



Socially Responsible Investment Bond Framework

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Table of Contents

1. Introduction.....	4
2. Portfolio Ambition.....	4
3. SRI Portfolio Eligibility Criteria	6
5. Pillars of Sustainable Investment.....	7
(i) Focuses and Exclusions.....	7
(ii) Reporting	10
(iii) SRI Engagement.....	11
(iv) Living the Sustainable Way.....	11



1. Introduction

At Allied Irish Banks plc (AIB), we are committed to playing a leadership role in sustainability, acknowledging the influence financial services institutions can bring to bear in deepening and embedding this agenda both here in Ireland and further afield. As an established buy-to-hold bond investor, AIB can promote and support the transition to a more sustainable global economy and contribute to positive environmental and social change via the sustainable bond market.

The purpose of the Socially Responsible Investment (SRI) Bond Portfolio is to fund domestic, EU based 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).

2. Portfolio Ambition

In order to ensure we maintain a strong presence in the sustainable bond market, and continue to fund positive impact projects, it is our continued ambition to grow the SRI Portfolio to at least 14% of AIB's total Investment Securities in the medium-term (AIB's total Investment Securities are disclosed in AIB Group plc's Annual Financial Report in our [Financial Results Centre](#)).





ESG PROGRESS

		PLEDGE TO DO MORE 2019	NET ZERO TARGETS & AMBITIONS 2020	ESG LEADERSHIP RATINGS (MSCI, SUSTAINALYTICS & S&P) 2021	DELIVERING ON OUR STRATEGY 2022
E	OWN FOOTPRINT	<ul style="list-style-type: none"> Property migration & retrofit 	<ul style="list-style-type: none"> Reducing energy - Heating, ventilation & air conditioning programme 	<ul style="list-style-type: none"> Group-wide LED lighting retrofit programme 	<ul style="list-style-type: none"> Agreement for Corporate Power Purchase Agreement to support 80% of AIB energy needs
	SETTING TARGETS	<ul style="list-style-type: none"> €5bn Climate Action Fund 	<ul style="list-style-type: none"> Net Zero commitment by 2030 70% new lending to be green or transition by 2030 	<ul style="list-style-type: none"> Doubling to €10bn Climate Action Fund Internal emission reduction targets 	<ul style="list-style-type: none"> Set Financed Emissions Targets for 75% of our loan book
	GREEN PROPOSITIONS	<ul style="list-style-type: none"> Green Mortgage 	<ul style="list-style-type: none"> Electric Vehicle Sustainability Linked Loans 	<ul style="list-style-type: none"> Green Consumer Loans Electric vehicle leasing Green Mortgage across brands 	<ul style="list-style-type: none"> Expansion of Green Living Hub Dedicated sustainability sector guides SBGI Energy Efficient Loan Scheme
	GREEN FINANCE	<ul style="list-style-type: none"> €1.2bn Green lending Green Bond Framework 	<ul style="list-style-type: none"> €1.5bn Green lending 1st Irish Bank – Green Bond €1bn 	<ul style="list-style-type: none"> €2bn Green lending 2nd Green Bond issued - €750m 	<ul style="list-style-type: none"> Issued 2 Green bonds, with a total of €3.25bn to date, to support green lending €3.3bn in new Green Lending
S	HOUSING	<ul style="list-style-type: none"> Redesign of Mortgage customer experience journeys 	<ul style="list-style-type: none"> €300m Social Housing Fund 	<ul style="list-style-type: none"> Social Housing fund committed - add. €500m launched AIB Social Bond Framework launched 	<ul style="list-style-type: none"> €91m invested in social housing projects enabling c.570 new homes Raised €1bn via first Irish Social Bond issuance
	FINANCIAL LITERACY FOCUS	<ul style="list-style-type: none"> Vulnerable Customer Programme 	<ul style="list-style-type: none"> Secondary Schools Programme - focus on financial literacy 	<ul style="list-style-type: none"> Secondary Schools Programme - focus on financial literacy 	<ul style="list-style-type: none"> Ongoing engagement and reach for AIB Future Sparks education programme to c.341K students Ongoing Vulnerable Customer engagement
	BACKING ENTREPRENEURS	<ul style="list-style-type: none"> Women in Enterprise Programme Brexit Advisors 	<ul style="list-style-type: none"> Covid-19 Payment breaks & supports 	<ul style="list-style-type: none"> Covid-19 Payment breaks & supports 	<ul style="list-style-type: none"> Expansion of the Credit Guarantee Scheme
	COMMUNITY PARTNERSHIPS	<ul style="list-style-type: none"> Volunteering Programme 	<ul style="list-style-type: none"> AIB Together Matched Funding €2.4m Covid-19 research 	<ul style="list-style-type: none"> It's My Business JAI GOAL Mile partnership launched 	<ul style="list-style-type: none"> €10.7m Community support, including launch of AIB Community €1 Million Fund to support 70 local charities
G	GOVERNANCE COMMITTEES	<ul style="list-style-type: none"> Sustainable Communities – embedded in strategy 	<ul style="list-style-type: none"> Continued Board focus via Board subcommittee 	<ul style="list-style-type: none"> Establishment of Group Sustainability ExCo Committee Climate Risk Training 	<ul style="list-style-type: none"> Approval for ESG Framework to detail our overall approach to ESG matters 6th Annual Sustainability Conference attracting over 6,000 attendees
	STRATEGY & THOUGHT LEADERSHIP	<ul style="list-style-type: none"> Supporter of Taskforce on Climate-related Financial Disclosures (TCFD) Founding signatory of UNEP FI Principles for Responsible Banking (PRB) 	<ul style="list-style-type: none"> Sustainability 101 Training 	<ul style="list-style-type: none"> UN Global Compact WEF Stakeholder Capitalism Metrics Net Zero Banking Alliance Equator Principles 	<ul style="list-style-type: none"> 2nd disclosures against voluntary commitments
	COMMITMENTS	<ul style="list-style-type: none"> 3rd Detailed Sustainability Report published 	<ul style="list-style-type: none"> 1st disclosures – TCFD and PRB 	<ul style="list-style-type: none"> 1st disclosures - EU Taxonomy WEF metrics and UN Global Compact 	<ul style="list-style-type: none"> Inclusion of enhanced TCFD disclosures within our Annual Financial Report for the 1st time
	REPORTING	<ul style="list-style-type: none"> Project Finance 	<ul style="list-style-type: none"> Excluded Lending Activities Responsible Supplier Code Code of Conduct refreshed Human Rights Commitment 	<ul style="list-style-type: none"> Sustainable Lending Framework ESG Questionnaire Initial Climate Risk Quantification 	<ul style="list-style-type: none"> Salient Human Rights topics identified Enhanced ESG Questionnaire
	POLICIES & CODES	<ul style="list-style-type: none"> Culture Programme 	<ul style="list-style-type: none"> Gender balanced Board and ExCo 	<ul style="list-style-type: none"> LEAD (Leaders Enabling A Difference) Programme 	<ul style="list-style-type: none"> Gold Investors in Diversity' accreditation from Irish Centre for Diversity & Inclusion Enhanced Inclusion and Diversity Strategy launched

3. SRI Portfolio Eligibility Criteria

1. The following bond types are eligible for the SRI Portfolio:
 - Green bonds
 - Social bonds
 - Sustainability bonds
 - Sustainability-Linked bonds (SLBs)
2. Issuers' Bond Frameworks must align with ICMA Principles/Guidelines and/or the EU Green Bond Standard (EuGBS) when applicable.
3. Frameworks must have a Second Party Opinion (SPO) as recommended by the ICMA Principles.
 - AIB will look favourably upon issuers whose SPO contains a full EU Taxonomy Alignment exercise.
4. While we recognise the limitations that exist in the ESG ratings universe including differing methodologies and consequent inability to cross-compare ratings, we rely on external ESG ratings to contribute to our investment decisions. In rank order of priority, our ESG rating requirements for Banks and Corporates are as follows:
 - MSCI rating of BB or better;
 - Sustainalytics score below 35;
 - ISS rating of D+ or better;
 - Should a rating/score not be available from any of the above, ratings/scores from other environmental agencies may be considered on a case-by-case basis.
 - While the convention is that many Sovereigns and SSAs do not have ESG ratings, where ratings are available, the ratings criteria outlined above will apply.
5. Notwithstanding the minimum ratings required, Banks and Corporates with a rating less than MSCI BBB, Sustainalytics 30 or ISS C-, will form no more than 10% of the SRI portfolio.
6. AIB has developed a Sustainability Exclusion List (see Exclusions section page 9 for further detail). Issuers who are deemed to engage in business activities on the Exclusions List will not be considered for investment.
7. We will confine SLB investments to those with adjustable coupons.

As regulation and best practice evolves in the ESG market, we will continue to review our scoring criteria and Framework to reflect new developments.

While we will note issuers' degree of alignment with the EU Taxonomy we believe it is too early to compel issuers to attain a minimum level of alignment for portfolio eligibility as the related reporting requirements to the EU Taxonomy are still in their infancy and companies are not yet required to disclose alignment levels. Our EU Taxonomy alignment criteria will develop as the market evolves.

4. Pillars of Sustainable Investment

AIB has designed four key Pillars of sustainable investment for our SRI Portfolio, as follows:



Focuses and Exclusions

Focuses

Use of Proceeds Bonds (UoP Bonds)

UoP bonds enable issuers to raise capital for new and existing green/social/sustainable projects. The cornerstone of UoP bonds is the utilisation of the bond's proceeds for eligible projects which should be appropriately described in the legal documentation of the security. Transparency, disclosure and reporting are critical to ensure the integrity of UoP bonds and the UoP bond market more generally.

We expect to see the 4 key headings listed below within the issuing framework:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

For the purposes of the SRI Portfolio, we will focus on the project categories listed below, however we will not necessarily be limited to these categories.

Positive environmental impact

Renewable Energy

- Solar energy
- Wind energy (on and off-shore)
- Hydropower
- Geothermal
- Tidal energy

Sustainable Water Management

- Sustainable management of wastewater
- Efficient urban and rural drainage
- Environmentally-friendly flood mitigation systems

Pollution Prevention & Control

- Reduction of air emissions
- Greenhouse gas control
- Waste prevention, reduction & recycling
- Soil-remediation

Green Buildings

- Construction of low-emission buildings
- Retrofitting of domestic properties to be more environmentally friendly

Energy Efficiency

- Energy storage
- District heating, smart grids, appliances and products

Positive social impact

Social Projects

- Affordable basic infrastructure
- Access to education and healthcare
- Affordable housing
- Employment generation
- Food security and sustainable food systems
- Socioeconomic advancement and empowerment
- Projects targeting vulnerable groups

Sustainability-Linked Bonds (SLBs)

SLBs are a forward-looking performance-based instrument where the financial and/or structural characteristics vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. Issuers are therefore committing explicitly to future improvements in sustainability outcomes within a predefined timeline. We will look more favourably upon issuers who have at least one environmental and one social key performance indicators (KPIs).

The proceeds of SLBs are intended to be used for general corporate purposes, hence the use of proceeds is not a determinant in its categorisation.

We expect to see the 5 key headings listed below within the issuing framework:

1. Selection of KPIs
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond Characteristics
4. Reporting
5. Verification

Exclusions

AIB is committed to embedding sustainability at the core of everything we do. With this in mind, AIB has developed a Sustainability Exclusion List where a number of sectors considered to be incongruent with our views of sustainability have been identified for exclusion from investment. In this regard, corporate issuers whose primary business activities are in the following sectors will be excluded from the SRI Portfolio:

Energy & Climate Action:

- Exploration, extraction and upgrading of sand oil 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
- Onshore/offshore exploration, extraction or refining of coal or oil
- Natural gas fracking

Animal Welfare:

- Producing, processing animal fur
- Support of any type of animal fights for entertainment
- The use of dynamite or poison to the catch marine and fresh water species (including shellfish) in the wild

Ecosystem Protection:

- Deforestation or the burning of natural ecosystems for the purposes of land clearance;
- Timber from illegal trading or logging operations
- Production or trade in wood or other forestry products other than from sustainably managed forests

Healthcare/Genetic Engineering:

- The development of Genetic Engineering or Genetic Modification on humans
- The development of Genetic Engineering or Genetic Modification on animals for non-medical purposes

Adult Entertainment:

- Online pornography

Surveillance/Arms Related/Military:

- Anti-personnel landmines/Cluster munitions
- Weapons of Mass Destruction including the production, maintenance or trade of nuclear, biological, chemical and toxin weapons
- Any activity that adversely impacts Human Rights defined by the UN

Excluded sectors will always be determined by the most up to date AIB Group Credit Risk Policy and therefore the list above is subject to revision.

Reporting

Transparency, accuracy and integrity of the information disclosed by issuers is of the utmost importance. Therefore, we require issuers' reporting to align with the ICMA Principles' reporting recommendations. Consistent and comparable ESG reporting will reinforce issuers' accountability whilst providing the investor with key information on how funds are being utilised and how organisations are performing against ESG objectives.

We require the issuing framework to have a Second Party Opinion, as per the ICMA Principles.

We will not include bonds in our SRI portfolio where the issuer does not intend to publish any information, reports, or impact metrics regarding their sustainable bond issuance.

Use of Proceeds Bonds

Allocation reporting should include:

- (i) The size of the proceeds available for allocation
- (ii) The total amount of proceeds allocated to the eligible projects
- (iii) Details of the projects where feasible

Impact reporting should include:

- (i) Qualitative performance measures regarding projects' environmental and/or social impacts
- (ii) Quantitative performance indicators and underlying methodology and/or assumptions, where feasible

Allocation and impact reporting should be published at least annually until the bond is fully allocated.

Sustainability-Linked Bonds

Reporting should include:

- (i) Up-to-date information on the performance of the selected KPI(s) including baselines where relevant
- (ii) A verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact
- (iii) Any information enabling investors to monitor the level of ambition of the SPTs

Reporting should be published at least annually and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB's financial and/or structural characteristics.



SRI Engagement

We will look more favourably upon issuers who actively engage in the world of socially responsible investment and demonstrate strong environmental, social and governance practices. Engagement through ESG bond/framework roadshows, one-on-one meetings and conferences is crucial as it helps us to understand investee ESG strategies, provides an opportunity for investees to increase visibility and showcase their ESG credentials and enhances the exchange of new ESG-related knowledge in a rapidly evolving market. Additionally, it also allows us to communicate AIB’s sustainability agenda and SRI Portfolio ambitions to the market.

We will also look favourably upon issuers whose issuing frameworks reference the UN Sustainable Development Goals (SDGs). The SDGs are a set of 17 goals with 169 targets covering a broad range of sustainability issues. They are the blueprint to achieve a better and more sustainable future for all. Investors/investees are in a prime position to contribute to the SDGs through their business activities and investment decisions.

We endeavour to identify and invest in issuers who in addition to the above, promote the role that global debt capital markets can play in financing progress towards environmental and social sustainability.

UN Sustainable Development Goals:



Living the Sustainable Way

The three domains of social, environmental and governance are intimately linked to the concept of responsible investment. In this regard, governance is a significant factor in our analysis of a sustainable bond issuer as it is an indicator of an issuer’s collective conscientiousness for environmental and social factors. We look favourably upon issuers who not only meet legal obligations but go above and beyond to invest in human capital, the environment and conduct business activities in socially responsible manner.

Issuers with strong governance structures and frameworks in place, and who continually strive to improve and progress in areas such as board diversity, transparency and accountability, audit practices, executive pay and business ethics will all be looked upon favourably.

Transparent and open communication is consistent with strong internal governance and fosters confidence in issuers’ actions and processes. We therefore value relationships with issuers who provide direct access to their ESG research, ESG departments, and are open to dialogue with investors.