

AIB Group UK Pension Scheme

Statement of Investment Principles (revised September 2020)

1. Introduction

AIB Pensions UK Limited (the "Trustee"), the Trustee of the AIB Group UK Pension Scheme (the "Scheme") has agreed this Statement of Investment Principles (the "Statement") to comply with the requirements of the 1995 Pensions Act (the "Act") and subsequent regulations to date. It is subject to periodic review by the Trustee at least every three years or more frequently after a significant change in investment policy.

In preparing this Statement, the Trustee has consulted with Allied Irish Banks, plc. (the "Bank"), the principal employer to the Scheme and, under the requirements of the Act, has taken and considered written advice from its professional advisor Mercer.

In seeking to follow best practice, the Trustee had regard to the six Myners Principles updated from those originally recommended in the report "Institutional Investment in the UK" by Paul Myners. These updated principles are outlined in Appendix 1 to this Statement.

The Statement sets out the general principles underlying the investment policy.

2. Overall Policy

The strategic management of the assets is the responsibility of the Trustee acting on advice from Mercer and the Trustee's Finance & Investment Committee. The majority of the Scheme's assets comprise three insurance policies, which require little day to day management from the Trustee. The Trustee is responsible for the ongoing monitoring of the insurance policies. The Trustee also monitors the Scheme's cash and interest in the asset backed funding arrangement, which are used to meet expenses, commutation lump sums and transfer value payments.

3. Investment Objectives

The primary objective of the Scheme is to ensure that the obligations to the beneficiaries of the Scheme can be met.

In order to meet this objective, the Trustee has entered into three insurance policies with Legal & General ("L&G") as follows:

- Two pensioner buy-in policies, whereby L&G has agreed to pay the Scheme an amount equal to the pensions in payment for those members covered under the policies.
- An assured payment policy, which is effectively an inflation-linked bond which insures the majority of the interest rate, inflation and asset return risks associated with deferred members. Over five years, additional top up payments are expected to be made which progressively convert the policy to a buy-in and insure demographic and remaining market risks.

Under each of these policies, the pension liabilities remain liabilities of the Scheme, and the policies are held as assets of the Scheme.

4. **Risk**

The primary risk to the Scheme is the credit/counterparty risk of L&G being able to make the required payments under the insurance policies. Prior to entering into the contracts, the Trustee, under advice, undertook analysis of the credit risk of L&G. This risk is also mitigated by the protection offered by the Financial Services Compensation Scheme ("FSCS"), where the Scheme would be expected to receive compensation from the FSCS if L&G became unable to meet its obligations in relation to the insurance policies. As sponsor of the Scheme, the Bank remains ultimately responsible for funding Scheme benefits (including those insured under the pensioner buy-in policy).

In addition to this primary risk, the Trustee also recognizes a number of other risks, in particular:

- **Covenant Risk:** The risk of a deterioration of the covenant of the Bank. However, the Bank is majority owned by the Irish Government and has taken steps to restore a strong capital position.

The Trustee and the Bank have agreed an asset backed funding plan for the Scheme. This funding plan is backed by some of the Bank's assets and provides additional security for the Scheme. It significantly strengthens the covenant of the Bank with regard to its ability to continue to support the Scheme in the future and allows future contributions payable by the Bank to be accounted for as current assets of the Scheme. Payments from the asset backed funding arrangement will be used to meet Scheme expenses, commutation lump sums and the expected payments to convert the assured payment policy to a full buy-in policy.

- **Liquidity Risk:** The risk that payments from the assured payment policy are insufficient or not received quickly enough to cover liability payments. This risk is mitigated by the Scheme holding a cash "buffer", as well as an agreed list of further sources of liquidity, and certain terms in the assured payment policy.
- **Longevity Risk:** The risk that beneficiaries of the Scheme may live longer than currently expected, and that the Scheme will not have sufficient assets to make the additional necessary payments. This risk is partly managed via the buy-in policies for pensioner members.
- **Interest Rate and Inflation Risk:** The risk that adverse movements in gilt yields and inflation expectations cause a deterioration in the Scheme's funding position. The vast majority of interest rate and inflation risk is mitigated by the insurance policies.
- **Operational Risk:** The risk that the Scheme may suffer loss as a result of the Bank or one of the Scheme's advisers, administrator, or insurance provider having inadequate controls.

5. Investment Strategy

As the majority of the Scheme's assets are comprised of the insurance policies, the Trustee's focus for the residual assets of the Scheme is primarily around ensuring the assets are held securely, with sufficient liquidity, to meet cashflow requirements.

6. Asset Classes and Investment Restrictions

The Scheme may invest in a wide range of asset classes across various markets, including bulk annuity contracts with an insurance company in order to match the liabilities for specific groups of members.

The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks.

No direct investment in the ordinary shares or subordinated debt of the Bank is permitted. Deposits with the Bank are permitted to the extent allowed by regulations. Indirect investments in the Bank's securities may be made through the Scheme's holdings of pooled investment funds. The Trustee will limit the Scheme's overall holding of Employer Related Investments to no more than 5% of the Scheme's assets.

7. Additional Voluntary Contributions

The Trustee gives members the opportunity to invest in a range of vehicles at the individual member's discretion. Assets in respect of these contributions are held apart from the main Scheme assets.

8. ESG, Stewardship and Climate Change

The Trustee believes that environmental, social and corporate governance (ESG) factors are likely to have a material impact on investment risk and return outcomes over the time horizon of the Scheme, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee considers these issues and takes advice on them when setting its asset allocation. However, given the nature of the investments, consisting of insurance policies and cash, there is limited scope for the Trustee to incorporate views on ESG within the Scheme's investment strategy.

Member views are not taken into account in the selection, retention and realisation of investments.

9. Investment Manager Arrangements

As the Scheme does not have any appointed investment managers, the Trustee does not currently need to consider how manager appointments are aligned with investment strategy, how managers are incentivised to consider long-term financial and non-financial performance, how managers are evaluated and remunerated, portfolio turnover costs, or manager turnover.

10. **Compliance with, and review of, this Statement**

The Trustee will monitor compliance with this Statement regularly.

The Trustee will review this Statement in response to any material changes to any aspects of the Scheme, its liabilities, finances and the attitude to risk of the Trustee and the Bank which they judge to have a bearing on the stated investment policy.

This review will occur no less frequently than every three years normally following a triennial actuarial valuation. Any such review will again be based on written, expert investment advice and will be undertaken in consultation with the principal employer.

Agreed at the F&IC meeting held on 16 September 2020, and approved by email circulation to the Trustee Board.

On behalf of AIB Pensions UK Limited, Trustee of the AIB Group UK Pension Scheme

Appendix 1 - Updated Myners Principles

Principle 1: Effective decision-making

- a. Trustees should ensure that decisions are taken by persons or organizations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- b. Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Principle 2: Clear objectives

- c. Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and liabilities

- d. In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.
- e. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance assessment

- f. Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.
- g. Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to Scheme members.

Principle 5: Responsible ownership

- h. Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders ' Committee ("ISC") Statement of Principles on the responsibilities of shareholders and agents.
- i. A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.
- j. Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and reporting

- k. Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- l. Trustees should provide regular communication to members in the form they consider most appropriate.