

AIB Group UK Defined Contribution Scheme

Statement of Investment Principles – September 2020

1. Background

This Statement of Investment Principles ('the Statement') sets down the principles governing decisions about investments for the AIB Group UK Defined Contribution Scheme ('the Scheme'). This Statement has been prepared in accordance with the requirements of Section 35 and 36 of the Pensions Act 1995, as amended by the Pensions Act 2004 and The Occupational Pension Schemes (Investment) Regulations 2005, as updated.

In preparing this Statement, the Trustee has consulted with AIB Group (UK) plc. ('the Sponsoring Employer') and obtained and considered advice from Aon Solutions UK Limited ('Aon') on the appropriateness of this statement. Aon is authorised and regulated by the Financial Conduct Authority in respect of a range of investment business activities.

In accordance with the above noted requirements the Statement is reviewed:

- at least every three years; and
- without any delay after any significant change in investment policy.

The Trustee's investment responsibilities are governed by the Scheme's trust deed and this Statement takes full regard of its provisions. A copy of the Scheme's trust deed is available for inspection upon request.

2. Investment Policy

The Trustee recognises that members have differing investment needs and that these may change during the course of members' working lives. For example, former members of the AIB DB scheme may have different goals and objectives for their DC investments than 'pure DC' members. The Trustee also recognises that members have different attitudes to risk, and also that different members may wish to target different forms of benefit at retirement.

The Trustee believes that members should be able to make their own investment decisions based on their individual circumstances. The Trustee regards its duty as making available a range of investment options sufficient to enable members to tailor their investment strategy to their own needs, if they so wish. In addition, the Trustee recognises that some members may not wish to tailor or manage their own investment strategy and has therefore decided to make a range of 'Lifestyle' options available alongside individual fund options.

3. The decision-making process

The Trustee has appointed Aon to provide investment advice. The Trustee seeks advice on all investment issues and makes investment decisions on the basis of the advice provided. In order to ensure that such decisions are taken efficiently, the Trustee uses other bodies either through direct delegation or in an advisory capacity. In particular the Trustee has established the following decision-making structure:

Trustee

- Sets structures and processes for carrying out its role
- Selects and monitors the Scheme's investment strategy, lifestyle options and fund range
- Selects and monitors the Scheme's platform provider and the underlying fund managers
- Selects and monitors the Scheme's investment adviser
- Appoints Investment Sub-Committee
- Considers recommendations from the Investment Sub-Committee

Investment Sub-Committee

- Makes recommendations to the Trustee on:
 - Selection of investment adviser, platform provider and underlying fund managers
 - Investment strategy, including lifestyle options and fund range
 - Any other investment related issues
- Monitors the investment adviser, platform provider and underlying fund managers

Investment Adviser

- Advises on the investment strategy for the Scheme, including lifestyle options and fund range
- Advises on the selection of the platform provider and underlying fund managers
- Advises on the performance of the platform provider and the underlying fund managers
- Advises on this Statement
- Provides training on investment matters, where required

Platform Provider

- Operates within the terms of this Statement and their written contract
- Manages the allocation of certain of the funds between underlying fund managers, in accordance with agreed benchmarks and rebalancing protocols

4. Risk

The Trustee has considered risk from a number of perspectives.

The investment options made available to members have been chosen with the aim of enabling members to control the following risks:

- **Inflation risk.** The risk that the investment returns over members' working lives will not keep pace with inflation and will not, therefore, secure an adequate retirement benefit.
- **Volatility risk.** The risk of significant short-term fluctuations in the value of members' invested capital which some members may be concerned about.
- **Capital risk.** The risk of a significant fall in the value of members' invested capital as they approach retirement.
- **Conversion risk.** The risk that relative market movements in the years just prior to retirement lead to a substantial reduction in benefits secured.

A number of other risks have also been considered when deciding on the investment options to make available to members:

- **Default option risk.** The risk of the default option being unsuitable for the requirements of some members. The Trustee has provided additional Lifestyle and individual fund options in addition to the default and has communicated to members the need to review their own requirements and circumstances before making any investment decisions.
- **Investment Manager Risk.** The risk that the selected investment managers underperform their objectives. The Trustee regularly reviews each fund's investment performance and takes ongoing advice from the investment adviser on the ongoing suitability of the funds and investment managers. The Trustee also provides passive options that avoid active management risk.
- **Diversification Risk.** The Trustee has chosen funds that are constructed from well diversified portfolios of assets to reduce the asset allocation and stock specific risk faced by the Scheme.
- **Liquidity.** Being forced to sell investments to pay benefits in unfavourable financial market conditions. The Trustee has invested in unitised pooled funds which are easily redeemable.
- **Credit Risk.** The risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The credit risk the scheme is exposed to arises from both holdings in the underlying funds, and through the investment in the Legal & General platform. The investment adviser has provided advice on the suitability of the funds and the platform provider, and this has included advice on the security of the Scheme assets in relation to credit risk.

- **Market Risk.** The Scheme is subject to currency, interest rate and other price risk associated with the underlying investments on the Legal & General platform. These risks can impact the valuations of the funds. The Trustee has selected a wide range of funds to be available to allow members to suitably diversify their investments to manage these risks. This is also considered when setting the lifestyle strategies. Further, the Trustee closely monitors the performance of the funds and receives formal quarterly reports from the investment adviser giving views on their continuing appropriateness, and that of the underlying fund managers.
- **Environmental, Social and Governance (ESG) Risk (including climate change).** The value of investments may be negatively impacted if ESG risks are not understood and evaluated properly. The Trustee considers ESG risk by taking advice from its investment advisors when setting the Scheme's strategy, selecting managers and monitoring performance having regard to the appropriate time horizon for the Scheme. More detail is included later in the Statement.

Due to the complex and interrelated nature of these risks, the Trustee generally considers these risks in a qualitative rather than quantitative manner as part of an ongoing review process. Some aspects of these risks may be modelled more explicitly, in particular the Trustee commissioned an analysis of various demographic variables of the Scheme's members to ensure the range of Lifestyle and other investment options was sufficient to meet members' needs.

5. Investment strategy

The Trustee believes that their investment policy and the risks identified above are best met by offering members a range of investment options from which to choose, covering 'Lifestyle' and individual fund options. The range offered will be reviewed periodically and change in response to member demand.

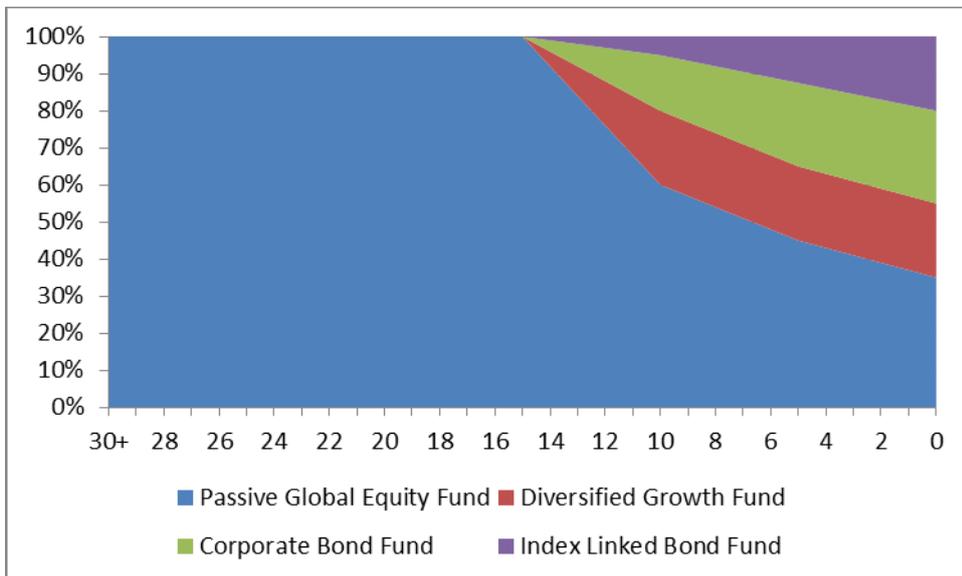
The following individual funds are available to members:

- **Total Equity Fund** (active return seeking fund provided to help manage inflation risk)
- **Passive UK Equity Fund** (passive return seeking fund provided to help manage inflation risk)
- **Passive Global Equity Fund** (passive return seeking fund provided to help manage inflation risk)
- **Diversified Growth Fund** (active fund invested in a broad spread of different asset classes provided to help manage inflation and volatility risks)
- **Passively Managed Fund** (passive predominantly return seeking fund provided to help manage inflation risk)
- **Index-Linked Bond Fund** (passive fund predominantly invested in inflation linked bond assets provided to help inflation and conversion risks)
- **Bond Fund** (provided to manage conversion risk by investing in assets that reflect the investments underlying a typical non-inflation linked pension annuity product)
- **Corporate Bond Fund** (passive fund predominantly invested in corporate bond assets provided to help manage volatility and conversion risks)
- **Cash Fund** (provided to manage capital risk)

Three distinct asset allocation strategies are offered to members, which target different benefits at retirement, namely drawdown, annuity purchase and cash.

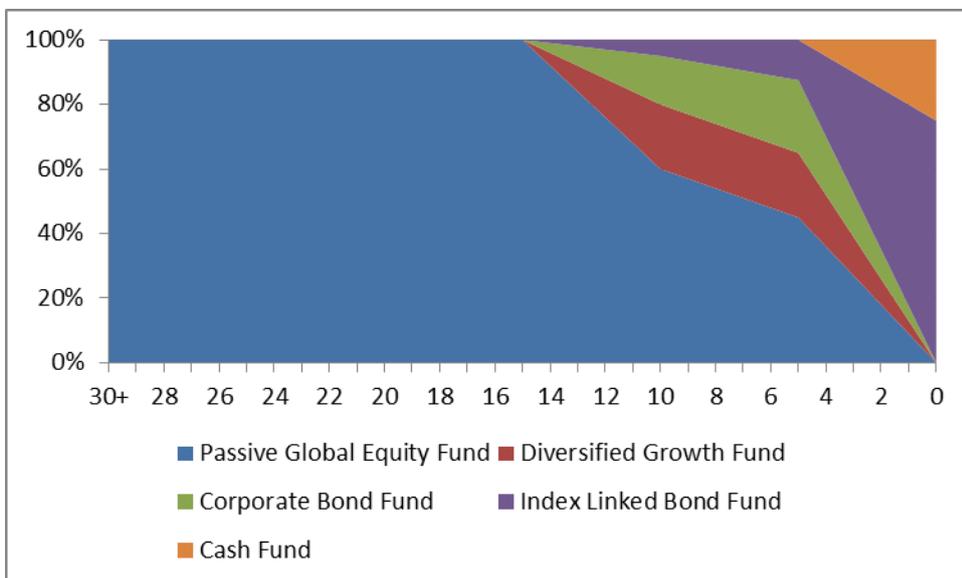
Lifestyle 1 – The Drawdown Lifestyle Fund (Default Fund)

This fund is invested in the Passive Global Equity Fund until 15 years before a member's chosen retirement age. At that time, assets are transitioned to the Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund, with a portion remaining in the Passive Global Equity Fund. At retirement the asset is invested in a broad mix of asset classes, with the aim of providing a real income during the post-retirement phase whilst protecting the value of the investments.



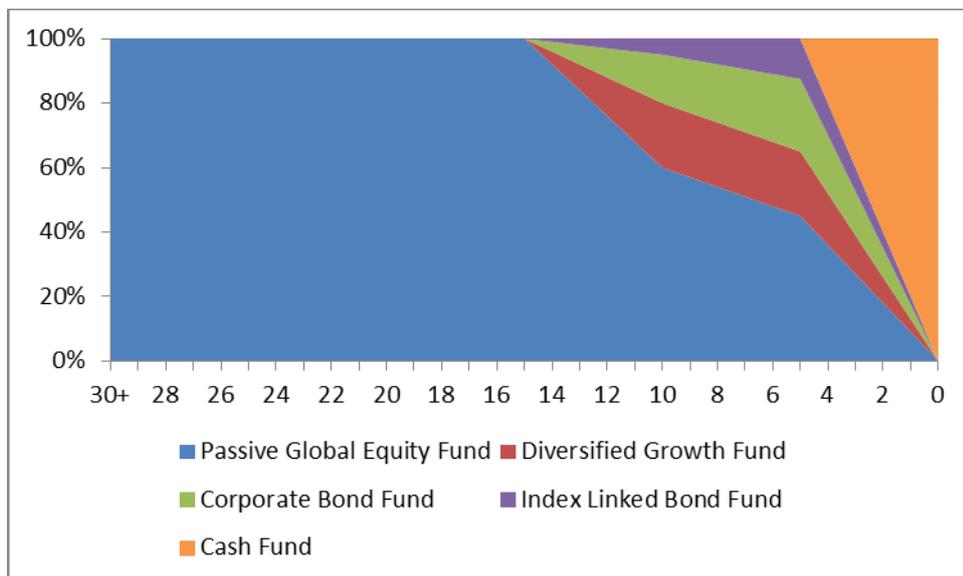
Lifestyle 2 – The Annuity Lifestyle Fund

This fund is invested in the Passive Global Equity Fund until 15 years before a member's chosen retirement age. At that time, assets are transitioned to the Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund. Then, from 5 years to retirement, the fund is gradually switched into a mixture of the Index Linked Bond Fund and the Cash Fund, with the aim of protecting the value of the investments relative to movements in annuity prices and cash.



Lifestyle 3 – The Cash Lifestyle Fund

This Fund is invested in the Passive Global Equity Fund until 15 years before a member's chosen retirement age. At that time, assets are transitioned to the Index Linked Bond Fund, Corporate Bond Fund and Diversified Growth Fund. Then, from 5 years to retirement, the fund gradually switches to the Cash Fund. The aim is to reduce the investment risk for taking cash at retirement



Members may choose to invest **either** in one of the Lifestyle options **or** in a combination of individual funds. Where an individual member fails to make an investment decision their contributions will be invested in the Lifestyle 1 – Drawdown Lifestyle Fund.

The individual funds are described in more detail in the Appendix.

6. Day-to-Day Management of the assets

All of the fund options available to members are managed by underlying fund managers chosen by the Trustee with the advice of the investment adviser. The Trustee believes that each fund contains a suitably diversified portfolio of investments given each fund's particular objectives.

Each of the Lifestyle options invests in the appropriate underlying individual funds, with switching being carried out automatically by the Scheme Administrator in accordance with the process agreed with the Trustee.

7. Additional Voluntary Contributions

The Trustee makes available all the open options described in Section 5 and the Appendix for the investment of Additional Voluntary Contributions ('AVCs'). There are no other assets apart from those described above.

8. Trustee policies on cost and transparency

Asset managers are remunerated by the deduction of set percentages of assets under management, which is in line with market practice. This avoids a short-term approach to investment performance that may be the result of any performance-related fees.

It is the Trustee's view that long term performance, net of fees, is the most important metric on which to evaluate their asset managers.

The Trustee therefore believes it is important to understand all costs and charges, which include:

- the annual management charge ('AMC'), representing fund manager remuneration
- additional expenses that are disclosed by fund managers as part of the Total Expense Ratio ('TER')
- implicit charges, i.e. portfolio turnover costs (transaction costs) borne within a fund. The Trustee defines portfolio turnover costs as the costs incurred in buying and selling underlying securities held within a fund's portfolio. These are incurred on an ongoing basis and are implicit within the performance of each fund.
- other costs of running the scheme include administration, communication, and adviser costs.

The Trustee collects information on these costs and charges on an annual basis, where available, and set these out in the Scheme's Annual Statement, which is made available to members via the AIB website.

No specific ranges are set for acceptable costs and charges, particularly in relation to portfolio turnover costs. However, the Trustee expects the investment adviser to highlight if these costs and charges appear unreasonable when they are collected as part of the Annual Chair Statement exercise.

In general, the Trustee believes that low cost passive funds offer good value for money for members, and also that there can be opportunities for active managers to add value. Accordingly, both types of investment are used in the default strategy and also made available on a self-select basis.

9. Trustee policies on arrangements with asset managers

Before appointment of a new asset manager, the Trustee will consider the extent to which the new investment aligns with the Trustee's policies. The Trustee will seek to express their expectations to the asset managers to try to achieve greater alignment. The Trustee believes that this together with regular monitoring of asset managers' performance and investment strategy, is in most cases sufficient to incentivise the asset managers to make decisions that align with the Trustee's policies and are based on assessments of medium and long-term financial and non-financial performance.

The Trustee monitors those investments used by the Scheme to consider the extent to which the investment approach and decisions of the asset managers remain aligned with the Trustee's policies as set out in this Statement of Investment Principles, including those on non-financial matters. This includes monitoring the extent to which asset managers:

- make decisions based on assessments about medium- to long-term financial and non-financial performance of an issuer of debt or equity; and
- engage with issuers of debt or equity in order to improve their performance in the medium- to long-term.

The Trustee is supported in this monitoring activity by their investment consultant.

Where asset managers are considered to be making decisions that are not in line with the Trustee's policies, expectations, or the other considerations set out above, the Trustee will typically first engage with the manager but could ultimately replace the asset manager where this is deemed necessary.

There is typically no set duration for arrangements with asset managers, although appointments are reviewed at least every three years.

10. Environmental, Social and Governance ('ESG') considerations

The Trustee believes that ESG considerations are financially material across all asset classes in which they invest. The Trustee considers that its fiduciary duty requires ESG considerations to be factored into the investment decision making process in relation to both the default option and self-select funds. The Trustee is concerned about the impact climate change, in particular, may have on investment returns and believes that investments that have a positive social impact have the potential to generate robust risk adjusted returns and that poorly governed companies are likely to underperform.

In setting the Scheme's default investment strategy, the Trustee's primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with a prudent and appropriate level of risk. Given the above stated policy, risks considered include the risk that environmental, social and governance factors including climate change negatively impact the value of investments held if not understood and evaluated properly.

The Trustee is taking the following steps to monitor and assess ESG related risks and opportunities:

- The Trustee will have periodic training on Responsible Investment to understand how ESG factors, including climate change, could impact the Scheme's assets.
- The Trustee considers ESG risks by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

- The Trustee will include ESG-related risks, including climate change, on the Scheme's risk register as part of ongoing risk assessment and monitoring.
- The Trustee gathers information from both the investment consultant and the investment managers to gain a greater insight on each investment managers' approach to integrating ESG factors and how their decision making is influenced by long term factors. In particular, the Trustee will review each investment manager's reporting on ESG related risks and stewardship annually and, based on that review, consider inviting each investment manager to explain their recent activity and future plans at Trustee meetings.

The Trustee will fully incorporate their ESG approach into the way that they engage and communicate with members; proactively sharing policies, actions and developments with members and other stakeholders

Stewardship – Voting and Engagement

As part of their delegated responsibilities, the Trustee expects the Scheme's investment managers to, where appropriate:

- engage with investee companies with the aim to protect and enhance the value of assets; and
- exercise the Trustee's voting rights in relation to the Scheme's assets.

The Trustee regularly reviews the continuing suitability of the appointed managers and takes advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers.

The Trustee recognises the importance of its role as a steward of capital and the need to ensure the highest standards of governance and promotion of corporate responsibility in the underlying companies and assets in which the Scheme invests, as this ultimately creates long-term financial value for the Scheme and its beneficiaries. The Trustee also recognises that these issues may be of particular interest to members.

The Trustee reviews the suitability of the Scheme's appointed asset managers, particularly those used within the Scheme's default investment strategy, and takes advice from the investment consultant with regard to any changes. This advice includes consideration of broader stewardship matters and the exercise of voting rights by the appointed managers. If an incumbent manager is found to be falling short of the standards the Trustee has set out in this Statement, the Trustee undertakes to engage with the manager and seek a more sustainable position but may look to replace the manager.

The Trustee reviews the stewardship activities of their asset managers on an annual basis, covering both engagement and voting actions. The Trustee will review the alignment of their policies to those of the Scheme's asset managers and ensure the investment managers, or other third parties, use their influence as major institutional investors to carry out the Trustee's rights and duties as a responsible shareholder and asset owner. This will include voting, along with – where relevant and appropriate – engaging with underlying investee companies and assets to promote good corporate governance, accountability, and positive change.

The Trustee will engage with the investment managers as necessary for more information, to ensure that robust active ownership behaviours, reflective of their active ownership policies, are being actioned. This will take the form of annual reporting which will be commented on in the annual Implementation Statement.

With regard to transparency over voting, the Trustee expects to receive reporting on voting actions and rationale for those votes, where relevant to the Scheme; for example, where votes were cast against management, where votes against management generally were significant (more than 20%), or where votes were abstained.

From time to time, the Trustee will consider the methods by which, and the circumstances under which, they would monitor and engage with an asset manager. The Trustee may engage on matters concerning an issuer of debt or equity, including their performance, strategy, risks, social and environmental impact and corporate governance, the capital structure, and management of actual or potential conflicts of interest.

Members' Views and Non-Financial Factors

The Trustee has started a process for capturing the views of Scheme members and beneficiaries, in relation to ethical views, social and environmental impact matters and present and future quality of life matters (defined as "non-financial factors"¹). The Trustee will consider these views when making future decisions on the Scheme's investments. The Trustee's current view is that the underlying funds that make up the default fund and other self-select funds should not apply personal ethical or moral judgements as the sole basis for an investment decision.

¹ The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018

11. Realisation of investments

The Scheme's assets are invested in daily priced pooled investment funds, and the vast majority of the underlying assets are invested in quoted markets. The platform provider can be required to realise investments as soon as it becomes appropriate to do so.

12. Mandates for advisers and platform provider

The investment adviser and platform provider have agreed in writing with the Trustee the services to be provided and, where appropriate, the performance to be achieved and how that performance will be measured.

Fees are covered under section 8 above.

13. Reporting and performance monitoring

The platform provider will prepare reports to the Trustee as requested, including periodic valuation and performance reports for all investments held for the Scheme.

The investment adviser will also provide the advice needed to allow the Trustee to review and update this Statement as required and will also provide an independent assessment of the performance of the funds being held by the Scheme.

The Trustee will monitor compliance with this Statement on a regular basis and will formally review the content of the Statement following any significant change in investment policy or on not less than a triennial basis.

14. Default Investment

The Trustee is required to designate a default arrangement into which members who are automatically enrolled are invested. The Trustee has designated Lifestyle 1 - The Drawdown Lifestyle Fund (as outlined in section 5) as the default arrangement for the Scheme.

The Trustee, with the investment adviser, has assessed the suitability of the default Lifestyle strategy in the light of the new regulations governing the ways in which members can access their benefits at retirement. This assessment took into account an analysis of the membership profile and expected fund values at retirement. The default Lifestyle strategy was constructed following analysis of the membership of the Scheme. This analysis took into account factors such as age, salary, contribution level, accumulated fund values and term to retirement to identify different types of member in order to test alternative investment strategies. The design of the default Lifestyle strategy reflects this analysis having carried out multiple simulations of future economic and investment scenarios.

The aim of the default Lifestyle strategy is to provide members with the potential for higher levels of growth during the accumulation of their retirement savings through exposure to equity and diversified growth funds and then to gradually diversify their investments in the years approaching retirement, in order to provide a real income during the post-retirement phase whilst protecting the value of members' investments.

The asset allocation throughout the default Lifestyle strategy and the phasing of the gradual switching of investments takes into account members' greater capacity for risk early on and reduced capacity for risk in later years.

The default Lifestyle strategy will be reviewed periodically in the future with reference to the manner in which members are expected to take their benefits from the Scheme. This periodic review will also take into account any significant changes in the demographic profile of the relevant members.

The Trustee's policies in relation to the default arrangement in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out in the previous sections.

The Statement of Investment Principles is available to members on request and made available through the AIB website.

Signed on behalf of the Trustee of the AIB Group UK Defined Contribution Scheme

Approved by Trustees

Date: 25 September 2020

AIB DC Pensions (UK) Limited

APPENDIX – INDIVIDUAL FUND OPTIONS

Investment Fund	Performance Target	Benchmark Index	Annual Management Charge	Investment Objective and Characteristics
Total Equity	To outperform the benchmark by 3% p.a. over rolling 3 year periods	MSCI All Country World Index	0.730% p.a.	The Fund seeks to achieve long-term capital growth through investing in equities from around the world. The Fund is actively managed and aims to outperform its benchmark by 3% p.a. over rolling 3-year periods. The Fund invests in a number of underlying global equity funds chosen by the Trustees with advice from the Scheme's Investment Adviser. The underlying funds may be changed over time.
Passive UK Equity	To perform within +/- 0.5% p.a. of the benchmark in normal market conditions	FTSE All Share Index	0.100% p.a.	The Fund seeks to achieve long-term capital growth through investing in equities from UK companies. The Fund is higher risk than a managed fund but has the potential for higher returns over the longer term. The Fund invests in an underlying index-tracking fund managed by Legal & General Investment Management and seeks to track the FTSE All Share Index to within 0.5% p.a. in normal market conditions, by employing a consistent investment process.
Passive Global Equity	To perform within +/- 0.5% p.a. of the benchmark in normal market conditions	FTSE World Index	0.1625% p.a.	The Fund seeks to achieve long-term capital growth through investing in equities from around the world. The Fund is higher risk than a managed fund but has the potential for higher returns over the longer term. The Fund invests in an underlying index-tracking fund managed by Legal & General Investment Management and seeks to track the FTSE World Index to within 0.5% p.a. in normal market conditions, by employing a consistent investment process.

Investment Fund	Performance Target	Benchmark Index	Annual Management Charge	Investment Objective and Characteristics
Diversified Growth Fund	The Fund aims to achieve returns around 3-4% a year higher than prevailing bank interest rates over the long term	0% Bank of England Base Rate + 3.5% p.a. / 50% Sterling 1-month LIBOR + 4% p.a.	0.700% p.a.	The Fund seeks to achieve long-term capital growth through investing in a diverse range of asset classes, including equities, bonds, property, cash and other "alternative" assets. The Fund aims to deliver return within a lower risk framework than a more traditional managed or equity-based fund. The Fund aims to achieve returns around 3-4% a year higher than prevailing bank interest rates over the long term. The Fund invests in a number of underlying diversified funds chosen by the Trustees with advice from the Scheme's Investment Adviser. The underlying funds may be changed over time.
Passively Managed Fund	To closely track the benchmark in normal market conditions	75% FTSE World Index 7.7% FTSE A Government (All Stocks) Index 7.7% FTSE A Government Index-Linked (All Stocks) Index 7.7% iBoxx £ Non-Gilt (All Stocks) Index 2% 7-Day LIBID	0.138% p.a.	This Fund seeks to achieve long-term capital growth through investment in equities, bonds and cash. The allocation to each type of asset has been set by the Trustees on the advice of the Investment Advisors of the Scheme, and allocations may change over time. The Fund invests in a number of underlying funds managed by Legal & General Investment Management and overall aims to closely track its benchmark.
Index-linked Bond Fund	To perform within +/- 0.25% p.a. of the benchmark in normal market conditions	FTSE Index-Linked Gilt All Stock Index	0.090% p.a.	The Fund invests in index-linked government bonds and invests in an underlying index-tracking fund managed by Legal & General Investment Management. It seeks to track the FTSE A Index-Linked All Stocks Index to within 0.25% p.a. in normal market conditions, by employing a consistent investment process.
Bond Fund	To closely track the benchmark of the fund as determined by Legal & General Investment Management	Composite of gilts and corporate bond funds	0.150% p.a.	The Fund invests in an underlying fund managed by Legal & General Investment Management and aims to invest in assets that reflect the investments underlying a typical non-inflation linked pension annuity product. The asset allocation of the Fund is determined by Legal & General and may change over time.

Investment Fund	Performance Target	Benchmark Index	Annual Management Charge	Investment Objective and Characteristics
Corporate Bond Fund	To perform within +/- 0.5% p.a. of the benchmark in normal market conditions	iBoxx £ Non-Gilts (All Stocks) Index	0.130% p.a.	The Fund invests in investment-grade corporate bonds and invests in an underlying index-tracking fund managed by Legal & General Investment Management. It seeks to track the iBoxx £ Non-Gilts (All Stocks) Index to within 0.5% p.a. in normal market conditions, by employing a consistent investment process.
Cash Fund	To achieve a return close to that of the benchmark over rolling 3 year periods	7 Day LIBID	0.100% p.a.	The Fund objective is to provide capital stability, liquidity and income through investment in a diversified portfolio of high credit quality short term fixed income and variable rate securities including but not limited to certificate of deposit, fixed and floating rate notes, fixed rate commercial paper and bonds listed or traded on one or more Recognised Exchanges. The Fund invests in an underlying fund managed by Legal & General Investment Management.