layoffs (4,500 compared to the 5,000 initially proposed), enhanced severance terms and reductions in remuneration for remaining employees which are reported to be temporary.

Other considerations in designing the Future Framework

In addition to the considerations outlined above, there are also a number of other critical and in some cases conflicting requirements to consider in developing a new Remuneration Framework for Irish Covered institutions:

1) The different positions of the Covered Institutions including ownership (e.g. BoI is only 15% owned by the State) and their differing trajectories to profitability.

    - This may make a very prescriptive and undifferentiated approach to a Framework impossible to achieve.

    - However a Framework, which identifies common elements and approaches with agreed points of differentiation that are relevant to each Institution, would be a more satisfactory approach while maintaining a strong approach to governance of remuneration in the Covered Institutions.

2) Best practice in the design of remuneration that must take account of the (latest) regulatory requirements:

    - For instance if incentives are to be reintroduced there should be no guaranteed payments, have a significant proportion of deferral and be subject to claw-back and malus provisions. They must also take account of the responsibilities of specific employees (risk takers, control functions etc), and ensure that arrangements are wholly transparent to stakeholders and are managed through sound governance processes.

3) The need for the Covered Institutions to retain and hire employees that can return them to a sound financial footing as soon as possible, and minimise the cost of this to taxpayers:

    - This requires the Institutions to have the capability to recruit, motivate and retain individuals who have the capability to drive sustained business success having regard to the market in general and the Irish financial services sector in particular.

We outline a range of options below, the first four of which provide options to reduce remuneration in the short to medium term. We have also provided a further six options to address some current issues arising from existing approaches to remuneration policy and medium to longer term issues that would need to be addressed at some point to normalise the environment in which the Institutions operate.

Each option is considered under the following headings;

- Description of the option – an outline of the option and how it would work in practice.
- Rationale – the principal objectives or reasons why the option might be considered for implementation.
- Implementation – how the option may be implemented and in particular the major practical and legal barriers to implementation.
- Benefits of the option.
- Disadvantages of the option.

In designing an appropriate framework, consideration must be given to compliance with employment law. A basic principle of employment law is that an employer is generally not permitted to unilaterally change fundamental terms and conditions of employment, such as remuneration, without the agreement of the existing employees. Such terms and conditions include express contractual terms and can also include implied terms arising from custom and practice.

As a number of the options outlined in this report involve changes to the terms and conditions of employment, the legal impediments to such changes must be borne in mind when considering the course of action to take.

Disclosure

In addition to the options for remuneration outlined below, it would help reduce public concerns on remuneration levels generally if Institutions in receipt of public support improved their disclosure of remuneration. At a minimum the Institutions should publish regular updates on general remuneration policy and practice.

Option 1: Reduce Salary Costs by an Across the Board Reduction for all Employees

Under this option, salaries would be reduced by a specified percentage for all employees. The option could be modified with salary reductions applied on a sliding scale based on salary level so that greater reductions could be imposed on those earning higher amounts.

Rationale

The objective of this option would be to reduce overall remuneration costs in the Covered Institutions with the aim of assisting their return to profitability as fast as practicable, and recognising the significant investment that has been provided by the State.

Implementation

Reducing salaries would not be easy to implement due to employee contractual rights and union agreements (where applicable) as noted above. A reduction in remuneration is viewed as a material change to terms and conditions of employment and any such change must be agreed by the employer and employee. Generally, the employee must also give written consent to such a change.

It may be possible to negotiate a reduction with the union(s) representing the various employee groups. A number of different unions represent employees at the various Covered Institutions. In practice unions are unlikely to readily accept a reduction in remuneration, unless in the context that this is essential to secure the financial viability of the Institution and to protect employment.

If voluntary consent is not achievable, another option would be to dismiss and re-engage employees on a reduced salary level. This could expose the Covered Institutions to legal challenges however. The Institutions would need to establish a fair reason to dismiss and re-engage to avoid possible claims of unfair dismissal. In addition, a fair procedure in accordance with statutory dismissal procedures would need to be followed. To establish a fair reason it would be necessary to prove that there was some genuine reason for making the contractual changes which could include securing the financial viability of the organisation and protecting employment.

In the case of Institutions with operations outside Ireland, if remuneration reductions are to be implemented in those countries legal issues in each of these jurisdictions would also need to be considered.

Benefits of this option

- Substantial cost savings could be achieved if organisation wide salary cuts were implemented. With employee costs representing a significant portion of the total operating expenses of the Covered Institutions, any cost savings achieved through salary cuts would have a significant financial impact.

- Implementing organisation wide salary cuts would bring the Institutions more into line with other industry sectors which have experienced financial difficulties where there have been similar actions. It should be noted that the market review in Section 7 indicates that it is salary levels at the middle to lower levels within the Institutions – which is where the significant costs are incurred – that are on average either close to or somewhat above the relevant market rates.

- Indirect cost savings for other employee benefits which are calculated by reference to salaries (for example, pension benefits) would also be generated via salary reductions.

- Consideration of alternative measures to achieve the policy aims of the Department would be avoided.

Disadvantages of this option

- There are significant legal risks to implementing salary reductions if employee consent is not achievable. Achieving voluntary consent from all employees is highly unlikely and imposed reductions would likely lead to legal challenges on a number of fronts, both in Ireland and in overseas locations.

- There are risks to the ongoing operations of the Covered Institutions if employees do not voluntarily accept reductions in salary. There are large scale change programmes being implemented in the Institutions and imposing an organisation-wide salary cut could jeopardise cooperation with these initiatives.

- There are particular risks associated with key talent, given the opportunity for and history of talent leaving Ireland, and indeed opportunities to earn significantly higher salaries and incentives elsewhere in the financial services sector in Ireland. As pointed out in this report all Institutions are experiencing issues with specialised units where turnover rates over 20% are being seen.

- With the suspension of all incentive plans and changes in pension arrangements at most of the Institutions (IBRC generally being the exception), employees have already taken cuts in total remuneration (see analysis in Section 6).

Option 2: Reduce Salary Costs by Targeted Salary Reductions

With this option, salary reductions would be targeted at specified groups of employees who are above a certain grade (for example, senior management) or salary level. Alternatively, it could target only those employees identified as being paid significantly "above the market". A combination of these strategies could be employed.

Rationale

The objective would be to reduce the overall remuneration cost through a targeted option where cuts in salary may be perceived as fairer. The aim would be to bring senior level remuneration more in line with organisations controlled by the State, while potentially tackling those paid above market across the organisations.

Implementation

In practice this would also be difficult to implement due to employee contractual rights. Most of the same issues that are outlined in Option 1 would apply, albeit on a more limited scale. However, with fewer employees targeted, implementation may not be as difficult as with a general salary reduction programme. We understand that this approach has been adopted by AIB for very senior roles and implemented from September 2012.

If an option is applied to reduce remuneration only for those paid above market rates there will be additional implementation issues. These include the definitions of remuneration and the appropriate market comparators.

Consideration would be required to decide if the assessment of market is to be made at salary, total cash (assuming incentives) or on total remuneration level. Furthermore, the process for conducting the market comparison would need to be determined including the definition of the appropriate market for comparative purposes (financial services organisations or all industry, variations by role, etc).

Additional implementation considerations would include:

- The appropriate market comparison point (market median or other appropriate level).
- The level of reduction to be applied (a specified percent or an amount to align them with market).
- The timetable for implementation (a single adjustment or adjustments over a number of years).
- The need for an appeals process.

Benefits of this option

- As with Option 1 the primary benefit of this option would be to provide a degree of cost savings assisting the Institutions return to profitability.
- It is likely to be perceived as fairer than across the board cuts in salary, particularly if it impacts only on those above a specified grade or salary level.
- If a market based option is adopted, this would bring employees who are currently being paid above market rates more in line with the market. With this option there is a lower risk from a turnover perspective, as there would be less opportunity for employees to leave if the adjustment is based on actual market rates.
- Again, there would be indirect cost savings associated with provision of other benefits which are calculated by reference to salary.

Disadvantages of this option

- There is a likelihood of a significant negative impact on employee morale, particularly for the levels and role holders directly impacted. If cuts are at a senior level, morale may be reduced and turnover increased in the key employee groups required for implementing changes associated with turnaround.
- The option would require considerable work in defining and establishing the process and would result in a lower quantum of savings than a more widespread reduction as it would only impact targeted (potentially above market) employees rather than the general population.
- Higher-paid roles are likely performed by key individuals whom the Covered Institutions may wish to retain, and retention strategies may be adversely affected by possible disputes with these key personnel.
- With the suspension of all incentive plans and changes in pension arrangements at most of the Institutions (IBRC generally being the exception), employees have already taken cuts in total remuneration (see analysis in Section 6).

Option 3: Changes / Reductions to Pension benefits

The provision of pensions represents a significant cost to organisations including the Covered Institutions. There are a number of schemes in use.

Defined Benefit Schemes where benefits are typically related to salary and company service; these schemes typically provide dependents benefits and may be integrated with Social Welfare pension payments. Contributions are based on periodic actuarial valuations. Most schemes have been in deficit in recent years, i.e the current level of contribution with existing assets is not sufficient to finance future benefits. Organisations have been amending their benefits which included additional contributions (from both employer and/or employee) and a reduction in benefits. Both may be required. In some cases a career average arrangement is being introduced in place of final salary arrangement and frequently entry to the scheme is closed to new entrants (if this had not happened previously).

The Covered Institutions have addressed the deficits in their schemes in recent years or are currently in the process of doing so.

Defined Contribution Schemes where the employer contributions are generally expressed as a percentage of the employee's salary, the rate of which may depend on the level of contribution being paid by the member. The benefit available to the member is based on the accumulated assets from the contribution paid which can be used to provide the appropriate benefits – retirement pension, spouses pension, lump sums etc.

Other Schemes which may be a hybrid arrangement with pensions being provided on a defined benefit basis up to a specified salary cap and a defined contribution basis for the balance.

In considering the future remuneration Framework a distinction will have to be recognised between defined benefit and defined contribution schemes.

Generally, the pension schemes at the Covered Institutions are under-funded and have significant liabilities associated with them (with the exception of IBRC where the majority of employees are in defined contribution arrangements).

The option would be to set an overall limit for the cost of benefits in respect of future service in the case of a defined benefit scheme and as a percentage of employees salary in the case of a defined contribution scheme. Separate consideration will need to be given to addressing any of the existing deficits. Any discussion on this is beyond the scope of this review, but in any event is/or has been under consideration by each of the Covered Institutions.

Rationale

With pensions representing a significant portion of total employment costs and the single largest benefit cost, making changes in this area would have a significant impact on overall employment costs.

In addition, current pension provision is very complex at the Covered Institutions with a large number of different pension schemes in place, largely driven by legacy arrangements. This option would streamline pension provisions and provide consistent benefits across all employees.

Implementation

Implementing changes to pension arrangements will depend on whether or not pensions are, or are perceived by employees, as part of the employee's terms and conditions of employment. While it is generally uncommon for pension benefits to be set out in detail in employment contracts this occurs more frequently in financial institutions. Where benefits or payments are contractual, most of the issues detailed above in relation to salary reductions would also apply.

Implementing change is a time consuming process, of which reviewing the legal position in relation to employee contracts and the pension scheme legal documentation can be a significant part of this. For example, when Bank of Ireland made changes to their pension schemes in 2010, the process involved lengthy negotiations with employee representatives, a communications campaign with employees and obtaining individual contractual consents from over 10,000 impacted employees. Even where the legal documents permit an employer to unilaterally change future service pension provision, employee consultation is generally regarded as an appropriate course of action which has the additional benefit of reducing the possibility of grievances being raised by disaffected employees.

Benefits of this approach

- This approach is more streamlined than the current approach and it would simplify the management and administration of pension benefits going forward. However separate arrangements would still remain in place for past service.

- This option would result in cost savings (assuming that the new schemes are structured so that they represent a lower cost than the current schemes in place).

- The option would be more in line with the broader market where new schemes are increasingly on a defined contribution basis.

- The option of providing a choice of a reduced defined benefit scheme or a defined contribution scheme may help to reduce the level of employee resistance.

- As pension benefits constitute deferred remuneration, and do not come into payment until an employee's retirement, reductions to those benefits are often more amenable to employees who are further from their normal retirement age. Conversely, changes to pension arrangements tend to be more problematic with respect to those employees who are closer to normal retirement age.

Disadvantages of this option

- Significant pension scheme changes have already been made at the majority (three out of four) of the Covered Institutions and any additional changes would represent a further curtailment of benefits with the potential to affect morale.

- As discussed elsewhere, interference with pension entitlements of employees gives rise to legal concerns and issues. Any such interference would need to be proportionate and justified in order to withstand legal challenge.

- As stated above, implementing cuts to pension benefits for employees who are comparatively closer to normal retirement age can often be problematic.

Option 4: Implement a Single Benefits Allowance at Reduced Levels

At one time specific allowances for example the provision of company cars with expenses, club subscriptions and subsidised loans were attractive to employees as they were treated more favourably than a salary payment of an equivalent value. Such allowances, therefore, were commonly provided, particularly to more senior level employees in many large organisations including the Covered Institutions. There is no longer any material tax advantage and many organisations, including the Covered Institutions, have been engaged in reducing the amount and range of allowances.

Under this option a single allowance would be introduced to replace all other existing benefits and allowances (excluding pension), including cars, club subscriptions and medical insurance (where provided), subsidised loans. This allowance would be non-pensionable. The allowance could be based on a specified percentage of salary or could vary by grade. To generate cost savings, the allowance would need to be set at a level below the current combined cost of these benefits. The new allowance would be introduced for all employees who are currently eligible to receive these benefits. If this option cannot be implemented for current employees for contractual reasons, it could be adopted for all new hires or those who qualify for an allowance or an enhanced level of benefit at promotion.

Rationale

This option simplifies the provision of a wide range of benefits and allowances. In addition, if it is set at a level below current costs, it will generate cost savings. The option will also remove the need for the administration of a range of benefit programmes, leading to further cost savings.

Implementation

Depending on the contractual status of the benefits or payments, most of the same issues detailed previously in relation to salary reductions may also apply. Typically, these payments would be regarded as forming part of an employee's terms and conditions of employment. However, since eligibility for these benefits is not widespread there would be a lesser impact as any changes would apply to a smaller number of employees (generally at more senior levels in the organisation).

Benefits of this option

- The option is more streamlined than the current approach and it would simplify the management and administration of these benefits.

- It would result in cost savings (assuming that the new allowance is structured so that it is a lower cost than the current benefits cost in aggregate.

- This option may be perceived as fairer as it would have greatest impact on the higher grades at the Covered Institutions and thus may not be viewed as a cut in core remuneration.

- This approach could reduce some of the negative public perception associated with providing certain benefits not seen as generally available, in particular company cars and club subscriptions.

Disadvantages of this option

- As this would in effect be a cut in remuneration, there could be a significant negative impact on employee morale at levels and roles directly impacted. As these cuts are likely to be at manager level and above, morale may be reduced in the key employee groups required for implementing changes associated with turnaround.

- With the suspension of all incentive plans and changes in pension arrangements at most of the Institutions (IBRC generally being the exception), employees have already taken cuts in total remuneration (see analysis in Section 6). Further cuts may bring some employees behind the market, which would be an issue in key areas where turnover is currently over 20% in some instances.

Option 5: Reduce Salary Costs in the Longer Term through a Revised Approach to Salary Increases

This option involves the implementation of a formal process to manage salary increases on their re-introduction. For example, the following may be considered as the principal criteria on which a return to salary increases would be predicated:

- Cessation of incremental or time-served salary increases.
- Awards based on individual performance, subject to meeting minimum performance criteria such as a significant focus on the appropriate management of risk and good stewardship of the assets of the bank.
- An “ability to pay” clause included in any agreement to reintroduce salary increases.
- System to be operated in a fair open and transparent manner.
- Adjustments to awards to be made based on market positioning – ie. employees who are paid above market rates would be eligible for a lesser or no award while high performers on below market rates would be eligible for higher awards.

Rationale

As the Covered Institutions recover to profitability salary increases (for some or all employees) may need to be re-introduced and a clear transparent process should be in place for when this occurs.

Implementation

The current process for managing salary increases may be contractual and agreement may be required for changes. There may need to be a formal process of employee consultation for any changes to the current processes for determining salary and salary increases.

We understand that the Covered Institutions are currently defending a significant number of legal challenges to their decisions to suspend increments and any proposed changes to the process going forward will need to be considered in light of the outcomes of these cases.

Benefits of this approach

- A clear coherent approach to determining salary increases would be in place prior to the need to introduce increases in the future.
- Moving salary increases from a time-served or incremental process and linking them to performance provides greater flexibility in managing performance at an individual employee level.
- Including an ability to pay feature in the process ensures that future increases will not be automatically provided especially if there is poor financial performance.
- If the process is linked to market salaries, overall salary rates will be brought more in line with the relevant market over time.

Disadvantages of this approach

- It may be difficult to move away from the current incremental pay award approach if this is contained within collective agreements.
- The movement to performance based salaries will require robust and transparent performance management systems including metrics defining organisational performance. These may need to be developed and refined to support the change.

Option 6: Implement a Market Premium for in Demand Roles

Implement a structure to facilitate the payment of a temporary market premium for roles that are in demand in the market. The premium would be a non-pensionable payment and structured as a specified percentage of salary. The premium could be withdrawn or amended if the employee changes role or market demand falls. One important consideration is the extent to which the market position is impacted by other possible changes to salary.

Rationale

This option provides for the payment of temporary market premia to recruit and retain key staff when roles are in high market demand, without increasing long term fixed costs. A current example of where this type of option may apply is Asset Recovery. Currently, Asset Recovery roles attract a premium in the market due to high demand for the roles and a skills shortage. Over time, as more people build skills and expertise in this area and demand decreases, there may be no need to continue to apply the market premium and it would be withdrawn.

Implementation

Rigorous criteria for applying the market premia need to be established and regularly reviewed and updated. The basis for establishing criteria should include specified levels of turnover in a particular area or job offers in the area being turned down for remuneration reasons. The level of market premium payment would need to be established – different levels could be set. By way of illustration, three levels could be set with varying percents of salary applying for each level, for example 5%, 10% or 15%. A process for determining when the premia are removed would be required and communicated. The premium could be defined as non-pensionable and eliminated on a phased basis.

Benefits of this option

- There are specific areas within each of the Institutions where turnover is high and roles are in market demand. Using this option would address short-term recruitment and retention needs for roles that are in demand.

- Structuring the payments as temporary premia provides flexibility in managing costs when market demand changes. In particular, the market premium can be removed when the role no longer requires a premium.

- Implementing a formal time bound process with strict criteria would provide a consistent structure for managing the process and allay any staff issues around availability and selection.

Disadvantages of this option

- The option may lead to some inflation of remuneration unless carefully managed. However, even when salary premiums are provided on a temporary basis, our experience is that they can be difficult to withdraw.
- Implementation of premia may lead to internal equity and potential morale issues where some employees receive premia while others do not. The communication of the policy would have to be carefully managed.
- It may prove difficult to agree which roles should have premia attached and for how long. A robust policy would need to be developed for defining this.

Option 7: Introduce Incentive Plans for Specific Identified Units

Incentive plans could be designed for specific units within the Covered Institutions. The plan and performance measures would need to be designed around the specific operating and market circumstances of the unit.

Rationale

Certain units, for example collections units, in the Covered Institutions have been identified as critical units for the Institutions in the future with the drive to return to profitability. In the wider financial services market, similar units typically provide incentive plan participation.

Implementation

Incentive plan eligibility would be reintroduced for specified units within the Covered Institutions. Any plan would need to be designed in line with current and proposed regulatory rules and particular attention would need to be paid to employee eligibility.

Performance measures and payout levels would also need to be carefully designed to ensure that they are:

- Appropriately risk adjusted.
- Encourage and reward the correct behaviours.
- Are in line with current regulatory requirements.

For example, in a collections unit the performance measures may be based on overall unit performance and individual performance measured on items such as successful client engagements, call resolution rates and other customer service measures.

Before approval is granted for implementing any incentive arrangement, a strong business case would need to be presented by the business unit. In addition, a robust individual performance management system (see also Option 5) needs to be in place prior to the implementation of any incentive arrangement to ensure that no payments are made for individual under-performance.

Benefits of this option

- A more market-driven approach for these specific individual units where employee remuneration packages are structured in line with common practice in organisations competing with the Covered Institutions for employees should facilitate the recruitment and retention of key employees. Experience in the market is that a level of incentives would be provided for these types of roles.

- Having incentives linked to a strong performance management system can form an integral part of the management of these units and enhance overall performance.

- Variable remuneration provides a flexible cost management mechanism whereby remuneration costs can be adjusted based on financial or other performance criteria (both on a unit and individual basis).

Disadvantages of this option

- In the short term, the reintroduction of any incentives in the Covered Institutions is likely to meet with significant public concern. For example a perception that employees in the Covered Institutions may profit from dealing with people with mortgage arrears.

- There are potential issues of internal equity if incentives are introduced for specific areas within the Covered Institutions rather than for all positions.

Option 8: Reintroduce Long-Term Incentives

At some time in the future it is likely that it will be necessary to reintroduce long term incentives to align the interests of executives and shareholders in order to promote the long term success of the business. The timing for this could be when the Institutions look likely to return to profitability and hence have the opportunity of coming out of state ownership. Alternatively the arrangements could be introduced in the more immediate term, with any payments solely linked to a return to sustainable profitability; in this case consideration could be given to introducing the incentives in return for a reduction in salary.

Rationale

To align the long term interests of executives and the long term sustainability of the Covered Institutions. It would also bring remuneration structures for executives more in line with current and developing market practice.

Implementation

The incentive arrangements should be consistent with current best practice for financial service institutions including stretch performance targets, performance measurement over a period of least 3-5 years, additional vesting requirements, and malus and clawback provisions.

Consideration should be given to the form of incentive. The most recent guidance and recommendations suggest that the long term incentives should be provided in the form of shares, share-related financial instruments or contingent capital instruments.

To avoid increases in total remuneration, the long term incentive plan could be a trade-off for a voluntary salary reduction. In this case consideration would have to be given to those executives who have already taken a salary reduction or are paid below market rates. We understand that the introduction of incentives would also need to be approved by the Central Bank of Ireland prior to implementation.

Benefits of this option

- It aligns the long term interests of executives, the Institution and the taxpayer. Offsetting the introduction of tightly controlled long term incentives against a voluntary reduction in salary could provide an acceptable compromise for senior employees.

- Current regulatory requirements and best practice places much greater emphasis on long term incentive arrangements, while reducing short term incentives. The option would be in line with this.

- If introduced along with salary reductions, there would be a reduction in overall guaranteed remuneration costs. The incentives would only vest or pay out if specific predetermined financial performance criteria had been met.

- The option would be in line with the wider market where incentives are still provided. It would also reduce the level of fixed salary for senior level positions, while focusing on the longer term success of the organisation.

Disadvantages of this option

- There is likely to be a significant negative public reaction to the reintroduction of any type of incentive arrangements for senior executives at the Covered Institutions. Any negative reaction may be mitigated somewhat if the long term incentives are introduced alongside a reduction in salary and are linked to the return to sustainable profitability.

- In the longer term, this approach may add to the overall remuneration costs within the Institutions (even alongside salary reductions) although this should be offset by better financial results.

Option 9: Establish a Clear Policy for Locations Outside Ireland

All the Covered Institutions have operations outside Ireland and typically employ locals to staff and manage these operations. It will be necessary to provide remuneration terms which reflect the local markets and at the same time are consistent with, as far as possible, the Covered Institutions' policies and practices.

Rationale

The current restrictions on the Covered Institutions apply across all geographic locations and not just Ireland. The competitive environments and remuneration structures and trends in these other geographic locations (primarily the UK and the US) are different than those experienced by the Covered Institutions in Ireland. For example the typical levels of incentive paid in the UK and US are higher than in the Irish market. In the US incentives often make up two thirds of an executives salary. As a result, it may be appropriate to review and adjust the current restrictions for locations outside of Ireland to give some discretion to the Covered Institutions to vary their approach to reflect the local market, especially as regard the provision of incentives.

Implementation

Before approval is granted for introducing any changes to current remuneration structures, a strong business case would need to be made. Included in this would be a clear presentation on local market conditions and trends and the impact on the business of being out of line with these. It would also be relevant as to whether the business is central to the future development of the Institution or in some form of run off.

Any new arrangements will still need to tie in as far as possible with the overall organisational remuneration framework and follow corporate guidelines and current best practice in remuneration design. For example:

- Payment of salary increases should follow the criteria outlined above (not provide automatic increments but be performance based, follow an open and transparent process and be based on market positioning);

- Incentive plans should include significant levels of deferrals, a minimum of 3-5 year deferral periods and the inclusion of clawback and malus provisions;

Any new incentive would need to comply with local financial regulation as well as relevant aspects of Irish regulation as defined by the Central Bank of Ireland as the primary regulatory body.

Benefits of this option

- This option would enable the Covered Institutions to structure remuneration packages in line with the local market. For example, Covered Institutions with operations in the corporate banking / capital markets sector in the US, where variable remuneration is a significant part of the overall total remuneration package, report that to compensate for the lack of incentives they have to offer high fixed salaries and that these have been increasing. This is resulting in high fixed costs and limited flexibility in managing employment costs as market conditions change.

Disadvantages of this option

- Total employment costs would increase if, as is likely, local market conditions result in salary increases and/or incentive payments.

- There may be issues regarding internal equity if broad based salary increases and incentive plans are introduced for specific geographic locations and not across the Institution. However, many Irish institutions with overseas operations have had to address this issue and are comfortable with differentiating between local and overseas markets for remuneration.

- The public concern of re-introducing incentives in Covered Institutions – even outside Ireland – requires careful explanation.

Option 10: Introduce Specific Terms for Workout or Run-off Units

Under this option, a remuneration structure would be developed which would reward employees based on the run-off of the loan book. If the work was successfully finished in a shorter timeframe than planned, employees would receive a lump sum payment. This would be designed with consideration to the remuneration and severance employees would have received if the operation had continued in line with the original operational plans.

Rationale

Run-down units are key to maximising the returns (and / or minimising the losses) on the loan books of the Covered Institutions. If a run-down unit manages to complete its work in a shorter timeframe than planned, there could be significant cost saving (or loss reduction). However, this also means that, in effect, employees are working themselves out of a job quicker than anticipated.

In addition, as time goes by, it will be particularly difficult to attract, retain and motivate employees as there will be limited job security. Currently, these roles are in demand in the market and employees are building valuable experience that can then be used to gain alternative employment.

Without some form of retention mechanism, motivation levels in run-down units typically diminish over time. Employees can actually be encouraged to draw out the activity, thus securing greater tenure and related benefits.

Implementation

A retention plan would be designed so that employees receive an additional payment if the unit finishes its work in a shorter timeframe than expected. Additional criteria of meeting the targeted financial performance would also apply so that a payout would only occur if the targeted financial performance was met, in addition to the shorter run-down time.

The payout calculation could take into account expected redundancy payments (assuming continuation of employment until their planned leave date). In addition, a lump sum could be provided based on a specified portion of salary assuming continuation of employment until the expected leave date. The plan could be designed so that there are enhanced payments if financial performance is significantly above the planed target.

The plan would need to be designed in light of the current regulatory environment. To have the plan apply to Identified Employees, the plan design would need to be reviewed by the Regulator to ensure that it is consistent with their interpretation of the relevant regulation.

Benefits of this option

- As the close date draws nearer it will become increasingly difficult to attract and retain employees in these units, particularly for experienced employees with marketable skills. This option would provide employees with an incentive to remain in employment until at least the planned leave date, while encouraging higher levels of performance.

- The option would encourage employees to run down the activity sooner than planned while meeting financial targets.

Disadvantages of this option

- The option would require the introduction of incentive payments into units that are planned to close in the future and may be viewed negatively from the perception of the public.

- The introduction of the retention plan would require careful construction to ensure that the plan does not encourage the wrong behaviours, or provide rewards unrelated to performance.

Appendices

Appendix A: Definitions

The following provides definitions of the key remuneration terms discussed:

25th percentile (Lower quartile) - The data point that is higher than 25% of all other data in the sample when ranked from low to high. Also known as the first quartile. In some cases this may not be an actual data point but an extrapolation.

*** 50th percentile (Median)** - The data point that is higher than 50% of all other data in the sample when ranked from low to high. Also known as the median. In some cases this may not be an actual data point but an extrapolation.

75th percentile (Upper quartile) - The data point that is higher than 75% of all other data in the sample when ranked from low to high. Also known as the third quartile. In some cases this may not be an actual data point but an extrapolation.

*** Average** - The mean or arithmetic average for the reported item

Clawback – vested remuneration is reclaimed based on gross negligence or other malfeasance.

Control Functions – senior employees responsible for heading the compliance, risk management, human resources, internal audit and similar functions.

Forward-looking Long-Term Incentives (LTI) – programs that grant long-term incentive awards for rewarding future success in addition to the short-term incentive award; an LTI award generally vests based on performance over a future multiyear timeframe going forward (e.g., with 2012 grant, performance criteria are set for 2015 achievement and payout)

** When undertaking market reviews, it is best practice to use the median and quartiles as the statistical basis of determining the external market range. Organisations typically then use average salaries when comparing their position to the external market or when undertaking other internal comparisons. Within this review the external market data has been reported using the median and quartiles, while the Institution data has been compared to the market using average remuneration data for each employee grade. This is the standard approach when undertaking this type of remuneration review.*

Incentives – any short term (annual) incentive payments received by employees. All incentive payments have ceased at the Covered Institutions. For 2008, incentives include profit sharing plans where payments were made. Sales commission is excluded and included in Other Payments (this applies to a minority of employees).

Malus – any adjustment in the unvested deferred remuneration in the subsequent or current year, based on performance.

Other Payments – other payments provided to employees including overtime, shift and on-call allowances, car allowances, sales commissions and benefits-in-kind representing the value of benefits paid such as company cars and healthcare.

Pension Contributions – the employer pension contribution for each employee as provided by the Covered Institutions (see data notes above).

Risk-Taking Positions – per organisation's definition; employee members, whose professional activities – either individually or collectively, as a member of a group/unit/department – can exert influence on the institution's risk profile.

Salary – annual salary.

Stock tracking mechanism – remuneration vehicle (payable in stock or cash), the underlying value of which is based on an organisation's stock price.

Total Direct Remuneration – salary plus Incentives (excluding Pension Contributions and Other Payments).

Total Remuneration – the Total Remuneration received by employees comprising Salary, Incentives, Pension Contributions and Other Payments.

Appendix B: Remuneration Changes 2008 – 2012 Continuing Employees

The following tables compare the average salary and average total remuneration for 2008 and 2012 for employees who were in the relevant Covered Institution for the whole of this period. It is based on the employee’s grade in 2012. Thus, for example, for employees that are in the executive grade in 2012, it compares their current salary and current total remuneration to their salary and total remuneration in 2008 even if they were not in the executive grade at that time.

It is important to note that the analysis includes the impact of promotions and the taking on of additional responsibility over the four year period. This is when employees would typically have received a salary increase to reflect their increased level of responsibility during a period of significant restructuring and at a time when a large number of employees have been exiting the organisations. In this regard the Covered Institutions have made the point that it is frequently more cost effective to promote internally rather than to recruit externally and as the salary level of the new incumbent is typically less than that of the previous incumbent this decreases overall salary costs.

The analysis also includes the impact of all broad-based salary increases that were provided in 2009.

Where total remuneration has fallen it is the result of the withdrawal of incentives and the reduction or elimination of some other payments and benefits.

For reasons of data confidentiality, it is not possible to provide the data for the Senior Executive grade.

AIB

2012 Grade	2008	2012	% Change
Executive			
Salary	€159,700	€172,300	+8%
Total Remuneration	€348,600	€226,100	-35%
Senior Manager / Manager			
Salary	€82,500	€86,100	+4%
Total Remuneration	€131,900	€107,800	-18%
Assistant Manager / Senior Specialist			
Salary	€48,500	€51,500	+6%
Total Remuneration	€66,800	€62,500	-6%
Senior Clerical / Specialist			
Salary	€43,100	€44,100	+2%
Total Remuneration	€60,000	€54,700	-9%
Clerical			
Salary	€31,200	€32,600	+4%
Total Remuneration	€39,500	€37,900	-4%

There has been a significant decline in the number of Executives between 2008 and 2012. More than half the executives employed in both 2008 and 2012 have either taken a salary decrease or have had no change to their salary.

In addition to the reduction in total remuneration, employees will have a reduction in their pension benefits.

BoI

2012 Grade	2008	2012	% Change
Executives			
Salary	€173,800	€191,700	+10%
Total Remuneration	€376,800	€245,300	-35%
Senior Manager / Manager			
Salary	€72,400	€76,300	+5%
Total Remuneration	€107,800	€96,500	-10%
Assistant Manager / Senior Specialist			
Salary	€49,300	€50,600	+3%
Total Remuneration	€65,300	€62,300	-5%
Senior Clerical / Specialist			
Salary	€41,800	€42,100	+1%
Total Remuneration	€52,200	€50,700	-3%
Clerical			
Salary	€30,700	€30,700	0%
Total Remuneration	€38,400	€37,400	-3%

In addition to the reduction in total remuneration, employees have had a reduction in their pension benefits valued at 13% of salary.

US employees are not included in the corporate grading structure and are therefore not included in this analysis.

IBRC

2012 Grade	2008	2012	% Change
Executives			
Salary	€163,800	€182,400	+11%
Total Remuneration	€286,200	€254,400	-11%
Senior Manager / Manager			
Salary	€74,500	€87,400	+17%
Total Remuneration	€112,400	€118,600	+6%
Assistant Manager / Senior Specialist			
Salary	€45,700	€55,400	+21%
Total Remuneration	€59,300	€63,600	+7%
Senior Clerical / Specialist			
Salary	€38,500	€42,200	+10%
Total Remuneration	€48,000	€48,900	+2%
Clerical			
Salary	€30,200	€32,200	+7%
Total Remuneration	€36,000	€37,100	+3%

Over the 4 year period there has been a significant change in the nature of the work undertaken by IBRC which has caused a shift in the mix of roles, grades and related skills and expertise needed to manage the wind down of the Institution. This has impacted on average salary.

Over 73% of employees have left during the period. Many of these vacancies have been filled internally, in many cases resulting in promotion.

PTSB

2012 Grade	2008	2012	% Change
Executives			
Salary	€162,300	€168,400	+4%
Total Remuneration	€426,900	€220,200	-48%
Senior Manager / Manager			
Salary	€79,600	€84,500	+6%
Total Remuneration	€131,600	€112,400	-15%
Assistant Manager / Senior Specialist			
Salary	€50,600	€53,700	+6%
Total Remuneration	€67,900	€67,300	-1%
Senior Clerical / Specialist			
Salary	€41,200	€43,800	+6%
Total Remuneration	€53,900	€54,800	+2%
Clerical			
Salary	€29,900	€31,800	+6%
Total Remuneration	€37,400	€38,100	+2%

Increases outside of the 5% (which was based on the LRC determination of 2.5% for each of 2009 and 2010) were awarded in a limited number of cases where a number of senior management were promoted to more senior positions and have taken on significant levels of responsibility. Salary increases are commensurate with the level of responsibility in the new role.

Appendix C: Market data from large Irish PLCs

Chief Executive

	2011 Revenue	Salary	Annual Incentive		Salary + Incentives	Long term Incentive		Total Direct Rem.
			%	Amount		%	Amount	
75%tile	2,671	746	87%	577	1,323	155%	1,238	2,245
Median	1,288	681	66%	420	1,076	77%	549	1,442
25%tile	659	499	46%	300	870	63%	380	1,076
Average	3,004	673	70%	452	1,125	142%	998	1,885

Source: Based on 21 large Irish quoted companies (excluding financial services and natural resources). Data extracted from 2011 Annual Reports. All values in €000s.

Executive Directors

	2011 Revenue	Salary	Annual Incentive		Salary + Incentives	Long term Incentive		Total Direct Rem.
			%	Amount		%	Amount	
75%tile	2,671	490	73%	317	766	96%	683	1,170
Median	1,288	404	46%	227	633	62%	260	730
25%tile	659	331	33%	127	477	45%	146	563
Average	3,004	440	53%	223	651	96%	475	976

Source: Based on 21 large Irish quoted companies (excluding financial services and natural resources). Data extracted from 2011 Annual Reports. All values in €000s.

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