

AIB Group



Remuneration Policy

December 2019

1. Introduction

The AIB Group Remuneration Policy sets the framework for all remuneration related policies, procedures and practices for all employees and directors of AIB Group. The principal aim of the Remuneration Policy is to support AIB in becoming a bank to believe in, recognised for outstanding customer experience and superior financial performance. The Remuneration Policy is designed to foster a truly customer focussed culture; to create long term sustainable value for our customers and shareholders; to attract, develop and retain the best people and to safeguard the bank's capital, liquidity and risk positions.

2. Scope & Applicability

This policy applies to all employees and directors of AIB Group.

3. Regulatory Compliance

Remuneration policies, procedures and practices reflect the provisions, where applicable, of national and EU legislation, State Agreements and commitments provided to the Irish Government, the Capital Requirements Directive (CRD IV) and relevant guidelines issued by the European Banking Authority (EBA) and other regulatory authorities.

4. Remuneration Philosophy

The Board recognises that the long-term success of the Group is dependent on the talent of employees and, in particular, the ability to consistently perform at the highest level in the best interests of our customers. The Board aims to ensure that remuneration is aligned with performance and that employees are rewarded fairly and competitively for their contribution to the Group's future success and growth.

5. Remuneration Principles

AIB is committed to a simple, transparent and affordable reward structure incorporating the following key principles:-

- i. **Fair:** AIB aims to reward employees fairly and transparently for their contribution and to ensure that all employees have equal opportunity to progress their careers and enhance their earning potential irrespective of gender, age, religion, disability, sexual orientation, political affiliation or ethnic background.
- ii. **Performance Based:** Performance management plays a critical role in aligning individual objectives with AIB's overall strategy, financial & non-financial goals and brand values. Performance outcomes, using a combination of "What" objectives and "How" behaviours, inform individual remuneration and provide a clear link between performance and remuneration.
- iii. **Externally Aligned:** AIB aims to align remuneration with industry peers and competitors for talent in each of AIB's principal geographical locations, assessed against market benchmarks from recognised providers of benchmarking data.
- iv. **Risk Aligned:** Remuneration is designed to promote high performance, a strong risk management culture and risk-taking which is aligned to AIB's Risk Appetite Statement. All employees are required to have a risk objective in their performance management plan. Increases in remuneration and the potential awarding of variable remuneration will at all times be predicated on the Group's ability to pay and on maintaining strong capital and liquidity levels.

6. Remuneration Constraints

The application of market aligned remuneration policies and practices are significantly constrained by the terms of Subscription and Placing Agreements entered into between AIB and the Irish Government. In particular, AIB is precluded from introducing any new bonus or incentive schemes, allowances or other fringe benefits without prior agreement with the State. Consequently, the absence of performance based variable pay, combined with the requirement to operate within an overall cap on individual salaries and allowances of €500k, precludes AIB from aligning the remuneration of key executives and other key employees with the achievement of longer term customer, financial and strategic targets.

7. Individual Remuneration

Individual remuneration consists of all forms of fixed and variable payments, including base salary, allowances, employer pension contributions and non-financial benefits. The combination of all reward elements comprises the total remuneration to the individual. Each individual is paid a base salary which reflects their role, skills and responsibilities.

Increases in remuneration are performance based, determined by performance against objectives which, in turn, reflect AIB's strategy, goals and values. Increases in base salary may arise following the annual pay review process, through progression and promotion and, in exceptional cases only, through out-of-course salary increases to ensure that business critical staff and key skills are competitively aligned.

It is the bank's policy to engage in ongoing dialogue and negotiations with staff representatives, notably the FS Union, and to comply with agreed pay outcomes and the recommendations of State bodies such as the Labour Court and the Workplace Relations Committee.

8. Remuneration Structure

8.1 Fixed Remuneration

Base Salary & Allowances

AIB's current remuneration structure predominantly consists of fixed pay elements, i.e. base salary, allowances and employer pension contributions. Base salary is the principal component of fixed remuneration and is designed to be fair and competitive and set according to appropriate salary ranges which reflect the size and level of responsibilities attached to each role.

Allowances mainly consist of non-pensionable cash allowances which are payable to eligible senior employees which recognise equivalent benefits and allowances available in the market.

Pension

AIB places considerable emphasis on the need for employees to plan for an appropriate standard of living in retirement. In Ireland and the UK, AIB offers employees a highly competitive defined contribution pension benefit. Employees are enrolled in the Group and UK schemes which provide a standard employer contribution rate of 10% of base salary plus an additional matching employer contribution depending on the age of the employee. In the US, a similarly competitive defined contribution benefit is offered to employees. Death-in-service cover is also provided under the schemes.

Benefits and Wellbeing

AIB provides affordable benefits in accordance with local market practice, including medical insurance, income protection and free banking services. The bank operates a functional car scheme where employees require a car to carry out their duties and responsibilities effectively. AIB does not

provide company cars outside of the functional car policy, and does not provide preferential interest rates on new employee borrowings or deposits.

AIB takes the wellbeing of employees very seriously and provides access to a variety of health and wellbeing initiatives.

8.2 Variable Remuneration

Group-Wide Variable Remuneration

AIB does not currently operate any Group-wide short or long term variable incentive schemes or share incentive plans.

Business Specific Commission Schemes

AIB currently operates three variable commission schemes applicable to:-

- i. Financial Planning Advisors;
- ii. EBS Tied Agents; and,
- iii. Finance & Leasing

These schemes are designed to ensure that the rights and interests of customers are protected at all times via robust customer centric performance criteria, the prevention of conflicts of interest and the assessment and mitigation of risks to the customer.

Future Variable Schemes

It is the intention of AIB to introduce variable remuneration at an appropriate future date. Future variable incentive schemes will be designed to reward superior customer outcomes, high performance and long term value creation. At the discretion of the Remuneration Committee, performance will be assessed against a combination of risk-adjusted financial measures, non-financial measures, individual performance, business unit performance and the overall Group performance.

9. Remuneration of Key Employee Groups

9.1 Non-Executive Directors

Non-Executive Directors are paid a competitive, non-pensionable fee in respect of their services as directors and additional non-pensionable fees in respect of other responsibilities, such as the chairmanship or membership of board committees or the board of a subsidiary company or in performing the role of senior independent non-executive director, reflecting the time commitment and the responsibilities of the role. The remuneration of Non-Executive Directors is reviewed as appropriate by a group comprising the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, Chief People Officer and Group Company Secretary. Non-Executive Directors' fees are determined by the Board, within the limits set by shareholders, in accordance with the Articles of Association. Non-Executive Directors are not entitled to variable remuneration including share options.

Non-Executive Directors are entitled to reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of their duties, including travel expenses, and the use of a pool car and driver.

9.2 Executive Directors and members of the Executive Committee (ExCo)

Executive Directors of the Boards of AIB Group plc and Allied Irish Banks, p.l.c. consist of the Chief Executive Officer and the Deputy Chief Executive Officer. Members of ExCo consist of other senior executives appointed to the Group Executive Committee.

The remuneration of Executive Directors and members of the ExCo is determined on appointment by the Remuneration Committee. The level of remuneration aims to provide an appropriate level of competitive remuneration commensurate with the size and functional responsibilities attaching to their roles.

In line with current remuneration restrictions on the introduction of variable pay and a cap on individual salaries and allowances of €500,000, remuneration principally consists of base salary, allowances and pension contributions. Allowances consist of non-pensionable cash allowances of up to €30,000, subject to salary and allowances remaining within the €500,000 cap, while employer pension contributions of up to 20% of base salary are payable to Executive Directors and ExCo members. All other employees receive a minimum employer pension contribution of 10%, with the option of additional employer matching contributions of up to 2%, 5% or 8% based on age. All of the Group's defined benefit pension schemes were closed to future accrual on 31st December 2013 and all Group employees accrue pension benefits on a defined contribution basis from 1st January 2014. Other benefits include medical insurance (US and GB only), income protection, death-in-service cover and free banking services. Relocation costs, including tax advice, accommodation and flight allowances, may be made in line with market practice. Occasional use of a pool car and driver is also provided. The Remuneration Committee retains the right to provide additional benefits subject to current remuneration restrictions.

The Remuneration Committee undertakes a periodic review of the remuneration of Executive Directors and members of ExCo against external benchmark data provided by AIB's external remuneration consultants. Individual fixed and total remuneration are assessed against median, lower quartile and upper quartile benchmarks across an appropriate peer group in the Republic of Ireland, United Kingdom and other European countries.

Increases in base salary may be awarded following the outcome of the annual pay review or, alternatively, to reflect a significant increase in the scope of responsibility of an Executive Director or member of the ExCo. Executive Directors' remuneration is disclosed annually as part of the Directors' Remuneration Report in the Annual Financial Report.

9.3 Material Risk Takers

AIB is required to maintain a list of employees whose professional activities have a material impact on the Bank's risk profile ("Identified Staff"). The list of Identified Staff is prepared using a combination of qualitative and quantitative criteria in accordance with the relevant EU regulations and guidelines together with additional criteria specific to AIB's structure, business activities and risk profile. The list is prepared at Group, parent and subsidiary levels for the Republic of Ireland and the United Kingdom. This follows an annual assessment carried out by Human Resources, in conjunction with the Chief Risk Officer and each business area, in accordance with a documented process for the identification of material risk takers. This process forms an addendum to this policy.

Due to their potential impact on the Bank's risk profile, there are more stringent rules governing the remuneration of Identified Staff, principally in relation to variable remuneration, to ensure that it does not encourage excessive risk taking. These include the application of a maximum ratio of variable to fixed remuneration, the application of deferral, malus and clawback arrangements and the payment of variable remuneration in shares or equivalent instruments. These rules, as applicable, will be incorporated by Group Reward in the design elements of future variable remuneration schemes in conjunction with Group Risk and Group Compliance. The variable remuneration of Identified Staff will not exceed 100% of fixed remuneration unless approved by shareholders.

The remuneration components of all material risk takers are reviewed annually by the Remuneration Committee to ensure that variable remuneration, if applicable, does not encourage excessive risk taking. With the exception of Executive Directors, members of ExCo and Heads of Risk, Compliance

and Audit, the Remuneration Committee delegates authority to management to approve individual remuneration proposals within agreed policy, as considered appropriate, for material risk takers.

9.4 All Other Employees

AIB aims to provide all employees with fair and competitive remuneration in order to facilitate long term commitment of employees at all levels within the Group. Remuneration principally consists of fixed remuneration, comprising base salary, allowances, benefits and pension contributions. Base salary is set according to appropriate salary ranges which reflect the size, skills and level of responsibilities attaching to each role. Salary ranges are determined for each career level within the principal geographic locations of Republic of Ireland, Great Britain, Central London, Northern Ireland and US (NY specific)

To facilitate ongoing market alignment of salary ranges, Group Reward carry out periodic benchmarking exercises using a combination of at least two external benchmarking surveys in each of the principal locations in which AIB operates. As appropriate, Group Reward will advise the Remuneration Committee of the findings, including key remuneration issues, trends and market pressures, and make recommendations of changes to existing salary ranges. Increases in base salary are performance based and typically occur annually as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases, through out-of-course increases to retain key talent and skills.

10. Employees in Control Functions

The remuneration of employees in Audit, Risk and Compliance functions is determined independently of the businesses that they oversee. Remuneration is weighted in favour of fixed remuneration commensurate with their role in AIB and based on performance against objectives linked to their specific functional roles.

The remuneration of Group Heads of Risk, Compliance and Audit is directly overseen by the Remuneration Committee. The remuneration of UK Heads of Risk, Compliance and Audit is directly overseen by the UK Board of Directors.

11. Sign-On Payments & Guaranteed Variable Remuneration

Remuneration packages to compensate employees for loss of income from previous employments are made in exceptional cases only to attract and retain highly specialised key staff and are subject to Remuneration Committee approval. Such awards are limited to the first year of employment but payment of the award may be deferred (or staggered) over a number of years. The awards will comply with the design features of AIB's remuneration schemes, including retention, deferral, performance and clawback provisions.

AIB does not offer guaranteed variable remuneration to new or existing employees.

12. Severance Payments

Severance payments are made in accordance with the terms of AIB's approved Voluntary Severance Scheme and will not reward failure or misconduct. In particular, severance payments reflect performance achieved over time and are not awarded where there is obvious failure which allows for the immediate cancellation of a contract or the dismissal of an employee. Under the terms of the current scheme, a maximum of four weeks' salary per year of service is paid up to a maximum of €225,000 or £190,000 for UK employees.

13. Directors' Service Contracts and Letters of Appointment

The Chairman of the Board and Non-Executive Directors undertake their duties in accordance with the responsibilities and time commitments outlined in Letters of Appointment. There are no notice

periods and no compensation is payable to the Chairman or Non-Executive Directors in the event of termination of appointment, other than standard payments payable for the period up to the termination date.

Executive Directors have service contracts in place. Notice periods do not exceed 12 months, provided by the individual or the company, and there are no pre-determined provisions for compensation on cessation or termination of employment, other than payments in lieu of notice periods. The Remuneration Committee reserves the right to determine appropriate severance payments in accordance with the terms of existing remuneration restrictions. Service contracts include standard clauses covering, inter-alia, remuneration arrangements, reimbursement of expenses, annual leave and sick leave arrangements, notice periods, suspension and garden leave provisions, minimum competency and fitness and probity requirements.

14. Governance

The Remuneration Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Remuneration Committee further ensures that the Remuneration Policy and practices are subject to a review at least annually, taking into account the alignment of remuneration to the Bank's culture for all employees and executive directors.

Group Reward, in conjunction with Group Risk and Compliance, is responsible for the design, implementation and evaluation of the Remuneration Policy. Group Reward monitors compliance with relevant EU and national legislation and guidelines and advises the Remuneration Committee on new and upstream regulatory issues.

Group Risk will advise of risk related issues and performance against the Risk Appetite Statement to ensure that such risks are considered in applying the Remuneration Policy and in making remuneration decisions. The Chief Risk Officer will review the list of Identified Staff in conjunction with Group Reward and will present an annual report to the Remuneration Committee.

Group Compliance will assess the Remuneration Policy's compliance with legislation, regulations, internal policies and culture.

Group Internal Audit will carry out an independent review of the design, implementation and management of AIB's remuneration policies.

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Non-Executive Directors are entitled to reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of their duties, including travel expenses, and the use of a pool car and driver.

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The Remuneration Committee undertakes a periodic review of the remuneration of Executive Directors and members of ExCo against external benchmark data provided by AIB's external remuneration consultants. Individual fixed and total remuneration are assessed against median, lower quartile and upper quartile benchmarks across an appropriate peer group in the Republic of Ireland, United Kingdom and other European countries.

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To facilitate ongoing market alignment of salary ranges, Group Reward carry out periodic benchmarking exercises using a combination of at least two external benchmarking surveys in each of the principal locations in which AIB operates. As appropriate, Group Reward will advise the Remuneration Committee of the findings, including key remuneration issues, trends and market pressures, and make recommendations of changes to existing salary ranges. Increases in base salary are performance based and typically occur annually as part of the annual pay review process. Increases may also arise through progression and promotion and, in exceptional cases, through out-of-course increases to retain key talent and skills.

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AIB does not offer guaranteed variable remuneration to new or existing employees.

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Severance payments are made in accordance with the terms of AIB's approved Voluntary Severance Scheme and will not reward failure or misconduct. In particular, severance payments reflect performance achieved over time and are not awarded where there is obvious failure which allows for the immediate cancellation of a contract or the dismissal of an employee. Under the terms of the current scheme, a maximum of four weeks' salary per year of service is paid up to a maximum of €225,000 or £190,000 for UK employees.

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periods and no compensation is payable to the Chairman or Non-Executive Directors in the event of termination of appointment, other than standard payments payable for the period up to the termination date.

Executive Directors have service contracts in place. Notice periods do not exceed 12 months, provided by the individual or the company, and there are no pre-determined provisions for compensation on cessation or termination of employment, other than payments in lieu of notice periods. The Remuneration Committee reserves the right to determine appropriate severance payments in accordance with the terms of existing remuneration restrictions. Service contracts include standard clauses covering, inter-alia, remuneration arrangements, reimbursement of expenses, annual leave and sick leave arrangements, notice periods, suspension and garden leave provisions, minimum competency and fitness and probity requirements.

14. Governance

The Remuneration Committee is responsible for determining the Remuneration Policy and for overseeing its implementation. The Remuneration Committee further ensures that the Remuneration Policy and practices are subject to a review at least annually, taking into account the alignment of remuneration to the Bank's culture for all employees and executive directors.

Group Reward, in conjunction with Group Risk and Compliance, is responsible for the design, implementation and evaluation of the Remuneration Policy. Group Reward monitors compliance with relevant EU and national legislation and guidelines and advises the Remuneration Committee on new and upstream regulatory issues.

Group Risk will advise of risk related issues and performance against the Risk Appetite Statement to ensure that such risks are considered in applying the Remuneration Policy and in making remuneration decisions. The Chief Risk Officer will review the list of Identified Staff in conjunction with Group Reward and will present an annual report to the Remuneration Committee.

Group Compliance will assess the Remuneration Policy's compliance with legislation, regulations, internal policies and culture.

Group Internal Audit will carry out an independent review of the design, implementation and management of AIB's remuneration policies.

Policy Sponsor: Head of Reward, Pensions & Employee Relations

Implementation date: 27.02.2013

Last updated: 11.12.2019

To be reviewed: Annual review by Group Reward and Group Risk, with approval by the Remuneration Committee