CLIMATE ACTION

2020 has proven beyond doubt the relationship between a healthy planet, society and economy. The central role that banks can play in supporting a fair and just transition to a carbon neutral society has also gained greater understanding. We have made ambitious commitments to play a central role in supporting our customers, colleagues and many other stakeholders on this journey.

THIS CHAPTER COVERS OUR RESPONSE TO THE FOLLOWING MATERIAL TOPICS:

- → ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL
- → PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

OUR PROGRESS IN 2020

MATERIAL TOPICS

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

ANNOUNCED **NET ZERO** AMBITION

16%[1] **REDUCTION** IN GHG FROM OPERATIONS YEAR ON YEAR

ESG EXCLUSIONS LIST PUBLISHED

SUSTAINABILITY AWARDS EXCELLENCE IN **ENVIRONMENT**

CDP LEADERSHIP **A RATING**

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

€1.46BN GREEN LENDING

€1BN GREEN BOND ISSUANCE 2ND BANK IN EUROPE TO ISSUE A TIER 2 BOND

5,100 ATTEND CLIMATE FINANCE WEEK

705,500,000 KWH[2] **GREEN ENERGY** FUNDED

0% **FINANCE** FOR NEW ELECTRIC VEHICLES

SUSTAINABLE DEVELOPMENT GOALS

7 AFFORDABLE AND CLEAN ENERGY

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

We pledge to **DO MORE.**

AIB Sustainability

[1] 16% reduction in 2019.

[2] KWH in ROI.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

OUR APPROACH

The climate challenge is unlike anything any of us have encountered in our lifetime, therefore AIB's ambition remains steadfast to its continued sustainability leadership. We don't see this as the right thing to do, it is the only thing to do. The importance that we ascribe to the environmental agenda, and also our commitment to be embedded in the communities that we serve, was acknowledged with the addition of Sustainable Communities to our strategic pillars at the end of 2019.

Climate has the potential to impact our business, through transition and physical risks, and we have the ability to negatively impact climate through our behaviour. We recognise the need to take precautionary measures to anticipate, prevent or minimise the causes of climate change and mitigate its adverse effects. As the defining issue of our time, we consider all our stakeholders as impacted by climate change. This is why we have undertaken an extensive body of work to understand the risks and opportunities that climate change presents and set out a clear roadmap of steps we need to take to quantify the risks and integrate ESG considerations into our processes.

We are fundamentally committed to supporting the transition to a low-carbon economy, reducing our own carbon footprint and helping our customers to do the same. We have set some very ambitious goals for the future of our own operations and to provide our customers with access to the finance they need to support their own ambitions.

A climate resilient and responsive business must consider the double materiality aspect of climate risk – financial materiality (how climate change impacts on AIB) and economic and social materiality (what impact AIB has on climate) and provide appropriate products and services to direct the flow of finance to sustainable activities. We have made significant progress in building a climate resilient business and expanding our range of products to address environmental issues. Our 2020 ESG independent ratings reflect the progress we have made, and we are working to sustain and where possible improve our performance further in 2021.

PROGRESS MADE OVER LAST 12 MONTHS:

- We have continued to grow our green lending, totalling €1.46bn in 2020 accounting for 16% of all new lending in 2020
- In September 2020, we raised €1bn from our first green bond issuance, the first Irish bank to do so. The amount raised represented a major vote of confidence from investors in our commitment to a green transition
- We have launched a number of retail propositions to support customers to retrofit their homes and buy electric vehicles
- We set out a defined list of Excluded Business Activities for which we do not provide term finance and/or corporate finance advisory services as we believe these activities can cause irreversible environmental and/or social harm to society and our communities
- In November 2020, we hosted our fourth annual Sustainability Conference as part of Ireland's Climate Finance Week 2020, hosting 18 events with over 5,100 attendees over five days.

NET ZERO AMBITION

We're committing to achieving Carbon Neutrality across our operations by 2030, using a Net Zero approach. We must also look beyond our own operations. The greatest impact we can have on Ireland's carbon footprint is by supporting our customers and helping them transition to a low-carbon economy. Considering this we have also announced our ambition that green and transition lending will account for 70% of new lending to customers by 2030. By 2040, our ambition is to align our customer lending portfolio across all sectors to Net Zero carbon emissions (with the exception of agriculture which will likely need greater support and so we are aligned to the Government of Ireland's Climate Action plan). These commitments mean that we will be financing more of the activities that are better for the environment and fewer of the things that do harm supporting our customers every step of the way on this journey.

However, the climate emergency will not be solved by organisations acting on their own independently, it requires collaboration, engagement, and urgency from all sides to make the necessary difference. This is why we have partnered with national and global movements such as BITCI, UNEP FI and TCFD, and will continue to seek out other appropriate strategic opportunities to keep moving forward and have our voice heard on this matter of generational importance.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE STRATEGY

LENDING PORTFOLIO ASSESSMENT

As part of our Net Zero ambition, we completed a baseline analysis of our customer lending portfolio (Scope 3 Category 15 emissions) to analyse the emissions by sector as categorised by the NACE activity code.

The analysis demonstrated that AIB has limited exposure to the fossil fuel industry and that as such, compared to a number of peer banks our back book is relatively clean. This sector level analysis focused on Agriculture, Energy, Manufacturing, Property and Construction and Residential Mortgages using Sector level methodologies, based on AIB's exposure to those sectors. It formed the basis of our Net Zero ambition and subsequent Science Based Targets commitment work that is ongoing.

We used this breakdown of our lending at 31.12.2019 to inform our sector strategy work:

SECTOR	GROSS CARRYING AMOUNT €BN
Agriculture	1.7
Energy	1.5
Manufacturing	3.1
Property & construction	7.3
Distribution	5.3
Transport	1.9
Financial	0.8
Other services	6.0
Personal: Residential mortgage	31.4
Other	3.0
Total	**62.0**

Source: AIB Annual Financial Report 2019, p.120.

SECTOR ANALYSIS – RISKS & OPPORTUNITIES

In 2020, we took the important step of significantly increasing our understanding of the climate-related risks and opportunities we face as a business, recognising that these need to be identified, assessed and managed to minimise any negative impacts, while taking advantage of the positive impacts.

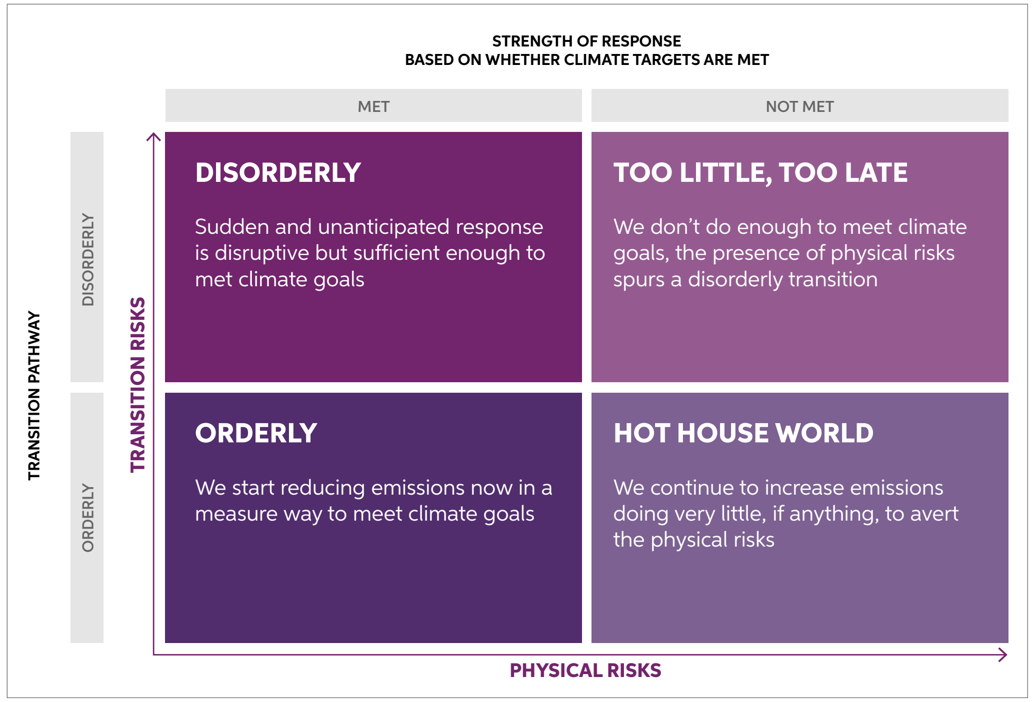
As one of Ireland's largest financial services providers, the biggest impact we can have on climate change is through the finance we provide to our customers. For this reason, our analysis centred on our lending portfolio and we focused on the most carbon intensive sectors – Agriculture, Commercial/Residential Property, Transportation and Energy Industries. We adopted this sector-based approach in recognition of the fact that all sectors have their own carbon transition pathway and will require a focussed response from us. However, we included both transition and physical risk considerations in this analysis, and also covered the most significant parts of our lending portfolio in terms of exposure.

APPROACH

In developing our approach, we considered the ECB's Guide on Climate-related and Environmental risks, the TCFD Recommendations and the PRA's Supervisory Statement in relation to financial risks from climate change (SS3/19).

To assess the climate-related risks and opportunities that may impact us, we used the TCFD's transition and physical risk categorizations. We also used qualitative scenario analysis to help inform our understanding of the potential impacts of climate change on our business over the medium (10 year) and longer term (30 year). In doing so, sector specialists considered the impacts on their 3-year strategies.

We used three qualitative scenarios which are aligned with the scenarios recommended by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) – Orderly, Disorderly and Hot House World scenarios.



NGFS Climate Scenarios for central banks and supervisors (June 2020).

The detail of the physical scenarios used was based on the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathways, a greenhouse gas concentration trajectory used for climate modelling and research for the IPCC's fifth Assessment Report (AR5) in 2014. We made these trajectories as specific as possible for Ireland's climate outlook, in relation to both transition and physical risk.

OUTPUTS

The key summary outputs of this exercise were reviewed by our Board Risk Committee and are summarised on the next page. This exercise also allowed us to plan for the years ahead and develop a programme of work to fully integrate climate change into our climate strategy, risk management and decision-making processes (see 'Looking Forward', p.43).

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE STRATEGY

CLIMATE-RELATED RISKS

Climate-related risks include physical and transition risks. Transition risks arise from the transition to a low-carbon economy and include policy, legal, technology, market, and reputational risks. The severity of transition risk depends on the nature, focus and speed of the required transition for each given sector. Examples of transition risk include emissions caps or pricing, carbon taxes, changes in consumer behaviour and substitution of higher emitting technologies for lower carbon options.

Physical risks arise from the physical effects of climate change on a customer's operations, assets, infrastructure, and workforce. These risks can result from acute physical risks, which are event-driven (e.g. increased severity of extreme weather events) or from chronic physical risks, which are longer-term shifts in climate patterns (e.g., sea level rise or chronic heatwaves).

CLIMATE-RELATED OPPORTUNITIES

We also recognise the significant opportunities that climate change presents for our business and the importance of leveraging these opportunities to prepare our business for a low-carbon future. Climate change opportunities arise through the potential to finance the climate change mitigation and adaptation strategies of our customers, for example through resource efficiency, the adoption of low-emission energy sources, the development of new products and services, access to new markets and building climate change resilience.

	TRANSITION RISKS	PHYSICAL RISKS	FINANCIAL RISKS	OPPORTUNITIES
1. RESIDENTIAL & COMMERCIAL PROPERTY	Carbon tax increases on owners of properties with low energy efficiency ratings Low energy efficiency ratings negatively impact property values Rising price of raw materials, high retrofitting costs and increased building compliance standards makes property ownership prohibitive	Increase in flood risk due to extreme weather events, rising sea levels and changes in precipitation patterns: ▪ negatively impacts vulnerable property values ▪ leads to increased insurance costs; and/or ▪ leads to inability to insure highest risk properties and resulting stranded assets.	Reduced repayment capacity causing increased rates of default as a result of: ▪ Increased carbon taxes ▪ Increased insurance costs; and ▪ Loss of income/cash flow shortages.	▪ Retrofit market and suppliers ▪ Support eco-innovation start-ups ▪ Adaptation strategies (flood barriers) ▪ Evolution of insurance products to meet emerging needs.
2. AGRICULTURE	Emissions caps and/or carbon tax increases makes certain farming activities prohibitive Government funding becomes limited to low emission activities Market shift to vegan/reduced meat diets Policy on fertiliser use limits leads to reduced output	Changes in precipitation patterns leads to fodder shortages, crop damages and new diseases Periods of drought impacts growing season and leads to volatility in agriculture and commodity prices	Increased rates of default as a result of: ▪ New/unanticipated capital expenditure ▪ Stranded assets.	▪ Diversification and new farming practices ▪ Eco-innovation in farming practices ▪ Resilience strategies (e.g. stock reserves).
3. ROAD TRANSPORT	Carbon tax increases on fuel and internal combustion engine cars (ICEs) make ownership prohibitive but electric vehicle production/ infrastructure fails to keep up with demand Carbon tax increases on ICEs but no viable alternative for Heavy Duty Vehicles (high degree of uncertainty)	Increased severity of extreme weather leads to disruption to public transport and freight routes Increased severity of extreme weather leads to damage to transport, property and infrastructure and increased insurance costs	Collateral depreciation leading to negative impacts on Loan To Value Uninsured/stranded assets held as collateral Reduction in demand for finance for impacted sectors (e.g. car finance and mortgages)	▪ Electric Vehicle infrastructure (garages, petrol stations) ▪ Public transport transformation ▪ Modal shift in freight industry ▪ Resilience/adaptation ▪ Viable alternative business models.
4. ENERGY & INFRASTRUCTURE	Risk of obsolescence as current green technologies get replaced by better, more reliable ones Electrification impacted by national grid infrastructure	Seasonal changes and wind variability reduce wind generation capacity and lead to increases in downtime Increased exposure to storm damage leading to increased insurance and repair costs	Internal credit ratings, RAROC and required levels of capital negatively impacted as a result of: ▪ New capital expenditure ▪ Reduced repayment capacity.	▪ Onshore/Offshore wind and solar projects ▪ Infrastructure to store energy (batteries) ▪ Infrastructure for offshore wind (harbours/boats) ▪ Invest in R&D for hydrogen and other alternatives.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE STRATEGY

FINANCE UNEP INITIATIVE

UNEP FI PRINCIPLES FOR RESPONSIBLE BANKING

The UNEP FI's Principles for Responsible Banking ("the Principles") are a framework for ensuring that signatory banks' strategy and practices align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement and helping the banking industry to demonstrate how it makes a positive contribution to society.

AIB was one of 130 founding signatories who, in September 2019, committed to implement the six principles. Today over 200 banks have signed up. All signatories are required to report on their progress in implementing the Principles within 18 months of becoming a signatory. In line with the reporting requirements of the Principles, we are reporting on our progress in our UNEP FI PRB Self-Assessment & Reporting template on p.92-97 and below where we provide insights into our impact analysis assessment.

IMPACT ANALYSIS SUMMARY

In beginning our journey to implement the Principles, one of our key areas of focus was the Impact Analysis process. To complete our analysis, we used the UNEP FI Portfolio Impact Analysis Tool – an iterative input-output workflow to help banks determine their most significant impact areas through examining four aspects – scope, scale of exposure, context & relevance, and scale & intensity/ salience. We followed the recommended approach, which starts with a scoping exercise to ensure the scope of the analysis is meaningful, i.e., reflective of core business lines and geographies, as well as mindful of any areas where the bank may be systemically important.

The next step was the impact identification phase, where we input data to describe our portfolio (e.g. % of gross income per business line, concentration of credit by industry sector), enabling the tool to produce 'impact profiles' per business line and country, drawing from the sector/impact map and country needs assessment framework built into the tool. We then assessed our performance vis a vis the significant impact areas identified by the tool, relevant thresholds and goals per topic and geography. Following this process, we determined our most significant impact areas.

Along with this tool, we have also used the PWC Sustainable Development Goals (SDG) Prioritisation matrix for Ireland and an initial analysis of our lending portfolio for each sector's role in decarbonisation and carbon intensity. In the sections below, we set out further details on how we carried out our impact analysis.

SCOPE

The tool takes into consideration our Retail Banking and Corporate, Institutional & Business Banking (CIB) activities, so the impact analysis focused on our activities in these segments of our business, referencing data as at 31.12.2020. Retail Banking constitutes 60% of net loans and CIB 26%.

Our impact analysis did not cover the following, which we may consider including in future analysis: our investment and private banking activities (not currently included in the tool); our activities in the United Kingdom and New York in the USA (as our most significant operations are in Ireland), and the activities of our Financial Solutions Group – a standalone dedicated workout unit that manages the majority of our non-performing exposures for all the segments of our business.

SCALE OF EXPOSURE

The concentration of credit by industry for AIB is set out on p.30. To identify the social, environmental, and economic impacts associated with the sectors our bank finances, and to which we provide products and services, we used the Sector Impact Map in the Tool. It systematically maps the associations for each of the sectors, industry activities and technologies and highlights sectors that are key to different impact areas.

In our Energy portfolio, the main technologies financed are wind turbines and biomass, with very limited exposure to natural gas, coal and oil-fired power stations.

CONTEXT AND RELEVANCE

To determine our most significant impact areas, we also had to consider national contexts. To assess the priorities and challenges in different countries The Country Needs resource in the Tool uses international resources and provides guidelines on leveraging additional resources. AIB operates mainly in Ireland and using the Tool we determined that the most relevant challenges and priorities in Ireland include climate change, resource efficiency, inclusive, healthy economies, access to housing and decent employment.

Once we had identified the priorities and challenges, we cross-referenced them with our most recent materiality exercise where we asked our stakeholders to tell us what ESG matters they considered to be most material. The topics identified by our stakeholders, and on which we structure our sustainability reporting, are set out in our Materialty process on p.19, and are broadly aligned with the challenges and priorities in Ireland. When we completed our materiality exercise in Q4 2019, climate change did not rank in our top 12 material topics. It was clear that greater progress was needed to raise awareness of the role finance plays in climate action. Given that banks have a fundamental role in supporting the transition to a low-carbon economy, we incorporated this into our material topics.

We reviewed international and national resources (including the EU Action Plan on Sustainable Finance, the Irish National Climate Action Plan and the Programme for Government in Ireland). The Climate Action Plan, published in 2019, sets out a course of action over the coming years to address climate transition in Ireland. The Climate Action and Low Carbon Development (Amendment) Bill, which is awaiting enactment, introduces a requirement to annually revise the Climate Action Plan, and prepare a National Long Term Climate Action Strategy at least every decade.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

FINANCE
UNEP INITIATIVE

CLIMATE STRATEGY

Details of key engagements in 2020 are set out on p.18-22. In 2021, we will look to engage further with stakeholders to further build on our work in assessing the priorities and challenges for Ireland. This year, the COVID-19 pandemic is reinforcing how important a healthy society is to a healthy economy.

SCALE & INTENSITY/SALIENCE OF IMPACT

The outcome of our assessment of the challenges and priorities in Ireland and the PWC SDG Prioritisation matrix for Ireland, led us to look more closely at climate change and housing because these were identified as key priorities in our countries of operation and due to our exposures in the related sectors. For our first report on implementing the Principles for Responsible Banking, we are focusing on one of our areas of significant impact – climate change. We will report on our second area of significant impact in our next sustainability report.

The Environmental Protection Agency (EPA) is an independent public body in Ireland that regulates Ireland's greenhouse gases, compiles the inventories of greenhouse gas (GHG) emissions for Ireland and reports the data to the relevant European and international institutions. Referencing the EPA's GHG research, we have completed some initial work on sector strategies (see p.27).

In 2020, we completed a heat map of our customer lending portfolio to understand which sectors had the highest impact (see illustrative table on the right). We carried out a high-level baselining exercise of our loan book GHG footprint referencing our loan book at 31.12.2019 and utilizing the Partnership for Carbon Accounting Financials' (PCAF) Global Carbon Accounting Standard. PCAF is an industry-led initiative launched in September 2019. The Standard serves as an extension of the GHG Protocol, intended to provide further guidance for measuring GHG emissions from investment and lending portfolios ('financed emissions'). The work is aligned with available guidance, on a best endeavours basis. The heatmap will be reviewed annually to reflect any changes in sector exposure from year to year.

We are following a sector approach, where we focus on the sectors in our loan book that generate the most climate impact. Taking a sector-based approach means that each sector must be assessed and managed separately, having its own methodology, portfolio targets and metrics, because each sector's transition pathway differs in terms of Paris climate alignment. We have set out the potential risks and opportunities relating to these on p.28 During 2021, we will be commencing more detailed sector analysis to support our Net Zero ambitions and our impact analysis and will report further on this in our next report.

The outcomes of the impact analysis support our climate strategy. Our Climate Action Fund and our suite of green financing options for personal customers help enable us to maximize on the opportunities to increase the positive impacts associated with our retail and corporate portfolios. For our real estate portfolio, customers with high energy efficiency ratings can avail of better 5-year fixed interest rates. Our Excluded Business Activities list, which we initially implemented within our Corporate, Institutional & Business Banking segment and is now in effect across our business (see p.32), together with our focus on finance for renewable energy is helping us to reduce negative impacts. Our well-established specialised Energy, Climate Action & Infrastructure team are actively supporting renewable energy finance projects in both Ireland and the UK.

	AIB GROSS LOANS €BN	% OF AIB LOAN BOOK[1]	ROLE IN NATIONAL DECARBONISATION[2]	SECTOR CARBON INTENSITY[3]
Personal – Mortgages	31.4	51%		
Agriculture	1.7	3%		
Energy	1.5	2%		
Manufacturing	3.1	5%		
Property & Construction	7.3	12%		
Transport	1.9	3%		
Distribution	5.3	9%		
Financial	0.8	1%		
Other services	6.0	10%		
Other	3.0	5%		
TOTAL	62.0			

LEGEND	GREEN	AMBER	RED
[1] AIB lending exposure @ 31.12.2019	<10%	10-20%	20%+
[2] Based on the EPA's Irish Final GHG Emissions report 2018	<10%	10-20%	20%+
[3] Based on SBTi guidance for FIs	N	N/A	Y

Source: Company information.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE GOVERNANCE

The Sustainability Governance structure includes our Sustainable Business Advisory Committee which is a Board committee comprising of four non-executive directors. See Our Corporate Governance Structure on p.15-16 for more information.

BOARD OVERSIGHT

The Sustainable Business Advisory Committee (SBAC) is an advisory committee that provided direction and guidance on the sustainability strategy and implementation throughout the year. Topics presented to ExCo and Board for decision or review included:

- The Board Risk Committee was updated on the summary of Climate-related Risks & Opportunities from the Sector strategy qualitative exercise (reference Risks & Opportunities Table on p.28)
- The Board Risk Committee approved the revised Group Credit Risk Policy which included the Excluded Business Activities for which we will no longer provide finance or corporate finance advisory services.
- The Board reviewed and approved the Net Zero ambition and targets
- Board and ExCo Training – Two training sessions held – Building Board Sustainability Leadership (SBAC) and ESG Regulatory Training (ROI & UK Boards)
- The SBAC was updated on climate opportunities with quarterly updates on sustainability propositions development status and forward plan.

STRATEGIC PLANNING & INVESTMENT PLAN

As we continue to implement our sustainability strategy, we completed an extensive body of work in 2020 to assist us in setting out our medium and longer-term ambition which included our Net Zero targets. We also focussed on understanding the breadth of ESG regulatory requirements and defined the approach for implementing the change required across our governance, risk framework, disclosures, metrics, reporting and systems and processes and data capture.

Work is progressing on defining science based targets which is the ground work to create a pathway with annual targets to deliver on our Net Zero ambition.

The outputs fed into our Group strategic planning process which was reviewed at ExCo and Board, with approval for an implementation plan that includes delivering against upcoming regulatory requirements, as well as delivering new products and propositions to help our customer's transition to a lower carbon footprint.

REVIEWING PROGRESS

There are a number of climate-related metrics on the Group Balanced Scorecard that is reviewed quarterly by ExCo and at scheduled Board meetings. These include New Green Lending, ESG Ratings and the Reptrak Environmental score. See 'An Overview of Metrics and Targets' on p.42.

As we develop our Science Based Targets aligned to our Net Zero ambition and integrate them into our financial planning process, these will be tracked in our Business Unit Performance measures and reviewed for inclusion on the Group Balanced Scorecard.

PERFORMANCE INCENTIVES

AIB does not provide variable pay or long-term incentives to senior management and therefore climate related incentives are not factored into pay and reward. However, a number of Sustainability targets and measurements appear on the Group Balanced Scorecard which is regularly reviewed and challenged quarterly by ExCo and at scheduled Board meetings. In addition, senior executives have ESG performance objectives in their scorecards and sustainability objectives will be in all employee performance reviews and plans from 2021.

CLIMATE-RELATED RESPONSIBILITIES

The Director of Corporate Affairs, Strategy & Sustainability is the Executive Sponsor for Sustainability and is responsible for the implementation of the Sustainability programme including delivery of the requirements under TCFD, ECB Guidelines on Climate Risk, UNEP FI Principles of Responsible Banking, and other sustainability-related regulatory requirements.

The ExCo is responsible for strategic risk management which includes long term scenario analysis, identifying green opportunities and integration of climate risk into strategic decisions.

The accountability for the identification and assessment of climate risk, and risk measurement and monitoring lies with the Managing Directors of each of our Business divisions – Retail, Corporate, Institutional & Business Banking (CIB) and the UK.

The Chief Risk Officer is responsible for risk monitoring and reporting and our Chief Financial Officer is responsible for the integration of climate risk into our capital management processes.

The Board will have ongoing visibility of risks and opportunities through the Board Risk Committee.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE RISK MANAGEMENT

This year we took the important step of significantly increasing our understanding of the climate-related risks we face as a business, recognising that these need to be identified and managed to minimise negative impacts on the environment.

To assess the climate-related risks that may impact AIB, we used the TCFD's transition and physical risk categorizations. We also used qualitative scenario analysis to help inform our understanding of the potential impacts of climate change on our business over the short, medium, and longer term. For more information on our approach to identifying climate-related risks, please see p.28.

While we recognise the need to further develop this understanding, this first step in climate risk identification has allowed us to plan for the years ahead and develop a programme of work to fully integrate climate change into our climate strategy, risk management and decision-making processes. Please see the 'Looking Forward Section' on p.43 for further details on our plans for 2021.

POLICIES

Our group-wide Energy, Environmental, Group Credit Risk and Project Finance policies are the key policies we rely on in relation to supporting climate action throughout AIB. Our energy and environment policies, which are sponsored by our Chief Operating Officer, guide the decisions we make in relation to our internal operations. Our Group Credit Risk Policy incorporates the list of excluded business activities for which we will no longer provide finance or Corporate Finance advisory services.

EXCLUDED ACTIVITIES IN GROUP CREDIT RISK POLICY

In July 2020, we published our list of Excluded Activities meaning Corporate, Institutional & Business Banking (CIB) Wholesale[1] will not provide term loan products or Corporate Finance advisory services to any entities or their subsidiaries involved in our list of excluded activities in the following sectors:

- Energy and climate action
- Animal welfare
- Ecosystem protection
- Healthcare/genetic engineering
- Surveillance/arms-related/military
- Adult entertainment.

In relation to energy and climate action specifically, the focus here includes the following activities:

- Exploration, extraction and upgrading of oil sands projects
- Nuclear power generation
- Nuclear waste transportation, decommissioning and/or final disposal of high-level nuclear waste
- Coal or oil-fired power generation (other than emergency or stand by oil generation) except where less than 25% of revenues are generated from this activity and only where there is a plan to move to sustainable fuels by 2025
- On/offshore exploration, extraction or refining of coal or oil
- Natural gas fracking.

This list has since been incorporated into our Group Credit Risk Policy, which supports the management of credit risk across the Group. The policy rules now prohibit providing new money for term lending to businesses, or any of their subsidiaries, involved in the excluded business activities.

The updated policy was approved by our Board in October 2020 and, since 29 January 2021, this rule applies to all business customers with a Gross Connected Exposure of >£/€300k and who are relationship managed. The list of excluded activities is publicly available on our website.

While responsibility for implementing these rules sits with our Managing Directors of CIB, Retail & UK, lending teams can also seek advice from our Sustainability team about certain ESG and policy areas when screening credit opportunities. In particular, the team has provided the corporate bank with advice and expertise about potential transactions in the climate action area, a number of which did not proceed on ESG grounds.

PROJECT FINANCE POLICY

Our Project Finance Policy, approved by our Group Credit Committee, guides our climate-related lending assessments and decisions for long-term infrastructure, industrial projects, and public services. Within credit assessment due diligence, assets that are likely to have significant effects on the environment by virtue of their size, nature or location must undergo an environmental impact assessment (EIA) which will have to be submitted to competent authorities when applying for project development. AIB may rely on analysis provided by external parties to support our assessment.

ENERGY AND ENVIRONMENTAL POLICIES

Our Energy and Environmental Policies, which are sponsored by our Chief Operating Officer, set out our commitment to energy efficiency and environmental protection, and guide the decisions we make in relation to our internal operations.

[1] All CIB business units apart from Business Banking and Private Banking.

ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

CLIMATE RISK MANAGEMENT

INTEGRATING ESG INTO PROCESSES

- **Employee training:** In 2020, we developed sustainability training which is mandatory for all employees and is focused on ensuring an understanding of sustainability and its importance for business and for AIB. It outlines the role of banks and the financial sector in enabling the environmental and social objectives through sustainable finance. The course also covers AIB's sustainability strategy, our journey to date and areas of focus to integrate sustainability across the organisation. There is a specific module on climate change and climate risks, covering the urgency with which all stakeholders need to act, an overview of relevant climate policies, an outline of business risks as a result of climate change and prompting relevant ESG questions for consideration for customers in different sectors. It is the first step in climate risk training which will be followed up with more in-depth training in the upcoming period for the various employee groups aligned to their role.

- **Product governance:** ESG considerations have been integrated into our Group Product & Proposition Approval Process governance lifecycle and the templates for new product approval and post implementation reviews will be updated in March 2021.

- **Due diligence:** Our published Excluded Activities list has been incorporated into due diligence conducted at all loan originations.

- **Credit:** In CIB, an ESG section has been incorporated into their credit applications.

- **Supplier decision-making:** We launched our Responsible Supplier Code in October 2020 which sets out our expectations of suppliers across a range of responsible business areas, and we have begun to integrate these principles into our supplier decision making processes.

CONSIDERING EXISTING & EMERGING REGULATORY REQUIREMENTS

Our Regulatory Compliance team is responsible for independently identifying and assessing current and forward-looking compliance obligations, including regulation and guidelines in relation to climate change.

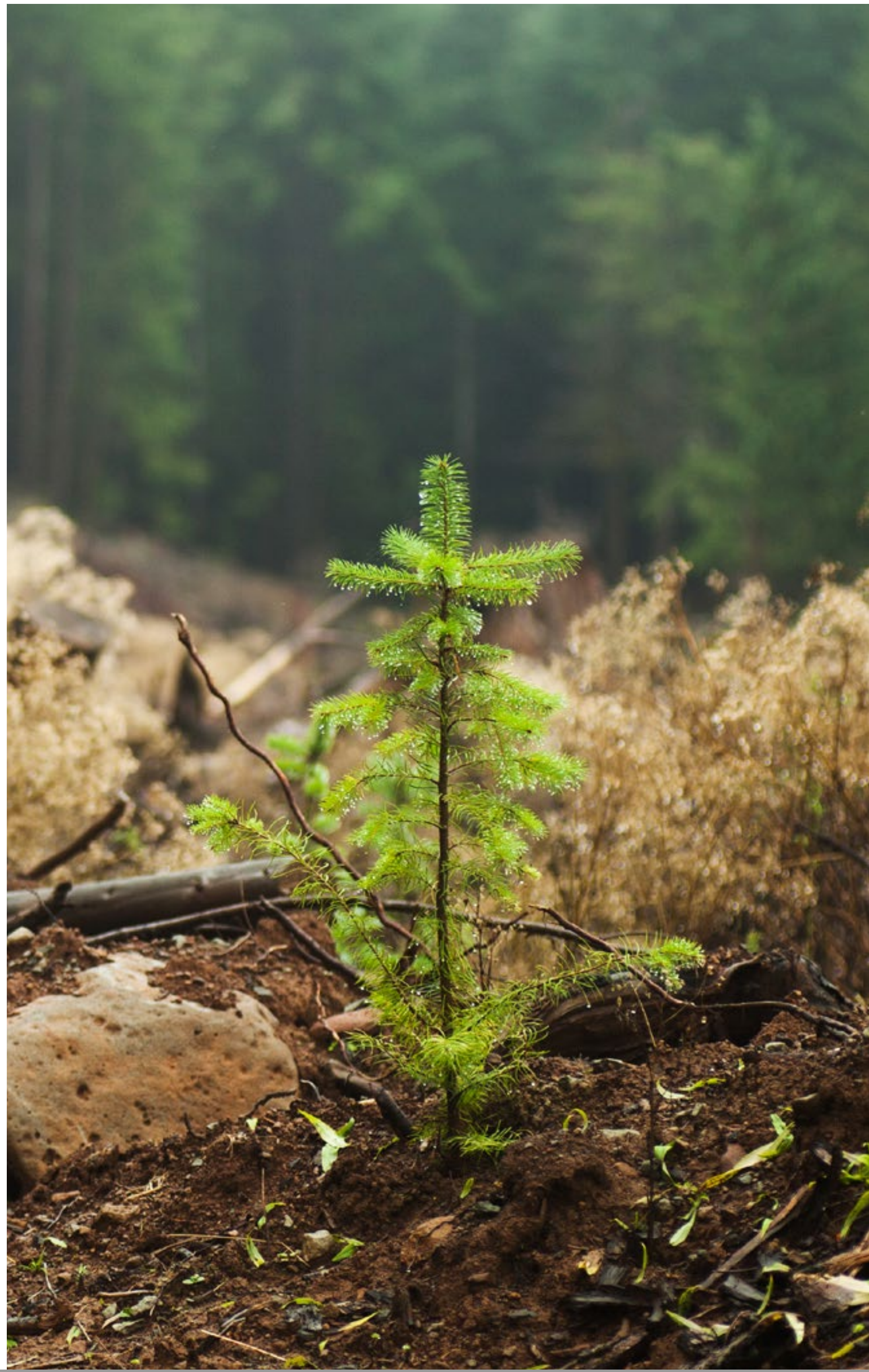
Our Sustainability and Energy and Environment teams monitor regulatory and market sustainability updates to ensure that we are keeping pace with the rapidly evolving ESG landscape.

In addition, in terms of our lending portfolio, our sector, corporate and ECAI teams monitor the landscape at sectoral level, ensuring that we understand the environment in which our customers are operating, enabling us to engage with them in relation to the transition to a lower carbon economy.

MANAGING CLIMATE-RELATED RISK

Our Material Risk Assessment process, which is completed at least annually, considers the impact of climate change for AIB, our customers and the societies in which we operate, helping us to identify the material risks to the Bank and then determine a suitable risk appetite for them. In our most recent process, we continued to identify climate risk as a key driver of each of AIB's material risks.

Our Risk Appetite Statement, where we set out the Bank's appetite for taking risk, now has a qualitative statement for credit risk in relation to the excluded business activities.



ENSURE A CLIMATE RESILIENT AND RESPONSIVE BUSINESS MODEL

OUR OPERATIONS

We have worked to progressively decrease our own emissions and have a stated ambition to become Net Zero by 2030. The below outlines some of the ways we progress made in 2019 (which is the most recent full year independently verified data available to us).

WASTE

82 → 74 tonnes of CO_2e

DOWN 10%

IT & PAPER

671 → 557 tonnes of CO_2e

DOWN 17%

FUEL (OIL & GAS) & REFRIGERANTS

4,474 → 4,209 tonnes of CO_2e

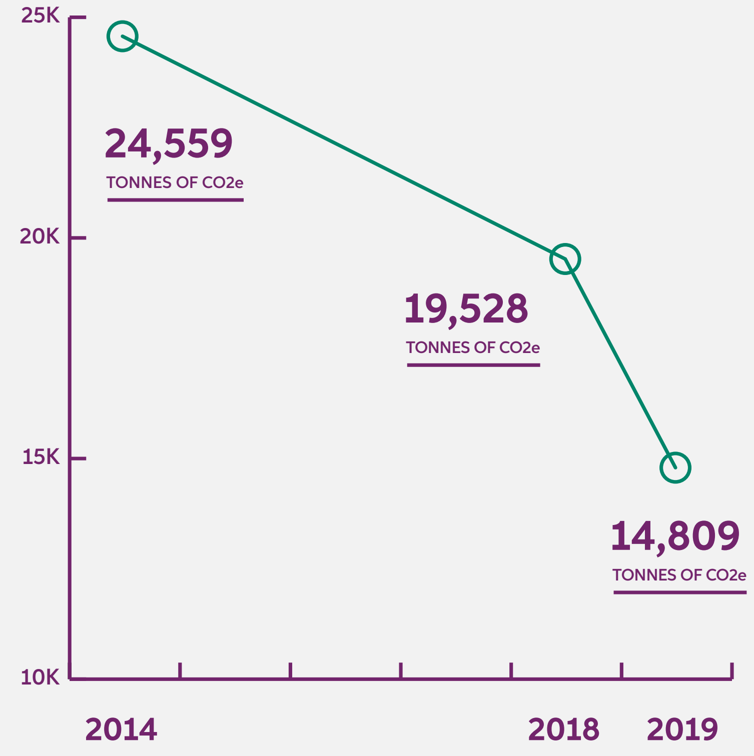
DOWN 6%

ELECTRICITY

14,316 → 10,025 tonnes of CO_2e

DOWN 30%

OUR CARBON REDUCTION PATHWAY



AIB's Scope 1 & 2 emissions have reduced by 40% from 2014 – 2019.

HOW WE REDUCED OUR EMISSIONS

We are heating our GB locations with biogas generated by dairy waste.

We launched a new online learning course to raise staff awareness of climate change and environmental impacts.

We moved to new efficient buildings like Molesworth Street and Central Park.

We prevented 283 tonnes of waste being generated as part of our waste strategy in head office buildings.

Year-on-year change. The above information excludes emissions from water supply, waste generation, business travel (incl. owned fleet), WTT, T&D and commute activities.
For 2019, our GHG emissions were 29,269 tonnes of CO_2e (most recent data available).

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

OUR APPROACH

We have a key role to play in helping to address the environmental and social issues where we operate. We do this through our support across a range of environmental and social issues, including:

- providing finance to produce renewable energy lending – through our multi-disciplinary Energy, Climate Action & Infrastructure team
- providing finance for energy efficient homes, through our Green Mortgage
- supporting sector-specific initiatives to aid carbon transition, like the Teagasc Grass10 multiyear initiative for farmers
- providing finance for the development and/or renovation of social housing
- providing finance for retrofitting less energy efficient homes
- supporting customers to move away from transport options reliant on fossil fuels
- continuing to add to our Socially Responsible Investments (SRI) bond portfolio. We set an internal target of >€800m for our SRI bond portfolio for 2020, which we exceeded.

We recognise we have a long-term role to play in providing the finance for Ireland's transition to a low-carbon economy. In 2019, we launched several products and services including €5bn Climate Action Fund and a Green Mortgage. In 2020, we have continued to build on our products and services to address environmental and social issues – with the addition of our electric vehicle proposition, our social housing fund, and the launch of our inaugural Green Bond. And in 2021 we are kick-starting the year with the introduction of our Green Consumer Loan.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

OUR SUSTAINABLE WHOLESALE ACTIVITIES

Despite the challenging market environment significant progress was made in 2020 from a sustainability perspective and COVID-19 did not prevent us from delivering strong growth in strategically important sectors such as renewable energy, social housing, and healthcare.

In fact, the resilience of green and sustainable lending was clearly evident throughout the COVID-19 crisis. The Energy, Climate Action and Infrastructure portfolio continued to be one of the fasting growing lending books in AIB with net balance sheet growth of over 40% in 2020. It also continued being one of the best performing loan books in the bank with nearly 100% of the book fully performing demonstrating the resilience of the renewables asset class. The book also had no COVID-19 modification requests this year.

Key transactions include the funding of assets underpinned by Ireland's growing corporate PPA market, continuing to support customers constructing renewables sites and new lending activity across the onshore and offshore wind sectors.

We are also starting to see an increased interest by our business banking and corporate customers to implement energy efficiency solutions and we have seen increased activity in 2020 in sustainable lending principally through Sustainability Linked Loan facilities (SLL) to the Food and Agriculture, Manufacturing and Utilities sectors. A total of 6 SLLs were signed to date with a good 2021 pipeline.

This kind of lending essentially incentivises companies to use less energy or water or generate less waste for a small margin incentive and materially benefits both the bank and the customer as both proactively transition to a better, more resilient business and lending prospect. This is an area we hope can gain significant traction in 2021 as customers' awareness and education levels increase on this topic and AIB is heavily engaging with its customer base on SLLs.

We have a strong pipeline and strong momentum going into 2021 with strong green activity expected in the year ahead.

CLICK HERE TO FIND OUT MORE

CASE STUDY

BACKING RENEWABLE TECHNOLOGIES – IONA CAPITAL

In May 2020, our Energy & Infrastructure team based in London arranged a £62 million refinancing of a portfolio of eleven operational Anaerobic Digestion (AD) facilities with a total generating capacity of 29MW. AD is a long-standing renewable technology in which organic waste material is broken down through a natural biological process in the absence of oxygen to produce a captive biogas and an organic fertiliser. Biogas can then be used to power an engine to generate electricity and heat or purified for injection into the National Grid.

The portfolio, majority owned and managed by Iona Environmental Infrastructure Holdco Limited, is comprised of four large Gas-to-Grid assets, two local authority backed Combined Heat and Power assets, and five agricultural Combined Heat and Power assets. Feedstock for the plants includes food waste from local authorities, commercial waste from the hospitality and manufacturing sectors, agricultural crops and liquid waste from the manufacturing sector. The portfolio benefits from a range of UK government renewable energy subsidies.

"It is a testament to the resilience of the underlying assets and the commitment of everyone working on the project that the debt financing was completed in such challenging market conditions," said Nick Ross, founder of Iona Capital. "It is also a significant milestone for Iona and a firm endorsement of our investment strategy in the low-carbon sector."

In October 2020, Iona Capital picked up the prestigious 'Best Financing Award' at the World Biogas Summit 2020.

Iona Capital AD plant, St. Boswells Scotland.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

€1BN GREEN BOND ISSUANCE OVERSUBSCRIBED

Following the development of our Green Bond Framework in H2 2019, our inaugural Green Bond launched in September 2020 was twice oversubscribed. This transaction is the first Green Bond issued by an Irish bank and the largest Green Tier 2 issue in Europe in 2020. This Tier 2 issuance was fully allocated from Day 1, following the portfolio approach for Green Bonds and we anticipate that this will be the first of many AIB/ESG bond issuances from AIB Group.

In developing the framework, we engaged with external industry experts including ING (structuring advisor), Guidehouse, Carbon Trust, and the second-party opinion was provided by Sustainalytics. We engaged extensively with investors across Europe explaining both our Framework and our wider sustainability strategy goals. Despite uncertainties arising from Brexit and COVID-19 by late summer 2020 we were confident market conditions and investor appetite for our Green Tier 2 new issue were strong.

In September 2020, we successfully launched, priced, and closed our inaugural Green Bond transaction on the first anniversary of the launch of our Green Bond Framework. A €1bn Tier 2 Capital instrument, with a maturity of 10.5 years callable after 5.5 years, was executed with a coupon of 2 7/8%, 150 investors and investors and a total order book of Euro €2.24bn, more than twice oversubscribed.

This was a strong result in what were volatile markets at the time and represents a solid endorsement from the investor community of our ambitions to build a sustainable balance sheet. It represents a further endorsement of the progress the bank is making across all areas.

The supporting portfolio has increased to €2.27bn, and we anticipate that it will grow year on year as we grow our sustainable loan portfolio.

CLICK HERE TO FIND OUT MORE

CASE STUDY

GREENFIELD GLOBAL

Greenfield Global is a leading producer and supplier of high-value, mission critical raw materials, ingredients and additives that are vital to businesses and integral to a lower carbon economy.

In 2020, Greenfield expanded outside of North America to build its new EU manufacturing headquarters in Ireland. The company's portfolio of products become a critical part of the Life Science ecosystem in Europe and beyond and will support the expanding life sciences sector in Ireland. It is the company's first manufacturing site outside of North America and will enhance the Life Sciences sector supply chain in Ireland. The company also plays a leading role in the fight against COVID-19 from hand sanitizers to product for vaccines.

AIB provided funding for the new 3,800-sq-m manufacturing site and the building is classified as a 'nearly Zero Energy Building' (nZEB), one of the first nZEB compliant manufacturing sites in Ireland.

The plant based in Portlaoise opened in July 2020 and will employ 75 employees when fully operational.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

SOCIALLY RESPONSIBLE INVESTMENT BOND PORTFOLIO

In 2019, we established a Socially Responsible Investment (SRI) bond portfolio to fund domestic and international projects aimed at global sustainability, carbon emission reduction, and social improvement, all under the over-arching themes of Environment, Social, and Governance (ESG).

In 2020, demonstrating our commitment as a sustainable investor, we developed an SRI Framework which explicitly sets out our minimum investment criteria when considering bonds in the ESG space. The criteria ensures that only higher quality issuers, measured on key sustainability metrics, qualify for consideration in our SRI bond portfolio.

REPORTING

Reporting demands issuer integrity and holds their use of proceeds to account, as well as providing the investor with key information on how their funds are being utilised. Under this pillar, we require issuer reporting to align with the ICMA Green/Social Bond Principles reporting recommendations, incorporating a Second Party Opinion.

CLICK HERE TO FIND OUT MORE

LIVING THE SUSTAINABLE WAY

We look more favourably upon issuers who actively engage in the world of socially responsible investment and those whose frameworks incorporate some of the UN Sustainable Development Goals (SDGs).

We favour issuers who have shown improvements and satisfactory standards in board diversity, ownership and control, executive pay, tax transparency and business ethics. We rely on independent ESG Rating Agencies when measuring the quality of an issuer under this pillar.

Our SRI Framework is a live document and will continue to evolve in response to market changes in what is a new but rapidly expanding sector. For 2020, we set an internal target of >€800m for our SRI bond portfolio, which we exceeded. We are building towards a medium target of our SRI bond portfolio accounting for 10% of our overall bond portfolio.

CASE STUDY

DAWN MEATS

SUSTAINABILITY LINKED LOANS – THE DAWN MEATS GROUP OF COMPANIES (‘DAWN MEATS’)

As a leading European food group, Dawn Meats’ publicly stated purpose is “providing consistent quality meat products from sustainable sources to support rural communities, human health and eco-system”, which is captured in its ambition “to become Europe’s most sustainable meat company”.

With an embedded sustainability culture since 2009, Dawn Meats’ current 2015 – 2025 Sustainability Strategy has five core pillars (People and Community, Sustainable Sourcing, Animal Welfare, Resource Management and Food Safety, Health and Nutrition) and supports the UN 2030 sustainable development goals. Recognising the challenge posed by climate change, Dawn Meats became the first European beef and lamb processor to sign up to the Science based targets initiative (SBTI) in May 2019 with its targets subsequently approved by the SBTI in November 2019.

This ambitious commitment supports Dawn Meats’ pathway for its Scope 1, 2 and 3 emissions. As part of their 2020 sustainability action plan and with the support of AIB and other syndicate lenders, Dawn Meats introduced a Sustainability Linked Loan structure (“SLL”) to their syndicated facilities. The SLL encourages Dawn Meats to achieve its ambitious 2025 Sustainability Strategy with performance measured annually across 4 sustainability indicators:

1. Reduced water consumption;
2. Reduced primary energy consumption;
3. Decreased total greenhouse gas emissions; and,
4. Maintaining zero waste to landfill.

Performance against annual indicator target values will be independently tested.

Working with customers, farmers, and other suppliers in supporting the sustainability of the supply chain, Dawn Meats invests heavily in external and internal initiatives such as animal welfare, farm assurance, knowledge transfer, food safety, food defence, quality standards, staff training and process efficiency.

AIB is a €90m participant in Dawn Meats’ syndicated facilities and is delighted to support Dawn Meats’ strong and embedded sustainability culture.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

SUPPORTING GREEN MORTGAGE LENDING

Our Green Mortgage launched in Ireland in November 2019 as a key initiative to support customers who are dedicated to having a more energy efficient home.

In Ireland, our proposition is a 5-Year Fixed rate mortgage for new and existing AIB Private Dwelling Home Mortgage Customers whose property has a Building Energy Rating (BER) of between A1-B3 inclusively.

Both new and existing customers who meet the qualifying criteria can apply for the AIB Green 5-Year Fixed Rate either as part of their mortgage application (new customers) or via the Mortgage Rate Amendment process (for qualifying existing customers).

Since the launch in November 2019, over 1,000 new customers and over 3,500 existing mortgage customers have availed of a Green Mortgage, demonstrating our support to customers who are seeking ways to have more energy efficient homes.

In February 2020, AIB UK launched one of the first Green Mortgage offerings in the UK market and the first in Northern Ireland. Our speed to market on this innovative proposition was made so much easier given our recent rebranding to AIB in NI as we benefitted from the product design and the marketing creative that had been very recently deployed in Ireland.

For financial year 2020, Green Mortgage lending equated to a total drawdown of €346m (€335m in Ireland and £9m in the UK) and equated to 14% of all new mortgage lending.

THE POWER OF ZERO

Nissan and AIB have come together as the new driving force behind an ambitious initiative to put more Electric Vehicle (EV) drivers onto Irish roads and supporting the transition to a low-carbon economy.

James McCarthy (Nissan) and Yvonne Holmes (AIB) pictured with the Nissan Leaf EV.

The 'Power of Zero' initiative offers consumers the opportunity to buy a new Nissan LEAF with 0% finance and to avail of one year's free servicing. Customers who do so could save more than €13,000 in finance and running costs and 11 tonnes of CO_2 emissions over five years, which is equivalent to planting 181,887 trees.

This offer supports the Government's Climate Action Plan and presents motorists who want to take the road to a sustainable, greener future with an all-encompassing offer that is the first of its kind in Ireland.

"This integrated approach has been taken by Nissan and AIB in recognition of our joint commitment to creating a sustainable Ireland. We looked at what consumers required to make the switch to EV driving and responded with an initiative that delivers great value and a greener future for Ireland," said James McCarthy, CEO of Nissan Ireland.

The Nissan LEAF is Ireland's best-selling EV with 5,406 of Ireland's 11,684 EV drivers having already chosen the zero emissions vehicle as the most effective way to reduce their motoring costs and carbon footprint.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

CLIMATE FINANCE WEEK 2020

We were proud to be the lead sponsor of Ireland's Climate Finance Week 2020. Organised by Sustainable Nation Ireland and supported by the Department of Finance, Climate Finance Week took place virtually from the 2nd to 6th November.

The week-long agenda saw over 5,100 attendees at c. 20 events taking place over five days. In line with much of the experience of 2020 the core theme of the week was investing in a resilient future. We opened the week with our fourth AIB Sustainability Conference virtually welcoming over 3,000 attendees inviting them to join a climate conversation with an expert line up. We saw a sixfold increase on our attendance last year, due to increased interest and the virtual setting making it more accessible, while also reducing the footprint of attending. Our speakers included Paul Polman ex CEO of Unilever, Ellen MacArthur founder of the HER foundation focusing on the circular economy and Christiana Figueres the Co-Chair of the 2015 Paris Climate talks.

WATCH THE HIGHLIGHTS

Click here to watch the highlights of **Climate Finance Week 2020**.

We also invited our employees to join an interactive session with our keynote speaker Christiana Figueres, who spoke about the power of personal contribution and how banks play an important role in the decarbonisation of our society and economy with one of the many key quotes being:

"IT'S VERY CLEAR THAT WHEREVER FINANCE GOES, SO GO EMISSIONS. IF YOU FINANCE HIGH CARBON ASSETS, WHATEVER THEY ARE, THEY WILL HAVE THE ATTENDANT GREENHOUSE GASES FOR DECADES TO COME"

At the conference CEO Colin Hunt announced our ambition to have our operations carbon neutral by 2030 using a Net Zero approach.

CASE STUDY

SMURFIT KAPPA – PEOPLE, PLANET & IMPACTFUL BUSINESS

Smurfit Kappa Group PLC ("SKG") is a FTSE 100 company and one of the world's largest integrated manufacturers of paper-based packaging solutions with 352 production sites across 35 countries (Europe (23) and Americas (12)). SKG is also a leading company in sustainability who base their ambition of sustainable growth on three pillars: Planet, People and Impactful Business.

As part of 'Better Planet 2050', SKG incorporated five sustainability targets into their financing structure including five separate environmental and social targets.

With the support of their syndicate lenders (including AIB), SKG introduced a Sustainability Linked Loan structure ("SLL") to their banking facilities which encourages SKG to achieve its ambitious sustainability performance objectives. SKG's targets have been formally documented in the loan agreement and performance against these targets will be independently tested.

SKG have committed to use the Science Based Targets Initiative ("SBTI"). The SBTI aids companies to set ambitious targets in relation to climate action and SKG has asked them to validate that its targets are aligned with the Paris climate agreement and the UN 2030 sustainable development goals.

As part of their SLL financing, SKG will be measured against annualised targets that are linked to the following sustainability objectives on climate change, forest, water, waste and people:

- 55% reduction in fossil fuel emissions intensity by 2030 from a base year of 2005
- Increase share of packaging solutions sold as Chain of Custody certified to 95% by 2025 from a base year of 2005
- 60% reduction in organic content of water returned to the environment by 2025 from a base year of 2005
- 30% reduction in waste sent to landfill per tonne of product by 2025 from a base year of 2013
- 5% reduction in Total Recordable Injury Rate annually.

AIB is a €43m participant in SKG's syndicated facilities and is delighted to support SKG's strong and embedded sustainability culture.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

AIB SUSTAINABILITY INDEX

Along with our sponsorship of Climate Finance Week Ireland where we bring business leaders together to discuss the issue of sustainability we also look to understand and increase consumer awareness.

We work with Amarach Research to produce the AIB Sustainability Index a unique research project that tracks the perception in Irish society of climate and environmental sustainability. The index is run twice each year to track changes in the index and its component parts. We focus on society's attitudes, intentions and behaviours towards their travel and energy & domestic consumption.

Relating to Wave 3 of the research AIB CEO Colin Hunt said "It's heartening that the AIB Sustainability Index shows that people are planning to live more sustainably. At AIB, we too have put sustainability at the centre of our strategy and will continue to support our customers to transition to a low-carbon future by funding renewable energy projects and financing the building and purchasing of energy efficient homes."

CLICK HERE TO READ MORE

You can find the latest Wave 3 findings here.

SUPPORTING THE NATIONAL POLLINATOR PLAN

AIB is a Business Supporter of All-Ireland Pollinator Plan (AIPP). Every year, we carry out pollinator-friendly actions to support the AIPP.

Populations of honeybees, bumble bees and solitary bees all over Ireland have shrunk dramatically over the past three decades. A third of all species are now threatened with extinction. As well as the honey we enjoy from honeybees, bees are responsible for pollinating our wildflowers and many fruit and vegetable crops, such as strawberries and apples.

We have an established bee population since 2017 and in 2020, our beekeeping community expanded with our head beekeeper recruiting six employees who subsequently completed beekeeping courses.

To raise awareness of our bee population we started an internal site where staff can learn the story of the AIB bees explaining how initial four hives increased to 12 in Molesworth Street. Recently we participated in research studies from Trinity College on pollen quality and we have shared our experience in managing to establish a rooftop apiary.

AIB beekeeper Kevin Power, tending to the beehives on the roof of our office in Molesworth Street, Dublin.

PRODUCTS AND SERVICES TO ADDRESS ENVIRONMENTAL AND SOCIAL ISSUES

AN OVERVIEW OF METRICS AND TARGETS

GREEN LENDING

We launched our Climate Action fund in 2019, with a target of financing €5bn in green lending over five years. We had another strong year in 2020, with a further €1.46bn deployed, totalling €2.66bn provided over the last two years.

In 2020, new green lending represented 16% of all new lending (2019: 9.8%).

Our Green Mortgage performed strongly this year, with 14% of total mortgage drawdowns qualifying for a Green Mortgage.

PRODUCT	31.12.2020	31.12.2019
New Green Lending*	€1.46bn	€1.2bn
Of which are Green Mortgages	€0.35bn 14% of total mortgages	Launched: ROI Nov 2019 & UK Feb 2020
Renewable energy and Green commercial buildings	€1.11bn	€1.2bn

Note: Green Mortgages includes drawdowns in Ireland and the UK.
As Electric vehicle was launched late in 2020 and our Green Consumer Loan was launched in early 2021, they are not reflected in 2020 figures.

The green lending in our overall loan portfolio, which underpins our Green Bond was:

PRODUCT	31.12.2020	31.12.2019
Green Bond allocation	€2.24bn	€1.7bn
Comprised of:		
Renewable energy	€1.16bn	€0.8bn
Green commercial buildings	€1.07bn	€0.9bn

Source: Our March 2021 Allocation Report. For metrics on the environmental impacts of our eligible green Projects see our most recent Impact Report. Both reports are available at **www.aib.ie/investorrelations/debt-investor/green-bonds/impact-and-allocation-reports**.

EXTERNAL RATINGS

We have retained Leadership status since 2016 on the Carbon Disclosures Project (CDP), achieving an A rating in 2020 up from A- in 2019. We aim to retain this rating.

	2020 TARGET	2020	2019
CDP*	A	A	A-

In 2020, we significantly improved our ESG ratings:

- Sustainalytics – we scored 16.3 equating to Low ESG Risk on 10 Nov 2020. At the time of assessment our score positioned AIB in the 6th percentile of banks (1st = lowest ESG Risk)
- MSCI – on 22 Jan 2021 we were rated as AA (Leader) rating, and up from A (Average) in 2019
- SAM's 2020 Corporate Sustainability Assessment – we scored 61/100, placing us in the 78th percentile of banks increasing from 35/100 in 2019.

ESG RATINGS	2020 TARGET	2020	2019
Sustainalytics	Above Average	Low ESG Risk	High ESG Risk
MSCI	Above Average	AA – Leader	A – Average
SAM	Above Average	61/100	35/100

We also measure our performance on RepTrak, a leading reputation data and insights company. Our RepTrak environmental score in Q4 2019 was 58 and in Q4 2020 it increased to 62.6.

ESG RATINGS	2020 TARGET	Q4 2020	Q4 2019
RepTrak	60+	62.6	58

SCOPE 1, 2 & 3 EMISSIONS

AIB's carbon reporting year is one year behind our financial reporting year. For 2019, our total GHG emissions were 29,269 tCO_2e (location-based). Scope 1 emissions contributed to 16% of our carbon footprint, Scope 2 to 34% and Scope 3 for 49% of emissions.

Year-on-year, we reduced our emissions by 16% and our Scope 1 & 2 footprint saw a 24% reduction. In Scope 1, we reduced emissions from fleet by 22% and our fuel usage by 11%. In Scope 2, location-based emissions reduction has been driven primarily by grid greening in our locations, where the average grid factor has decreased. As per best practice we included, for the first time, hotel stays within the scope of business travel emissions. In 2019, to further decarbonise our GB operations we started using green gas for our heating demand. As a result, we excluded biomass combustion from our Scope 1 emissions and we reported 16 tCO_2 of out of scope emissions. Category 15 emissions are not included as part of our Scope 3 emissions.

Our GHG emissions are reported in line with the GHG protocol and independently verified by EcoAct. We use carbon budgets for evaluating internal operations projects e.g. energy efficiency projects. We disclose our GHG emissions annually (see p.99 for the last four years).

SCIENCE BASED TARGETS

Building from our Net Zero commitment and ambition we have initiated a project to investigate, develop and commit to Science Based Targets for our own operations (Scope 1 & 2) and our customer loan book (Scope 3). This will put in place sector specific annual emissions reduction targets for AIB's emissions that are aligned with the Paris Climate Agreement.

LOOKING FORWARD

CLIMATE STRATEGY

Over the course of 2021, our strategic priorities will be to continue to embed and integrate sustainability and climate action into AIB's strategy via quantification of risks and opportunities, appropriate training, development of Science Based Targets (SBTs) and integration into our risk management framework and supporting policies and credit processes.

We will develop a synthesised view of target opportunities and proposed action for integration into our strategic and business planning cycle. We will complete heat-mapping of AIB's key lending portfolios, aligned to previous Net Zero, sector and SBT analysis.

In support of our Net Zero ambition, it is our intention to continue to invest in energy-efficient projects to reduce our own footprint and to work to set SBTs for our lending portfolio.

CLIMATE GOVERNANCE

The amount of regulatory change that relates to sustainability is significant and growing and this is welcome as it will give the clarity and consistency of what is required in delivering against this critical agenda.

AIB has committed to continuing and expanding our Sustainability Investment programme which will be a multi-year programme implementing changes to processes, systems, data capture to integrate and truly embed ESG. Part of this work will involve a review of governance & accountability for climate-related issues to identify what may need to change in this regard as the risks and opportunities are defined in greater depth and quantified.

RISK MANAGEMENT

Looking to 2021, the next important step will be to consider the severity and measurement of the risks identified and how that impacts our Risk Management Framework and policies. To do so, we need to understand the areas of our portfolios and sectors which have a greater sensitivity to climate change and how identified climate-related risks impact on our existing risk categories. We then need to work towards quantifying the financial impacts of these risks, with a particular focus on the portfolios and sectors we have determined to be at the highest risk. In particular, we intend to carry out a flood risk analysis of our residential property portfolio under different climate scenarios.

The next step will be to ensure that the results of this assessment are factored into our Risk Management Framework and credit and supply chain processes, ensuring that we develop our policy suite to effectively identify, assess, manage, and monitor our climate-related risks. We also intend to further integrate ESG considerations into our credit application processes, allowing us to engage with our customers to see how we can best support them in their transition to a lower carbon economy.

In addition, we intend to consider whether any identified climate-related risks could impact our capital/liquidity and we are monitoring stress testing developments. As we develop our policy suite in line with our climate risk management strategy, we intend to deliver comprehensive climate risk training to all impacted teams, to supplement the mandatory sustainability training already in place.

METRICS & TARGETS

New Climate Action Lending – We will continue to build out our propositions to support financing more green projects and assets, and increase awareness with our customers in understanding the transition steps they can take and how we can support them and intend to set targets by product and business area.

Net Zero – To support Scope 1 & 2 emissions reduction we will continue to invest in energy efficiency projects to reduce our own footprint, are exploring options for renewable energy including a Corporate Power Purchase Agreement and are considering how the hybrid model of remote/onsite working will evolve and its potential impact.

We are working towards setting SBTs for our lending portfolio. This will inform our annual emissions reductions and enable targets to be set across our key sectors. We are starting to capture data on our Supplier emissions and will be working to set targets on emissions reduction in our supply chain.

OUR TARGETS

2023

€5BN
IN NEW CLIMATE ACTION LENDING

2030

NET ZERO
IN OUR OWN OPERATIONS

AMBITION FOR
70% OF NEW LENDING TO BE GREEN

2040

NET ZERO AMBITION
CUSTOMER PORTFOLIO LENDING (AGRI 2050)

[1] Includes Scope 1 & 2 emissions.