

Report on payment of bonuses in Bank of Ireland

3 March 2011

Background, purpose and compilation of the Report

1.1 In November 2010 a Parliamentary Question (PQ) put down by Deputy Chris Andrews TD sought information on bonus payments to staff made by banks since the commencement of the Government guarantee in September 2008. In a response to the Department of Finance, Bank of Ireland stated that no performance-related bonuses were paid "with respect to the financial years to March 2009 and December 2009". The bank also added:

"A small number of people at middle management level received payments which reflected either guarantees which were agreed on their joining the Group or deferred payments where the historic performance criteria had been achieved and the payment was deferred over several years. For commercial reasons BoI do not disclose the amount of such payments. The bank advises that it had no legal discretion in these matters."

1.2 The statement clearly implied that no performance related bonuses were paid to senior staff and that performance related bonuses were not paid to other staff unless the Bank of Ireland already had specific contractual obligations arrangements to make the payments. It subsequently emerged that the information provided by the Bank of Ireland was wrong.

1.3 This report is the outcome of an intensive investigation to ensure that Bank of Ireland now provides accurate information in relation to additional payments to staff in the period since the commencement of the guarantee and to ascertain

- the reason for the provision by the bank of incorrect information for use in the reply to the PQ and recommend appropriate action;
- whether payments made to Senior Executive Team (SET) were in accordance with the Subscription Agreement for the State's capital injection in 2009;
- whether bonus payments made to other staff were in accordance with the Subscription Agreement;
- whether the bank disclosed all bonuses to the SET for the due diligence report and fulfilled the warranty given in the Subscription Agreement;
- the position in relation to possible future payments in 2011 and onwards and recommend the appropriate action; and
- whether the due diligence report prepared by Arthur Cox revealed an accurate picture of the bank in relation to bonuses.

1.4 The completion of the investigation into the failure of Bank of Ireland to compile the material needed in response to the Parliamentary Question in November 2010, was impeded and delayed by the provision by Bank of Ireland of data from their Group HR system that had to be continually probed and refined by the Department. This report is based on assurances given to the Department by Bank of Ireland that all relevant information has now been corrected by reference to the Group Internal Audit review.

Summary

2.1 Bonus and quasi-bonus payments made to Bank of Ireland staff from September 2008 to December 2010 – a period during which the bank has been in receipt of substantial Exchequer support amounted to **€66.37 million**. Such payments fall into four categories:

Discretionary Bonus Payments (**€0.979 million**). These include payments made in businesses which have been closed down, sold or are for sale/wind down.

Range of Contractual Payments (guaranteed bonuses, contractual guarantees, Cash LTIP's and deferred bonuses (**€30.792 million**).

Retention Payments (**€1.359 million**)

Commission Type Payments (**€23.244 million**).

The Department of Finance regards all of these as linked to performance. However, Bank of Ireland continue to maintain that payments made to staff that were unequivocally performance-related bonuses were described in ways that were “open to different interpretations”. Arthur Cox have made it clear that Bank of Ireland used “a restrictive and uncommon interpretation of what constituted a performance bonus” which was different from the definition used in the Subscription Agreement. This report notes that some members of the SET have accepted cuts in their salaries and waivers or reductions in additional payments relative to their contracts.

The details of the additional payments made revealed by the investigation are as follows:

2.2 SET members were paid previously contracted bonuses (LTIPs, deferred bonuses, contractual bonuses/ guaranteed bonuses, retention payments) in 2009 & 2010, amounting to **€4.3 million**.

2.3 SET members are due to be paid **€0.6 million** in 2011 (retention, deferred bonus and Cash LTIPs) and one deferred bonus payment of **€0.2 million** in 2012. Excluding these, all SET members have now irrevocably waived bonus payments which would have been paid in future years.

2.4 The bank has advised that payments of up to circa €1 million may be payable by the Group in 2011 under certain bonuses categories where payment has been deferred or with respect to retention payments.

2.5 In addition, in 2011 the bank has budgeted to spend **€10 million** on commission payments although it may be accepted that these would not normally be considered as performance related bonuses. These include payments due in businesses for sale/wind down.

3. Findings

3.1 The bank has given unequivocal assurances that they have **now** provided accurate information in relation to additional payments to staff.

3.2 The information provided for use in the reply to the PQ was presented in a manner which minimised the level of additional payments made. The bank has now accepted that it provided incorrect information for the PQ although the bank maintains it had no intention to mislead. Arising from this error, it is recommended that in future, material provided to the Department for use in PQ replies should be authorised by the Group Chief Executive or at a senior level within the bank.

3.3 The Subscription Agreement for the Government injection of capital in 2009 contained requirements in relation to bonuses for SET members only. As far as can be ascertained from the material provided by the bank, it would seem that bonus payments made to the SET and to other staff were made under pre-existing contracts and thus were in accordance with the Subscription Agreement.

3.4 The information supplied by the bank for the diligence report was incomplete and misleading in some respects and thus did not fulfil a Bank of Ireland warranty in relation to additional payments given in the Subscription Agreement.

3.5 It is recommended that future support for Bank of Ireland be conditional on compliance with Government policy.

4. Issue 1- to ensure that the bank has provided accurate information in relation to additional payments to staff in the period since the commencement of the guarantee

4.1 Details of the payments made by the bank since the introduction of the bank guarantee scheme have been received and the bank have given an assurance that the latest tables (attached at Appendix 1) provided by the bank accurately summarise the details of these payments.

4.2 The bank was questioned about the methodology by which they retrieved details of the additional bonus type payments. The bank stated that it downloaded information from its computer systems which could potentially relate to bonus payments by extracting the coding types which could potentially include a remuneration related element. The bank described this as a much broader definition than just cash bonus payments. As a result, a large amount of data, over 30,000 items, was retrieved. These items were manually categorised into the following categories:

- (i) Annual discretionary performance bonus
- (ii) Guaranteed bonus / contractual guarantees
- (iii) Cash Long Term Incentive Plans (LTIPs) / deferred bonuses
- (iv) Retention payments
- (v) Commission

- (vi) Other payments (e.g. shift allowances, acting up allowances, any other non bonus related payments that were incorrectly coded as ‘cash bonus’) These are not of concern here.

4.3 The bank separately obtained the required information in relation to US employees who are not on the computer system. The computer systems or the manual systems from which the details were retrieved were not specifically examined by the Department as this would have required more resources than are available. However the bank has given assurances that it has retrieved the details of the additional payments in line with the undertakings it has given and that it has not concealed any payments from the Department. The level of information provided suggests that there would be little point in the bank deliberately concealing other information although the catalogue of errors committed by the bank throughout this episode still gives cause for some residual risks. It is also relevant that information in relation to certain payments was leaked to a journalist and the bank would be taking a major risk in concealing other payments which could also be disclosed in this way.

4.4 The bank has advised the Department that it has now made extensive efforts to retrieve all relevant information. The Department is not in a position to audit or forensically examine these data.

4.5 The bank compiled the raw data into the summary tables it submitted. A purported final version of the table was submitted earlier but was found to contain a number of inaccuracies. A previous version –also inaccurate- had been cleared by the Remuneration Committee of the bank. While the diverse computer systems and difficulties experienced in retrieving the data are relevant, the failure to accurately summarise these data in tabular form suggests a lack of attention to detail by the bank. It was made clear to the bank that this information was required to correct the record created on the basis of information provided by the bank and presented by the Minister to Dáil Éireann, which subsequently proved to be incorrect.

4.6 The Department is satisfied that the tables now provided accurately reflect the raw data and that earlier inaccuracies and omissions have been corrected by the review of the bank’s Group Internal Audit.

4.7 The bank has confirmed that all historical bonuses have either been paid as notified or have been irrevocably waived. It confirmed that there are no bonuses outstanding for the years up to 2010 which the bank has any liability to pay. The bank has provided full details of all bonuses payable in 2011 and one bonus payable in 2012. Apart from those members of the SET included in these details, all future bonuses to SET members have been irrevocably waived. This has been confirmed in writing by the Group Chief Executive. In addition as noted below, the bank intends paying bonuses to people who are not members of the SET in 2011.

5. Issue 2- To ascertain the reason for the provision by the bank of incorrect information for the PQ reply and recommend appropriate action

5.1 The total additional payments, LTIPs, deferred bonuses, contractual bonuses/ guaranteed bonuses (€30, 792 million), retention payments (€1,359 million) discretionary bonuses (€0.979 million) made by the bank to employees amount to approximately €43 million since the introduction of the guarantee excluding

commission amounting to €23 million. Figures confirmed in writing by the Group Chief Executive, were subsequently found by the Bank's Group Internal Audit Review to have been wrong and have now been amended and authorised by Bank of Ireland.

5.2 The bank provided a statement to the Department on 30 November for use in the PQ reply. It stated as follows:

“The Bank has previously disclosed that General Pay Increases have not been granted to staff during 2009 and 2010. Nor were any performance related bonuses paid to staff in Bank of Ireland with respect to the financial years to March 2009 and December 2009.

.....

As previously disclosed, a small number of people at middle management level received payments which reflected either guarantees which were agreed on their joining the Group or deferred payments where the historic performance criteria had been achieved and the payment was deferred over several years. For commercial reasons we do not disclose the amount of such payments. The Bank had no legal discretion in these matters.”

5.3 This reply was consistent with the requirement in the Subscription Agreement that “no annual bonus calculated on the basis of or related to the performance of any individual, any team or department or division, or the Company or Group as a whole shall be paid to any Senior Executive in respect of the financial year ended 31 March 2009 or the financial year ended 31 March 2010.”

5.4 It was also consistent with the statement made in the due diligence process that all Senior Executives had agreed to waive their respective performance bonuses for 2008/2009 and 2009/2010 although this was qualified because it did not extend to deferred bonuses, individual retention bonuses and LTIPs. An edited version of the bank's reply was included in the overall PQ reply. However the Subscription Agreement and the due diligence which preceded it only covered the SET and did not refer to other staff of the bank.

5.5 The bank provided information for use in the reply to the PQ was presented in a manner which minimised the level of additional payments made.. It stated that it used the term “performance bonus” to cover discretionary non individually contracted bonus schemes. The bank's interpretation of the term “performance bonus” therefore excluded individually contracted bonus payments **even where these contained a performance element and payment was dependent on individual or business performance.** The bank did not make it clear in the material provided for the PQ response that it was using this interpretation. The bank still has not unequivocally accepted that the information it provided was incorrect although it has apologised. While the bank may argue about the meaning it applies to the term “performance bonus”, it is clear that a normal reading of the term would include any bonus where payment is dependent on performance to any extent. It is also clear that some members of the Senior Executive Team received such payments and that the reference to a “small number of people at middle management level” who received payments was incorrect.

5.6 The bank has provided a description of the payments it makes and it stated as follows:

“In most instances when a payment has been earned / contracted and is to be paid at a future date there is also a requirement that in the period prior to receipt of the payment they must have received minimum “satisfactory” performance ratings on our performance rating systems so as to protect the Bank against dysfunctional behaviour by employees awaiting receipt of such a payment.”

5.7 This statement cannot be reconciled with the bank’s restriction of the term “performance bonus” to discretionary non-individually contracted bonus schemes.

5.8 The bank’s contention that because these were bonuses to which the employees were contractually entitled, they should not be termed performance bonuses is not accepted. The bank has confirmed that Long Term Incentive Programme bonuses are subject to the achievement of agreed business and individual objectives which makes them performance related by any normal definition of the term.

5.9 As long as the Government operates at arms’ length from the running of the bank, the Department does not have access to the raw data underlying replies to PQs and is reliant on the completeness, accuracy and factual nature of the information provided by the bank. It is appreciated that some of this information is sensitive within the bank but that is no excuse for providing inaccurate or misleading information to Dáil Éireann, even if unintentionally. **Accordingly, it is recommended that any future PQs in relation to personnel or other important matters be authorised by the Group Chief Executive or at a senior level within the bank to ensure that this does not occur in the future.**

6. Issue 3- to ascertain whether payments made to Senior Executive Team were in accordance with the Subscription Agreement

6.1 The total amount of guaranteed/contractual bonuses, cash LTIPS, deferred bonuses and retention bonuses paid by the bank since the start of the guarantee scheme to members of the Senior Executive Team is €4.3 million.

6.2 The Subscription Agreement at Clause 5.3(a) (ii) provided that *“no annual bonus calculated on the basis of or related to the performance of any individual, any team or department or division, or the Company or Group as a whole shall be paid to any Senior Executive in respect of the financial year ended 31 March 2009 or the financial year ended 31 March 2010.”*

6.3 It also provided that *“Where any conflict arises between the commitments given by the Company in clause 5.3(a) and the statutory or pre-existing contractual rights of any of the directors, officers, employees or service providers concerned, the statutory or pre-existing contractual rights will prevail and the Company will, to that extent, be released from the relevant commitment contained in Clause 5.3(a)”*

6.4 Documentation has been provided by the bank in relation to one specific individual who received a substantial bonus in 2010 and this supports the bank’s contention that the payment was in discharge of a pre-existing contractual liability.

6.5 Documentation has also been supplied in respect of three further individuals who received bonus payments. This also supports the bank's contention that these payments were in discharge of a pre-existing contractual liability.

6.6 On the basis of the documentation examined in respect of certain individuals and an acceptance that other individuals have similar contracts, **it may be accepted that these payments were in discharge of pre-existing contractual rights and were therefore not a breach of the Subscription Agreement.**

7. Issue 4- to ascertain whether bonus payments made to other staff were in accordance with the Subscription Agreement

7.1 The information provided by the bank shows that significant payments were made to other staff outside the SET. The Subscription Agreement did not prohibit payments of bonuses to staff other than the SET. It was within the competence of the bank's management to implement whatever reward policy it considered appropriate for its staff who were not members of the SET. **Such payments were not prohibited by the Subscription Agreement.**

7.2 Issue 5 - to ascertain whether the bank disclosed all bonuses to the Senior Executive Team for the due diligence report and fulfilled the warranty given in the Subscription Agreement

7.3 There were 55 members of the SET at the time of the due diligence. The bank gave a warranty as part of the Subscription Agreement that

"16.1 The Group has disclosed as part of the legal due diligence process carried out by the Subscriber in contemplation of the Subscription all bonus, severance, gratuity and reward arrangements of the Senior Employees whether such arrangements are formalised in the relevant Group Company's policies or service agreements or arise from once-off or ad-hoc arrangements and all bonus, severance, gratuity and/or reward payments made to the Senior Employees (or any of them) have been paid in compliance with the terms of the applicable schemes disclosed as part of the legal due diligence process or the individual Senior Employee's contract of employment (as the case may be).

16.2 Neither the Group nor any Group Company has any present or future liability to pay any bonus, severance, gratuity or reward to any of the Senior Employees that has not been disclosed as part of the legal due diligence process carried out by the Subscriber in contemplation of the Subscription and no Group Company has any liability to increase the amount of bonus, severance, gratuity and/or reward payments to any of the Senior Employees or to confer any additional benefits on any of the Senior Employees."

7.4 Following an examination of the due diligence report and the details supplied by the bank of the payments made to Senior Executives, it became clear that the details in respect of two Senior Executives were omitted from the due diligence disclosures. One of these received a payment of €300,000 which was not disclosed. The second individual has received payments totalling almost €600,000 for 2009-10 and is due a further €125,000 in 2011.

7.5 The bank has accepted that this was an omission and says that it was unable to establish why the information on these two individuals was not included. It attributes the omission to inadequate HR records and the fact that these were not centralised.

7.6 It also emerged that a payment of €200,000 to a third individual due in 2012 was not disclosed.

7.7 The bank contended that it was not required to disclose this because it was outside the three years covered by the due diligence report but clearly the warranty was not limited to any particular time period so this contention is not accepted.

7.8 The Department is as satisfied as it can be that the bank did not disclose all bonuses to the SET for the due diligence report and that it did not fulfil the warranty given in the Subscription Agreement. However, this may not have been a deliberate omission because the bank did disclose other bonuses and had nothing to gain by failing to disclose these.

7.9 Overall payments totalling over €1.2 million were not disclosed in the due diligence process. In a commercial situation, the remedy for failure to disclose liabilities would be compensation for the damage or losses suffered by the investor on foot of this failure. In this case, it would involve bringing a court action to prove a breach of warranties and proving a loss to the State which may be difficult.

7.10 Even in respect of those bonus entitlements which were disclosed, the bank had advised that *“all Senior Employees have agreed to waive their respective performance bonuses for 2008-2009 and 2009/2010”* This is dealt with in section 9 below.

7.11 Therefore it is recommended that a financial contribution to the exchequer of € million be made by the bank.

8. Issue 6- To ascertain the position in relation to possible future payments in 2011 and onwards and recommend the appropriate action

8.1 The bank has confirmed in writing the number of people who it describes as scheduled to receive bonus payments in 2011. It stated that no one will receive what it terms as an “annual discretionary performance bonus” which it considers to cover “non-individually contracted bonus schemes”. These have been cancelled since 2008.

8.2 During the course of the investigation, the bank advised that it expected to make payments of €8 million in 2011 to approximately 150 staff under the categories of guaranteed/contractual bonuses and cash LTIPs/deferred bonuses. (€0.6 million to SET members and €7.4 million to other staff.) It also intended making retention payments totalling over €4 million to approximately 100 staff. The bank has now accepted that the guaranteed/contractual bonuses and cash LTIPs/deferred bonuses all are reliant to a greater or lesser extent on performance. It has stated that retention payments have two criteria for payment, (i) that the employee remains in employment and (ii) that the employee does not behave in a dysfunctional manner while awaiting payment. All these payments are considered to be performance based bonuses. The bank has now revised these estimates and has advised that payments of up to circa €1 million may be payable by the Group in 2011 under certain bonuses categories where payment has been deferred or with respect to retention payments. The bank has

advised that the quantum of such payments will be influenced by, amongst other things, the plans for such businesses, for example where a business is being sold a purchaser may assume responsibility for such payments as a legal obligation of such a business to the relevant staff. Other factors such as whether relevant staff will continue to be employed by the bank will also influence the quantum of any payments which might be made.

8.3 In addition, the bank has budgeted to spend up to €10 million on commission payments although it may be accepted that these would not be normally considered as performance related bonuses. These include payments due in businesses for sale/ wind down.

8.4 The Credit Institutions (Stabilisation) Act 2010 provides in Section 51 that the Minister for Finance may impose conditions on the provision of further State support to a Credit Institution, and in particular may impose conditions regarding the payment or non-payment of performance bonuses.

8.5 The bank has stated that it has a number of obligations under its EU agreed plan in relation to divestment businesses including taking reasonable steps to retain key personnel prior to divestment. It has argued that retention/guaranteed bonus schemes are critical in meeting the bank's objectives and obligations. It also stated that some overseas remuneration markets are becoming more competitive and failure to honour retention arrangements will lead to litigation and loss of key staff.

8.6 In December 2010, AIB was informed that the provision of further State funding would be conditional, inter alia, on the non-payment of any performance bonuses, no matter when they may have been earned. This prohibition on bonuses was aimed to serve the public interest, both aimed at reducing the cost of remuneration and in securing the necessary support from the Irish people for the Government's actions in support of the bank. Keeping systemically important banks functioning is clearly in the public interest but without a measure of public acceptance for the steps being taken, no Government could ask taxpayers to finance support for the banks on the scale needed.

8.7 On balance, it is considered that it is appropriate to treat Bank of Ireland in the same manner as AIB in relation to the payment of performance bonuses and that the provision of further State funding should be conditional, inter alia, on the non-payment of any performance bonuses, no matter when they may have been earned. However, it may be accepted that specific cases may arise where the public interest may require the payment of certain bonuses to specific individuals in order to maintain or increase the value of specific units of the bank. Such cases will require specific sanction for their exclusion from the blanket prohibition on the payment of performance bonuses.

9. Issue 7 - To ascertain whether the due diligence report prepared by Arthur Cox revealed an accurate picture of the bank in relation to bonuses

9.1 The due diligence report was confined to the SET in relation to bonus payments. As concluded above, the Department is satisfied that the bank did not disclose certain Senior Executive bonus commitments, amounting to €1.2 million, in the due diligence

process. As a result, the due diligence report did not contain any reference to these commitments.

9.2 As also concluded above, their subsequent payment was in discharge of pre-existing contractual rights and was therefore not a breach of the Subscription Agreement. The amounts involved, while significant, may be considered in the context of the €3.5 billion invested in the bank.

9.3 Arthur Cox have explained the process of the diligence exercise and has drawn particular attention to the assumption documented in the report that

“The Information provided being accurate and complete information and that the Bank and all of their representatives...acted in good faith at all times in relation thereto, and in particular with respect to the disclosure thereof, and that no party has omitted to inform them of any matter or thing which was material in relation to the enquiries raised by them.”

9.4 The issue of bonus payments was, and still is, an important issue and was of greater significance than the sums of money involved. That is, bonuses were “material” to the recapitalisation in a way that they might not have been in a private commercial deal. Arthur Cox have pointed out that there was a “substantial emphasis on remuneration and bonuses” and it accounted for over 25% of the report. It must also be borne in mind that the report was a “red flag” type report whose purpose was to ensure that there were no significant issues which would prevent the subscription being made.

9.5 The Subscription Agreement provided that “no annual bonus calculated on the basis of or related to the performance of any individual, any team or department or division, or the Company or Group as a whole shall be paid to any Senior Executive in respect of the financial year ended 31 March 2009 or the financial year ended 31 March 2010.” This broad definition reflected the intention that bonuses, however described or earned, would not be paid.

9.6 As noted above, the bank’s interpretation of term “performance bonus” excluded individually contracted bonus payments **even where these contained a performance element and payment was dependent on individual or business performance.** Arthur Cox are clear that the bank’s terminology relating to the definition of performance bonuses is not normal business usage.

9.7 Arthur Cox have confirmed that “As part of its response to diligence enquiries, the Bank confirmed that no performance bonuses would be paid to the SET in respect of the years 2009 or 2010.” Arthur Cox also stated that it “subsequently transpired that the Bank did not disclose complete information in respect of SET performance bonuses in the due diligence process, as it appears to have applied a restrictive and uncommon interpretation of what constituted a ‘performance bonus’ in answering diligence queries on the topic.”

9.8 The diligence report stated that

“We are advised that all Senior Employees have agreed to waive their respective performance bonuses for 2008-2009 and 2009/2010. However the

waiver of “performance bonuses” does not extend to the deferred elements of prior bonus awards, individual retention/sign on bonuses, LTIP or ESOS awards.”

9.9 It also stated

“The non-payment of performance bonuses also excludes awards under the LTIP, ESOS, release of deferred bonuses and the payment of contractual buyouts and retention awards.

In circumstances where the Bank has created contractual entitlements to performance bonuses, it will not be possible to unilaterally impose reductions in respect of these bonuses. To the extent that these bonuses are to be reduced, it will be necessary to secure the agreement of the individuals concerned. We have been advised that all members of the SET agreed to waive their performance bonuses for 2008-2009 and 2009/2010. ”

9.10 These rather complex statements from the bank did not provide the clarity necessary to determine what exactly had really been waived by Senior Executives in relation to performance bonuses.

9.11 The report contained a table listing deferred bonuses due for release in the next three years. This did not include LTIPs which amounted to just over €1 million (although they were described by Arthur Cox elsewhere in the report). As noted above, the bank has now accepted that LTIPs are reliant on performance.

9.12 The failure of the bank to fully disclose information on bonus payments to Senior Executives, the lack of clarity on what had been waived by Senior Executives in relation to performance bonuses and the absence of a total value for the Senior Executives' LTIPs meant that an incomplete picture of the position in relation to bonus payments to Senior Executives in the bank was reported. This misled the Minister and Department of Finance in relation to bonus payments to Senior Executives of the bank.

9.13 Arthur Cox have advised that the due diligence report accurately reported the information made available by the bank and met the report's agreed scope and materiality thresholds in the context of the €3.5 billion State investment in the bank and the Department accepts that this is the case.

ENDS

Details of bonus payments in the relevant periods:

| | 30 Sep – 31 Dec 2008 | Jan - Dec 2009 | Jan - Dec 2010** |
|---|---------------------------------|---------------------------|-----------------------------|
| Total Number of Employees to whom bonuses were paid * | 75 | 610 | 164 |
| Annual discretionary performance bonus | €0.106m | €0.873m *** | €0 |
| Of which ROI | €0.106m | €0.834m | €0 |
| Of which is outside of ROI | €0 | €0.039 | €0 |
| Guaranteed bonuses / Contractual Guarantees/ Cash LTIPs / Deferred bonuses | €2.393m | €17.329m | €11.07m |
| Of which ROI (primarily guarantees given prior to 2009) | €0.794m | €10.592m | €8.393m |
| Of which is outside of ROI | €1.599m | €6.737m | €2.677m |

* Includes businesses currently being sold

** Bank of Ireland Group changed its year-end in 2010

*** Although paid in January 2009, these annual discretionary performance bonuses relate to the 2007/08 performance period for the employees in question

Guaranteed Bonuses/Contractual Guarantees are payments to which employees have a contractual entitlement and are usually subject to the condition that the employee remains in the employment of Bank of Ireland on the payment date. They are designed to assist in the appointment of key employees (where the Guaranteed Bonus will typically be paid at the end of the first year) and to retain key employees.

Cash LTIPs refer to payments made under a Long Term Incentive Programme under which incentive payments are granted (but not paid) periodically to participants subject to achievement of agreed business and individual objectives over an agreed timeframe. They are designed to retain employees in the employment of Bank of Ireland over that time. Once the various grants have been declared, the employee has a non-discretionary contractual entitlement to the payment at the end of the Programme.

Deferred Bonuses arise in the following circumstances. Typically a bonus is declared for a particular year but payment of a substantial part of that declared bonus is deferred for a number of years and the deferred amount is paid only if the employee remains in the employment of Bank of Ireland on the date to which the bonus is deferred. Once Bank of Ireland has declared the bonus, the employee has a

contractual entitlement to the deferred payment, conditional on remaining in the employment of Bank of Ireland until the deferred date.

Supplementary information

For the sake of completeness, apart from bonus payments, Bank of Ireland also wishes to provide details of other payments, namely retention payments and commissions, paid in the requested period. The number of employees who received payments under retention and commission may include some individuals who received a payment under both elements.

1. Retention Payments

| | 30 Sep – 31 Dec 2008 | Jan - Dec 2009 | Jan - Dec 2010** |
|--|-------------------------|-------------------|---------------------|
| Total Number of Employees to whom payments were made* | 0 | 16 | 178 |
| Retention Payments | €0 | €1.065m | €10.294m |
| Of which ROI | €0 | €0.286m | €1.199m |
| Of which is outside of ROI | €0 | €0.779m | €9.095m |

* Includes businesses currently being sold

** Bank of Ireland Group changed its year-end in 2010

Retention Payments are put in place in order to incentivise employees to remain in the employment of Bank of Ireland for a defined period of time. The employee has a contractual entitlement to the payment provided that he or she remains in the employment of Bank of Ireland until the payment date. Typically, Retention Payment arrangements are put in place for:

- Key employees who are employed in businesses that are for sale or in wind-down, in order to retain them during the sale period and into the new ownership.
- Key employees in overseas markets where remuneration in financial services has progressed since 2009.
- A small number of key employees in key businesses/projects/roles in Ireland who might otherwise leave the employment of Bank of Ireland.

2. Commission Payments

| | 30 Sep – 31 Dec 2008 | Jan - Dec 2009 | Jan - Dec 2010* |
|--|---------------------------------|---------------------------|----------------------------|
| Total Number of Employees to whom payments were made | 143 | 313 | 445 |
| Commission Type Contractual Payments | €0.699m | €8.150m | €14.395m |
| Of which ROI (increase in 2010 over 2009 due to combination of increased volume of sales activity and the withholding of certain commissions in 2009) | €0.699m | €5.996m | €10.441m |
| Of which is outside of ROI | €0 | €2.154m | €3.954m |

* Bank of Ireland Group changed its year-end in 2010

Commission type contractual payments are payments made in specific parts of Bank of Ireland's business (for example, traders in Global Markets and the life assurance/pensions salesforce) where, in accordance with market norms, they form a significant part of the contractual remuneration package of employees and are based on sales or revenues generated by individuals. Typically the employees are aware at all times of their commission entitlement / earnings throughout each financial year. They are calculated in accordance with well established formulae and paid either annually or periodically through the payroll. Without payments of that type, key revenue generating employees in those highly competitive areas would simply depart, thereby significantly damaging the value of the business.

NOTE

In most instances when a payment has been earned/contracted and is to be paid at a future date there is also a requirement that in the period prior to receipt of the payment they must have received minimum "satisfactory" performance ratings on our performance rating systems so as to protect the Bank against dysfunctional behaviour by employees awaiting receipt of such a payment.