

THE EUROPE ARAB BANK PLC PENSION SCHEME (“the Scheme”)

ANNUAL GOVERNANCE STATEMENT FOR THE SCHEME YEAR ENDING 31 DECEMBER 2020 PREPARED IN ACCORDANCE WITH REGULATION 23 OF THE OCCUPATIONAL PENSION SCHEMES (ADMINISTRATION) REGULATIONS 1996, AS AMENDED (THE “REGULATIONS”)

1. DEFAULT ARRANGEMENT - Reg 23(1)(a)

A copy of the Statement of Investment Principles - Defined Contribution Section, prepared in accordance with Regulation 2A of the Occupational Pensions Schemes (Investment) Regulations 2005 is attached.

Summary of the changes to the investment strategy in 2020:

The Trustees have appointed Aon Solutions UK Limited to provide them with investment advice, and a comprehensive investment strategy review was last completed in November 2020. This took into account the Scheme's membership profile and the needs of Scheme members, as well as consideration of expected member outcomes at retirement and associated risks. It was agreed that the Flexible Income Lifestyle Option and Annuity Lifestyle Option remain relevant options for the scheme membership. In addition, the Trustees also considered prospective fund options in relation to enhancing its approach to Environmental, Social and Governance (ESG) principles. In summary, the Trustees have agreed that the strategy will be amended as follows:

1. Passive Global Equity Fund
 - Replacing the World Equity Index and World Equity Index (hedged) with the LGIM Future World Global Equity Index and Future World Global Equity Index (hedged) respectively
2. Multi-Asset Growth Fund
 - Replacing 50% of the allocation to Schroders DMAF with the LGIM Diversified Fund
3. Adding the LGIM Future World Global Equity Index Fund as a self-select option

The Trustees believe that the above changes incorporate ESG-focused funds into the strategy, whilst minimising disruption and costs to members. They are liaising with their advisors in order to implement the above changes to the existing strategy and will also issue member communications to confirm the changes that have been made as well as make the relevant updates to the scheme documentation.

The next default investment strategy review is due to take place in 2023.

Flexible Income Lifestyle Option – New Default arrangement

From 2017, the default fund has been the Flexible Income Lifestyle option. This works on the principle that at retirement members will use flexible income “drawdown” to draw income at retirement. This could be through a maximum of five cash lump sum withdrawals while remaining invested in the Scheme, or by transferring their pension savings to a specialist income drawdown arrangement outside of the Scheme to give even more flexibility.

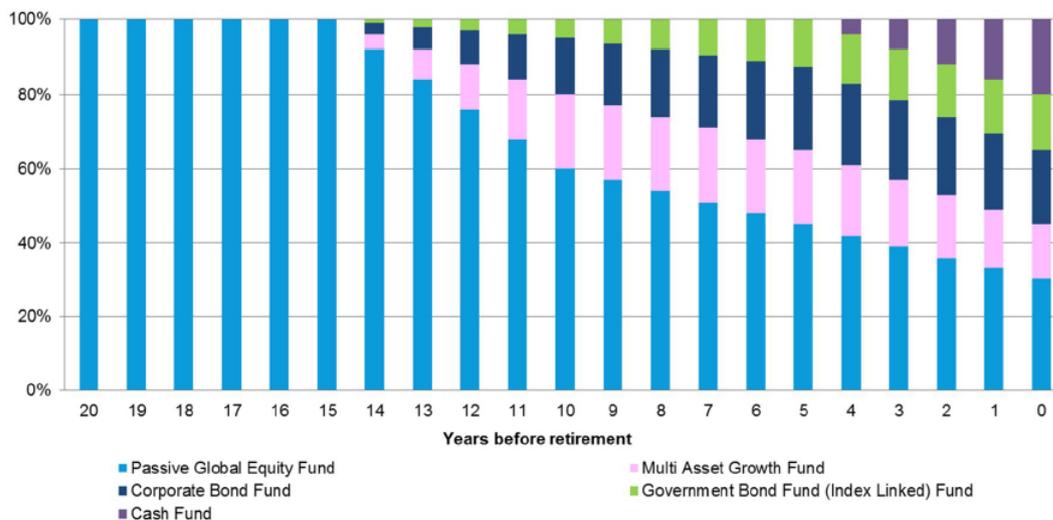
Each withdrawal will be subject to a 25% tax-free element (under current laws). As a result of the review carried out in 2020, the Trustees agreed that this option remains appropriate for the Scheme membership.

How it works

Up until 15 years before a member’s retirement date, their savings are invested in funds which aim to deliver long-term growth (i.e. equities). After that time, their savings are gradually moved into a mix of bonds and multi asset growth funds, with a portion remaining in equities.

Once a member reaches their retirement date, their savings are invested in a broad mix of higher and lower risk funds. This is to try and achieve a balance of growth versus security.

The chart below illustrates how funds will be invested in the Flexible Income Lifestyle option:



It is recognised that some members will wish to pursue annuity purchase at retirement and so an Annuity Lifestyle Option is also available, as well as the option to Self-Select their investment options. However, unless a member specifically requests to opt-in to the Annuity Lifestyle or Self Select options, their contributions will be invested in line with the default arrangement (the ‘Flexible Income Lifestyle Option’).

2. CORE FINANCIAL TRANSACTIONS - Reg 23(1)(b)

The Trustees have a specific duty to ensure that core financial transactions (including the investment of contributions, transfers of member assets into and out of the Scheme, transfers between different

investments within the Scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately.

These transactions continue to be undertaken on the Trustees' behalf by the Scheme Administrator, Mercer Limited, and its investment manager, Legal & General Assurance (Pensions Management) Limited. The Trustees have reviewed the processes and controls implemented by these organisations, and maintain the view that they are suitably designed to achieve these objectives. The Trustees have also agreed service levels, and reporting of performance against those service levels via regular administration reports, and during the year ending 31 December 2020 the performance levels were 96% when compared with the agreed levels of service. The Trustees also regularly review the methods and efficiency of the Scheme's Administrators and challenge them as necessary. In addition, Mercer has commissioned KPMG to independently test their internal controls and procedures to ensure that they meet industry standards, and a copy of the KPMG report has been reviewed by the Trustees.

For the year to 31 December 2020, the Trustees consider that the requirements for processing core financial transactions specified in the Regulations have been met.

3. CHARGES AND TRANSACTION COSTS - Reg 23(1)(c)

The Trustees regularly monitor and explain the fund charges paid by members. These charges comprise:

- explicit charges, such as the Annual Management Charge (AMC), and additional expenses that are disclosed by the fund managers as part of the Total Expense Ratio (TER); and
- implicit charges, such as the transaction costs borne within the fund for activities such as buying and selling of particular securities within the fund's portfolio.

There are other non-investment related costs which are not charged to members, such as administration, communication and adviser costs.

Charges

As mentioned above, investment strategy changes were implemented in 2017. The following table sets out the current fund charges that were applicable during the scheme year to 31 December 2020. This will be updated to reflect the proposed changes to the investment strategy once the changes have been implemented:

Scheme fund name	Underlying funds	Total Expense Ratio p.a.	Included in default arrangement
Passive Global Equity Fund	LGIM World Equity Index LGIM RAFI 3000 Equity Index LGIM Minimum Volatility Index LGIM World Emerging Markets Equity Index	0.28%	✓
Passive UK Equity Fund	LGIM Passive UK Equity Index	0.10%	
Ethical Global Equity Fund	LGIM Ethical Global Equity Index	0.30%	
Shariah Compliant Global Equity Fund	HSBC Amanah Global Equity Index	0.35%	

Multi Asset Growth Fund	Schroder Dynamic Multi Asset Fund	0.37%	✓
Government Bond (Index Linked) Fund	LGIM Over 5 Yr Index-Linked Gilt Index	0.10%	✓
Corporate Bond Fund	LGIM Investment Grade Over 15 Year	0.15%	✓
Cash Fund	LGIM Cash Fund	0.13%	✓

There is no up-front administration charge to members for carrying out a switch between funds. However, there may be implicit transaction costs incurred by switching.

It should also be re-emphasised that the Scheme is a Qualifying Workplace Pension Scheme for Auto Enrolment purposes. As such, the default lifestyle strategy is subject to the Statutory Charge Cap of 0.75% per annum, and it remained well below this cap throughout the year.

Transaction Costs

Transaction costs are costs which are incurred within the day to day management of the assets by the fund manager. This covers such things as the cost of buying and selling securities within the fund. Transaction costs are incurred on an on-going basis and are implicit within the performance of the fund.

The Financial Conduct Authority (FCA) rules on disclosure for transaction costs in a standard form came into effect for investment managers on 3 January 2018.

The transaction costs shown below are calculated using the standardised method set by the FCA. As defined by the FCA, explicit transaction costs are the costs that are directly charged to or paid by the fund and may include taxes and levies (such as stamp duty), broker commissions (fees charged by the executing broker in order to buy and sell investments) and costs of borrowing or lending securities.

Implicit transaction costs are calculated as the difference between the actual price paid (execution price) and the quoted 'mid-market price' at the time the order was placed (arrival price). This method, although reasonable if observed over a long period of time, can result in a volatile measure from one year to another and can even result in profit, known as 'negative costs'. This can happen, for example, when buying an asset, if the actual price paid ends up being lower than the mid-market price at the time of placing the order, because something has happened in the market that pushes the price of the asset down – such as some negative publicity or a big sell order by someone else.

The transaction costs, as shown in the table below, have been calculated and provided by Legal and General Investment Management.

Scheme fund name	Underlying funds	Transaction Costs
Passive Global Equity Fund	LGIM World Equity Index LGIM RAFI 3000 Equity Index LGIM Minimum Volatility Index LGIM World Emerging Markets Equity Index	0.06%
Passive UK Equity Fund	LGIM Passive UK Equity Index	0.00%
Ethical Global Equity Fund	LGIM Ethical Global Equity Index	0.00%

Shariah Compliant Global Equity Fund	HSBC Amanah Global Equity Index	0.03%
Multi Asset Growth Fund	Schroder Dynamic Multi Asset Fund	0.33%
Government Bond (Index Linked) Fund	LGIM Over 5 Yr Index-Linked Gilt Index	0.10%
Corporate Bond Fund	LGIM Investment Grade Over 15 Year	0.00%
Cash Fund	LGIM Cash Fund	0.00%

In terms of the investment strategy, the costs in respect of the Lifestyle strategies can be summarised as follows:

Lifestyle strategies	Total Expense Ratio	Transaction Costs	Total Costs
Flexible Income Lifestyle Option	0.21% - 0.28%	0.06% - 0.10%	0.29% - 0.38%
Annuity Lifestyle Option	0.13% - 0.28%	0.02% - 0.10%	0.16% - 0.38%

Cumulative effect of charges

The tables below illustrate the effect of the costs and charges at different ages on members' projected retirement pots for a "Young" active member and a "Typical" active and deferred member invested in the default lifestyle strategy.

As the projected fund values are dependent on investment returns as well as the level of costs and charges, we have also included some comparison figures in the table below. For comparison purposes, we show projected values if the example member were invested in a fund with a similar risk profile (the Multi-Asset Growth Fund) but which has a higher level of costs and charges and the Cash Fund which has a lower cost and charge level to the default strategy and with a lower risk profile (expected return).

Youngest Active Member

For the youngest member invested in the Default Lifestyle, the estimated impact of costs and charges on a member's accumulated fund value is shown in the table below. The amounts shown relate to a member aged 20, current fund value of £1,000, salary of £23,000, employer contributions as per the current age-related contribution structure plus a 3% matched additional voluntary contribution (which the majority of members utilise) and a Selected Retirement Age of 65.

Age	Cash Fund			Default Strategy: Flexible Income Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
20	1,000	1,000	0	1,000	1,000	0	1,000	1,000	0
25	12,740	12,690	50	14,790	14,660	130	14,040	13,780	260
30	25,420	25,260	160	33,570	33,030	540	30,410	29,380	1,030
35	36,800	36,460	340	55,780	54,420	1,360	48,020	45,590	2,430
40	49,160	48,590	570	84,530	81,790	2,740	69,310	64,760	4,550
45	60,260	59,400	860	118,530	113,670	4,860	92,200	84,690	7,510
50	72,360	71,190	1,170	161,220	153,250	7,970	119,170	107,720	11,450
55	83,220	81,690	1,530	205,860	193,680	12,180	148,180	131,660	16,520
60	95,120	93,190	1,930	245,140	228,190	16,950	181,730	158,850	22,880
65	105,790	103,450	2,340	275,370	254,050	21,320	217,810	187,130	30,680

Typical Active Member

For a typical active member invested in the Default Lifestyle, the estimated impact of costs and charges on members accumulated fund values is shown in the table below. The amounts shown relate to a member aged 43, current fund value of £37,000, salary of £66,000, employer contributions as per the current age-related contribution structure plus a 3% matched additional voluntary contribution (which the majority of members utilise) and a Selected Retirement Age of 65. These demographics are considered to reflect a typical active member based on the Scheme's current membership.

Age	Cash Fund			Default Strategy: Flexible Income Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
43	37,000	37,000	0	37,000	37,000	0	37,000	37,000	0
45	54,570	54,450	120	59,800	59,490	310	57,930	57,290	640
50	101,470	100,870	600	131,060	129,150	1,910	119,770	116,040	3,730
55	143,550	142,240	1,310	209,700	204,610	5,090	186,270	177,120	9,150
60	187,480	185,280	2,200	291,140	281,300	9,840	264,540	247,250	17,290
65	226,890	223,630	3,260	363,810	348,690	15,120	348,710	320,140	28,570

Typical Deferred Member

For a deferred member invested in the Default Lifestyle, the estimated impact of charges on accumulated fund values is shown in the table and chart below. The amounts shown relate to a member aged 46, current fund value of £44,000, no ongoing contributions and a Selected Retirement Age of 65, which reflects a typical deferred member based on the Scheme's current membership.

Age	Cash Fund			Default Strategy: Flexible Income Lifestyle			Multi-Asset Growth Fund		
	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)	Est. fund value before charges (£)	Est. fund value after charges (£)	Effect of charges (£)
46	44,000	44,000	0	44,000	44,000	0	44,000	44,000	0
50	40,340	40,130	210	50,320	49,710	610	46,630	45,380	1,250
55	36,190	35,770	420	57,830	56,200	1,630	50,150	47,170	2,980
60	32,470	31,880	590	62,570	59,770	2,800	53,920	49,030	4,890
65	29,140	28,410	730	64,710	60,860	3,850	57,990	50,970	7,020

Assumptions

The above illustrations have been produced for a “Typical” active and deferred member and a “Young” active member of the Scheme based on the Scheme’s membership data. The illustrations assume the member’s asset allocation remains fully invested in the current default strategy. The results are presented in real terms, i.e. in today’s money and the values shown are estimated and are not guaranteed.

Age	
<ul style="list-style-type: none"> • “Young” member • “Typical” active member • “Typical” deferred member 	20 43 46
Scheme Retirement Age (all)	65
Starting Pot Size	
<ul style="list-style-type: none"> • “Young” member • “Typical” active member • “Typical” deferred member 	£1,000 £37,000 £44,000
Current Salary	
<ul style="list-style-type: none"> • “Young” member • “Typical” active member • “Typical” deferred member 	£23,000 £66,000 n/a
Inflation	2.5% p.a.
Real Salary growth	0.0% p.a.
Employer annual contributions (for Typical Active and Young member)	In line with age-related structure plus 3% p.a. matching contribution
Employee annual contributions (for Typical Active and Young member)	3% p.a.
Expected future returns on investment:	

<ul style="list-style-type: none"> • Default Strategy <ul style="list-style-type: none"> ○ Passive Global Equity Fund ○ Multi-Asset Growth Fund ○ Corporate Bond Fund ○ Government Bond (Index Linked) Fund ○ Cash Fund 	<p>6.0% p.a.</p> <p>4.0% p.a.</p> <p>0.5% p.a.</p> <p>0.0% p.a.</p> <p>0.3% p.a.</p>												
<p>Transaction Costs:</p> <p>Based on an average of transaction costs over the last two years, as available from LGIM</p> <ul style="list-style-type: none"> ○ Passive Global Equity Fund ○ Multi-Asset Growth Fund ○ Corporate Bond Fund ○ Government Bond (Index Linked) Fund ○ Cash Fund <p>In addition, a floor of 0% p.a. has been used for transaction costs if these values were negative in any year so as not to potentially understate the effect of charges on fund values. For the current period, this only affected the Corporate Bond Fund.</p>	<table border="1"> <thead> <tr> <th>TER</th> <th>Average Transaction Cost</th> </tr> </thead> <tbody> <tr> <td>0.28%</td> <td>0.05%</td> </tr> <tr> <td>0.37%</td> <td>0.33%</td> </tr> <tr> <td>0.15%</td> <td>0.00%</td> </tr> <tr> <td>0.10%</td> <td>0.07%</td> </tr> <tr> <td>0.13%</td> <td>0.00%</td> </tr> </tbody> </table>	TER	Average Transaction Cost	0.28%	0.05%	0.37%	0.33%	0.15%	0.00%	0.10%	0.07%	0.13%	0.00%
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Value for Members

On 21 June 2021, the Trustees carried out a detailed assessment of the extent to which the charges and transaction costs set out above represent good value for members. In making this assessment the Trustees have adopted the same “Value for Members” framework as used in the 31 December 2019 year end statement. This framework identifies a need to focus on **Costs; Quality; Risk; and Relevance**. Below are the framework scores, along with the 2019 and 2018 scores as a comparison:

	31 December 2020	31 December 2019	31 December 2018
COSTS	92%	92%	92%
QUALITY	72%	74%	74%
RISKS	76%	80%	80%
RELEVANCE	71%	76%	80%
TOTAL VFM SCORE	77.75%	80.5%	81.5%

Since 31 December 2019, the Value for Members rating has fallen due to the continued delays experienced in implementing the BenPal platform and its importance to improving member communication and engagement. The Trustees will continue to monitor the implementation of BenPal with Mercer and the Bank so that this is finalised in 2021. The Trustees will also look to develop a Newsletter in 2021 in order to communicate the latest investment strategy changes as well as introduce the BenPal portal to members. Member presentations also form part of the Trustees’

strategy to improve member engagement and these will be considered as part of the roll-out of BenPal.

In analysing the value for members of the Scheme's investment options the Trustees acknowledge the following:

- value is more than just cost;
- assessing Quality needs to consider all elements that can materially impact member outcomes;
- assessing Relevance needs to consider the needs of the member base and the extent to which these are reflected in any member feedback;
- assessing Cost is primarily a relative assessment, with research and judgement required to assess what are equivalent parameters to use;
- value for members is forward looking and can change over time;
- value for members is primarily concerned with anticipated outcomes at retirement;
- cross-subsidies inevitably exist; and
- members' interests include the stability and ongoing existence of the provider.

The Trustees carried out an Investment Strategy Review with the assistance of Aon in November 2020 and concluded that the fund charges were within the expected range. The Trustees have a good understanding of the membership demographics of the Scheme and as such have a view as to what good member outcomes should look like for the Scheme's members in aggregate. In addition, the Trustees have actively made changes to the Schroder's Multi Asset Fund based on concerns regarding performance, and will be introducing an ESG self-select fund option as part of the investment strategy review. With this in mind, the Trustees have assessed the fees disclosed above and they are satisfied that they have negotiated a good deal for members and that the stated charges for the Scheme's funds represent good value for members. This is in the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile. Aon will, however, continue to discuss any scope for fee discounts with Legal & General.

In conclusion, the Trustees are of the opinion that the Scheme has provided, and has the capacity to continue to provide, good value for members. Action is being taken in order to progress the implementation of BenPal and improve member communications and engagement in 2021. They will also continue to consider and monitor Value for Members as part of their regular reviews with Aon.

4. TRUSTEE KNOWLEDGE AND UNDERSTANDING - Reg 23(1)(d)

The requirements under sections 247 and 248 of the Pensions Act 2004 (requirement for knowledge and understanding – individual and corporate trustees) have been met during the Scheme year by a continuous process of relevant on-the-job training. The Trustee board is chaired by a knowledgeable and experienced APPT Accredited professional independent trustee and all the trustees have successfully completed all relevant modules of the Pensions Regulator's Trustee Toolkit.

The Trustees reviewed the Statement of Investment Principles (SIP) for the DC section in July 2017 and took professional advice from Aon. In conjunction with Aon, the Trustees further reviewed the SIP during 2018 and again in September 2019 and September 2020 in order to include the latest investment regulations introduced by the Department for Work and Pensions. The SIP now takes into account all financially material considerations (including but not limited to Environmental, Social and Governance (ESG) factors). A copy of the updated document will be appended to the 31 December 2020 scheme accounts and is also publicly available on the Europe Arab Bank plc company website.

The November 2020 Investment strategy review covered, amongst other things, a review of the ongoing suitability of the existing fund range offered by the Scheme, member outcomes monitoring and a review of the Fund charges.

As a result of the Competition and Markets Authority (CMA) review of the investment consulting industry, the Trustees agreed investment consultant objectives with Aon in advance of the deadline of 10 December 2019. The Trustees also carried out a review of Aon's performance against these objectives in 2020.

The Trustees maintain and regularly review their DC Governance checklist at Trustee meetings. This has helped to identify the need for a Trustees' Succession Plan, which was implemented in 2018. This includes an Induction Plan for new Trustees (of which there was one during 2021).

A Governance Report and Business Plan is also maintained by the Trustees, which records all of the Trustees' policies and their Trustee Training Register, and this is reviewed at each Trustees' meeting. As part of this, the Trustees have developed a Trustee Training plan outlining relevant topics that they will be addressing in the year and who will be providing the training to them. The Trustees feel that they have a good working knowledge of the Trust Deed and Rules as a result of the policies that they have implemented and refer to this key document on a regular basis when discretionary cases arise. The Trustees also seek advice from their consultants and legal advisers where they feel the need for clarity on their interpretation of the Scheme Rules. The Trustees received guidance from their legal advisers as part of a consolidation of the Trust Deed and Rules, and the first training session on this was carried out in November 2019, with a follow-up session in May 2020. The consolidation exercise was finalised in March 2021.

The Trustees ensure that they have the knowledge and understanding by having 'Trustee Knowledge and Understanding' as an agenda item for every Trustees' meeting and, where any specific gaps in knowledge or understanding are identified, bespoke training is arranged to address this accordingly. The Trustees have received updates from their advisers at regular Trustees' meetings throughout the year on relevant topics. These include updates on investment markets, advice on investment strategy, transaction cost disclosure and SIP requirements, and current pension issues.

The professional trustee, Roger Mattingly (representing Ross Trustees Services Limited) is an Accredited Professional Trustee, as accredited by the Association of Professional Pension Trustees (the APPT). The professional trustee maintains a robust record of their Continuous Professional Development (CPD), which includes many events devoted to DC governance.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their duties and responsibilities as Trustees of the Scheme.

5. NON-AFFILIATION OF TRUSTEES AND MEMBER REPRESENTATION - Reg 26

The Scheme is not constrained by the requirements of regulation 27(2) of the Regulations for the majority of the Trustees to be non-affiliated as it is not a Master Trust but, as stated, the Board of the Trustees is chaired by a non-affiliated professional independent trustee.

The Trustees continue to encourage members of the Scheme to make their views on matters relating to the Scheme known. A series of member presentations were carried out during 2017 to make sure, as far as is possible, that members have all the information they may require to make informed

decisions, as necessary. It is also planned, with the assistance of the Employer, to carry out another round of member presentations, and this will be run alongside the introduction of an online benefits platform.

6. GOVERNANCE STATEMENT

As Trustees, we have reviewed and assessed our systems, processes and controls across key governance functions and we are satisfied that these are consistent with those set out in the Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits
- Regulatory guidance for defined contribution schemes

Based on our assessment we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the robust administration processes and investment governance required to achieve good outcomes for members.

Signed by Roger Mattingly on behalf of the Trustees of the Europe Arab Bank Plc Pension Scheme on 22 July 2021.