

AIB Group Irish Pension Scheme (Defined Benefit Scheme)



Members' Newsletter

May 2022



Chairman's message



Welcome to the 2022 AIB Group Irish Pension Scheme (the Scheme) newsletter which updates you on the Trustee's work over the past year.

When the 2021 newsletter was published, Covid and the significant challenges it posed for us all were high on everyone's agenda. However, I am pleased to report that the

Scheme's financial position remained resilient in the face of Covid's impact.

It was impossible to imagine then that another blow would be dealt to world stability. The Russian invasion of Ukraine continues to impact daily, with tragic human cost to those directly affected by the violence and undermining peace and stability for all.

From an economic perspective, the conflict has resulted in further supply chain disruption, high energy prices, and extreme volatility and illiquidity in some investment markets. These factors have led to sharp rises in inflation expectations, a reduction in the market value of many investments and higher interest rates.

As these issues may persist for some time, it is difficult to say with any certainty what the longer-term impact on the Scheme will be. At present, the Scheme doesn't need to sell investments to meet pension payments and is well-positioned to withstand current market volatility.

The Trustee, with the support of its advisors, took several steps over 2021, ahead of the current market turmoil, to increase the Scheme's protection against volatility and inflation spikes which is proving very beneficial in 2022. This is covered in detail later in the newsletter.

2021 financial outcome

In 2021, the Scheme's assets increased by €278 million, after taking account of all benefit payments and Scheme expenses. This is equivalent to an investment return of €441 million. The Scheme also recorded a healthy surplus on the statutory Funding Standard as at the end of December last.

In addition, the Scheme Actuary carried out the full financial triennial actuarial valuation. Arising out of this review, the Actuary confirmed to the Trustee that additional Bank funding wasn't currently required, based on the assumptions used. He also confirmed that the Scheme had sufficient assets to meet its statutory commitments at the valuation date, 30 June 2021.

2022 pension increase update

In March 2022, following a request from the Trustee for

funding, the Bank notified the Trustee of its decision not to make any contribution in 2022 towards the provision of a discretionary pension increase for pensioner members.

Notwithstanding the absence of Bank funding, the Trustee carefully considered the matter of discretionary pension increases in light of the significant rise in Irish inflation, which the Trustee recognises impacts AIB pensioners, many of whom are on modest pensions.

Taking account of all relevant factors, including actuarial advice, financial and investment information, the Scheme's long-term objectives, and member interests, the Trustee approved a pension increase of 4.5% payable from May 2022 (backdated to 1 April 2022) for eligible pensioners.

The benefits for members who have not yet retired increased by 2.4% in 2021, reflecting the statutory revaluation as published by the Minister for Social Protection.

2022 legislative changes

Changes to the regulatory regime were introduced in 2021, known as IORP II, to support the sustainability, governance and efficiency of Irish defined benefit schemes.

While the Scheme consistently meets the highest standards of governance and stewardship, the new requirements will assist us in continuing to maintain our high standards.

As required by the legislation, two new roles have been established to support the Trustee in risk management and internal audit. This will further enhance member benefits security. We are on track to achieve full compliance within the Regulator's timescales.

One of the new legislative requirements is to extend pension benefit statements to deferred members who have left the Bank's service. Statements will therefore be issued to deferred members towards the end of the year. In line with the increased focus on risk management, the online member website, www.planforlife.ie, will play a greater role in communicating securely with our members.

I hope you find this newsletter interesting and useful. The Trustee acknowledges, appreciates and values the continued support it received from the Bank, its staff, advisors and service providers over a challenging and busy year. I would also like to thank my Trustee Director colleagues for the effort, time and expertise they devote to members' interests in the operation of the Scheme.

Gary Byrne
Chairman, AIB Group Irish Pension Scheme

Membership

Benefits of €163 million were paid to pensioners and other beneficiaries during 2021. At 31 December 2021, there were 4,238 pensioners in the Scheme with an average pension in payment of just over €29,000 per annum. A breakdown of the membership and how it changed during 2021 is set out in the following table.

Table 1

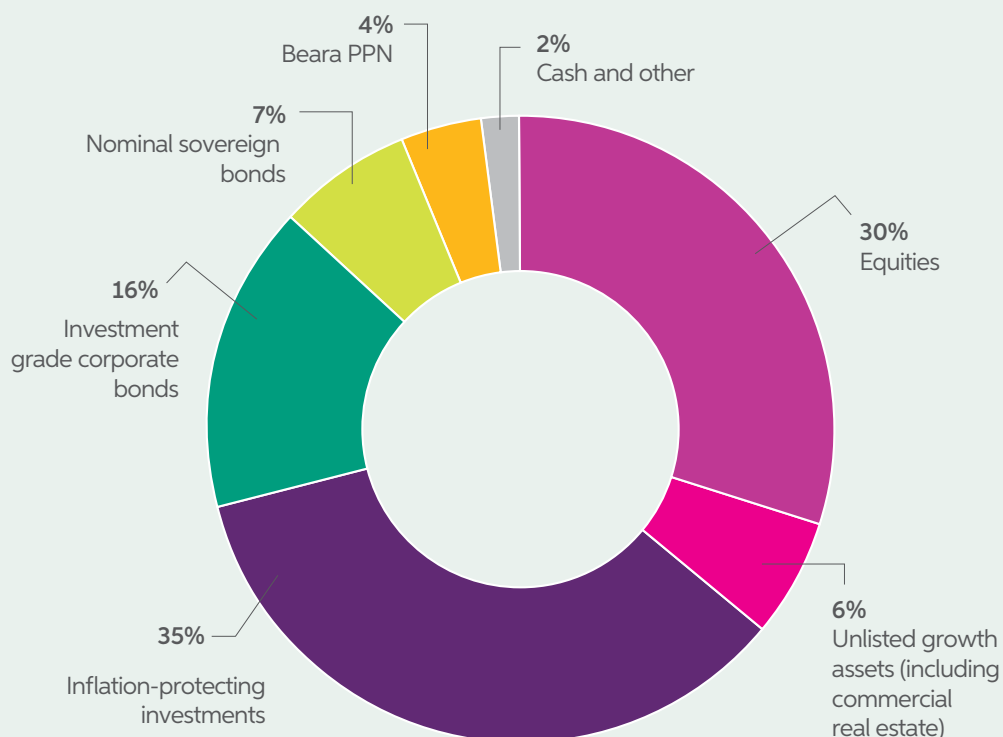
	31 December 2020	31 December 2021	Change
Deferred members (currently in service with AIB)	4,526	4,169	-357
Deferred members (former employees of AIB)	7,298	7,385	87
Pensioners	4,185	4,238	53
Total	16,009	15,792	-217

Investment update

The Scheme is set up under trust, which means that the Trustee holds the assets in a fund that is separate from the Bank. The assets are held exclusively for the benefit of the members and their dependants and are used to provide income in retirement, on death, or on leaving the Scheme.

The assets are invested in a diversified manner that broadly reflects the profile of the Scheme's liabilities. This will continue to change over time in line with the ongoing evolution of the Scheme and changes in investment markets.

Asset breakdown at 31 December 2021



Over 2021, the Scheme's assets increased from €5.278 billion to €5.556 billion. This is an increase of €278 million after all benefits and expenses had been paid. This is equivalent to an investment return of 8.5% or €441 million.

The Trustee's investment objective is to generate real rates of return over time in a risk-adjusted manner, after allowing for inflation.

In recent years, the Trustee has been working to protect the Scheme against the risk of rising long-term inflation at a time when interest rates and inflation were low. This process quickened in the second quarter of 2021, helped by setting up an inflation-linked (liability-driven investment or LDI) portfolio. Total inflation-linked investments stood at approximately €2 billion at the year end. This means that the Scheme is better protected against rises in long-term inflation. The Trustee also took steps to cushion the impact of significant falls in equity markets while keeping investments in long-term assets such as equities and commercial property which can deliver superior real returns over time.

International financial markets have reacted strongly to the ongoing war in Ukraine. This has resulted in significant stock market volatility as well as sharp increases in inflation and interest rate expectations. The Trustee, together with its advisors, continues to carefully monitor the situation and take steps to protect the Scheme's financial position and take advantage of any opportunities with a long-term perspective.



During 2021, the Scheme recorded an investment return of **€441 million**. Assets increased to **€5.556 billion**.

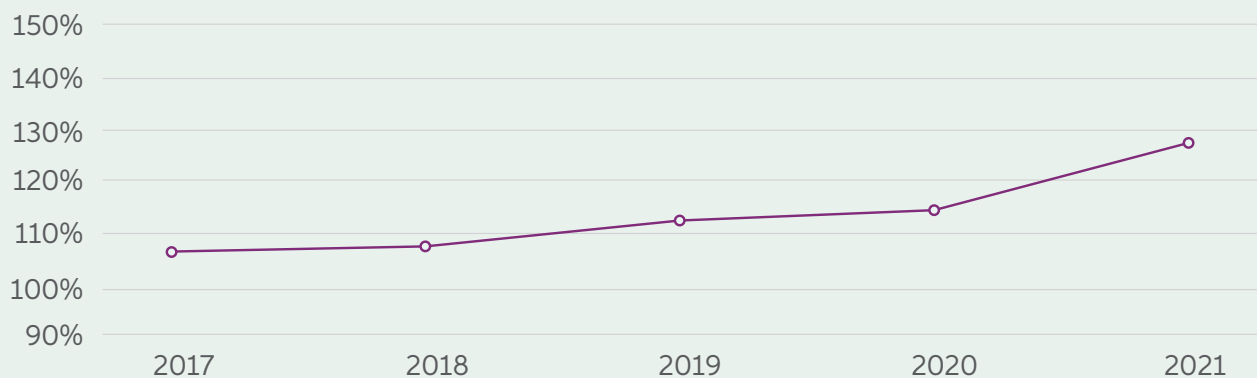
Regulatory Funding Standard

The annual Funding Standard, which the Scheme is subject to, showed further improvement in 2021. This valuation basis doesn't take account of future pension increases that are at the discretion of the Trustee.

On this basis, the Scheme recorded a net estimated surplus of €1.196 billion (equivalent to a funding level of 127%) at the end of December 2021. This compares to a net estimated surplus of €636 million at the end of December 2020 (114%).

This large increase was due to the strong rise in the Scheme's equity returns coupled with a reduction in liabilities on the back of rising nominal yields.

Funding Standard funding level progression



Source: Scheme Actuary. Figures are based on several assumptions, including the cost to secure annuities on the open market for pensions in payment.

2021 Triennial Actuarial Valuation

The Scheme Actuary values the assets and liabilities of the Scheme, assuming it continues as a going concern, at least every three years. He compares the value of the assets to the discounted value of the Scheme's future liabilities and assesses whether the Scheme has sufficient assets to meet its liabilities or if it needs additional funding.

As part of this assessment, the Scheme Actuary makes a range of assumptions regarding investment returns, inflation and interest rates, as well as life expectancies and other relevant assumptions.

The most recent actuarial valuation was carried out as at 30 June 2021. This valuation showed assets of €5.317 billion and liabilities of €5.008 billion (assuming a discount rate of 1.83%). This resulted in a surplus of €309 million, a funding level of 106%. This is an increase in the surplus reported in the last triennial valuation carried out in 2018 (€227 million).

The Actuary confirmed that, in his view, the Scheme's resources are adequate to provide for the Scheme's liabilities at the most recent valuation date (30 June 2021). He added that no Bank contribution is required for the period to the next valuation. The next actuarial valuation will be completed with an effective date of June 2024 at the latest.

Pension increases

Under the Trust Deed and Rules of the Scheme, each year the Trustee reviews the pensions in payment for members who may be eligible for pension increases at the discretion of the Trustee.

After careful consideration, the Trustee decided to award an increase of 4.5% in respect of pensions eligible for such increases, payable from May 2022 (backdated to 1 April 2022).

The Trustee's decision took account of a range of factors, including the Scheme's Trust Deed and Rules, the advice of the Scheme Actuary, updated financial and investment information, the Scheme's long-term objectives, the current and projected future financial circumstances of the Scheme, and the cost of discretionary increases. The Trustee also considered the increase in the consumer price index (CPI) over the 12-month period to the end of February 2022 (5.6%), the interests of all members, past practice, sustainability, and risk (in particular, investment risk),

as well as the Bank's decision not to provide funding for discretionary increases in 2022.

Some pensioner members are eligible for non-discretionary pension increases (a minority of members). These pensioners received pension increases in line with the Scheme Rules, paid effective from 1 April 2022.

The benefits for members who have not yet retired increased by 2.4% over 2021, reflecting statutory revaluation as published by the Minister for Social Protection.

Other member updates

2022 pension benefit statements for all members who have not yet reached normal retirement age

Annual pension benefit statements were issued to all members still in service with the Bank in April of this year. Pension benefit statements will be issued towards the end of the year to deferred members who have left the Bank's service.

These statements set out your individual deferred pension benefits in accordance with regulatory requirements. You are encouraged to check your information and contact the Pension Administration Team if any corrections are needed.

2021 Annual accounts and Trustee Annual Report

The full set of audited accounts and a Trustee Annual Report for the year ending 31 December 2021 will be available shortly on www.planforlife.ie.

Transfer values

The Scheme is a defined benefit pension scheme. This means that when you retire you are eligible for a pension which is payable for the remainder of your life. If you retire and then die before your spouse, a benefit may be payable to your spouse.

Some members may be considering taking a transfer value. This is a cash lump sum which is payable to another Revenue-approved retirement arrangement. If you take a transfer value, you give up your entitlement to the pension payable for life to you and your spouse (if applicable) from the Scheme. This is a significant decision that cannot be reversed.

As the Trustee doesn't provide financial advice, it is therefore extremely important to seek your own independent financial advice to ensure that you understand the implications of this significant decision. A list of authorised advisors can be found at www.CentralBank.ie.

Trustee Board

Gary Byrne (Chairman)	Jessie Doherty	Lar Fant	John Feely
Dave Keenan	Frank O’Riordan	Dara Rowley	Claire Walsh

Scheme Secretary

Roma Burke, Lane Clark & Peacock Ireland Limited

Board committees

The committees that report into the Trustee Board comprise:

Investment: Frank O’Riordan (Chair), Gary Byrne, Lar Fant, John Feely and Dave Keenan.

Risk: John Feely (Chair), Gary Byrne and Jessie Doherty.

Audit: Gary Byrne (Chair), John Feely and Dave Keenan.

Member matters (including ill health): Gary Byrne (Chair), Frank O’Riordan and Claire Walsh.

Principal service providers to the Scheme

Administrator

Allied Irish Banks, p.l.c., Manager Orla D’Arcy

Sub-Administrator

Aon, Director Frank Keating

Scheme Actuary

Liam Quigley FSAI, Mercer Ireland Limited

Independent Auditors

Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm

Legal Advisors

Arthur Cox, Sacker & Partners

Investment Advisors

Aon Investment Branch, Mercer Investment

Custodian

BNY SA/NV Dublin Branch

Bank

Allied Irish Banks, p.l.c., Allied Irish Bank (GB)

Principal Investment Managers

Legal & General Investment Management Limited
Barclays Bank p.l.c.

Aberdeen Standard Investments

Allied Irish Banks, p.l.c. (as Servicer of the Beara DAC Profit Participating Note)

Irish Life Investment Managers Limited

Goldman Sachs Asset Management International

PIMCO Global Advisor (Ireland) Limited

PIMCO Europe Limited

Irish Property Unit Trust

If you have a question about the Scheme or your benefits, please contact the Pension Administration Team.

Email: myaibpension@aon.ie. **Phone:** 1800 806 133.

Key contacts

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Errors and omissions excepted

This newsletter does not form part of your terms and conditions of employment. All figures quoted in this newsletter are provisional and are subject to audit. The Scheme is governed by a Trust Deed and Rules (as amended). To the extent that there is any contradictory information in this newsletter, the terms of the Scheme shall prevail.