

Europe Arab Bank plc Pension Scheme

Statement of Investment Principles

Defined Contribution Section

September 2019

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1 Introduction

This Statement of Investment Principles ("the Statement") has been prepared by the Trustees of the Europe Arab Bank plc Pension Scheme ("the Scheme") in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2004 (the "Pensions Act").

The Statement outlines the principles governing the investment policy of the Defined Contribution section of the Scheme and the activities undertaken by the Trustees to ensure the effective implementation of these principles. The Statement is in compliance with the Government's voluntary code of conduct for Institutional Investment in the UK ("the Myners Principles"), and also reflects the requirements of Occupational Pension Schemes (Investment) Regulations 2005 and other subsequent legislation.

The Statement covers all investment matters relating to investment of the DC and AVC assets of the Scheme. A separate Statement of Investment Principles has been prepared to cover investment matters relating to the DB Section of the Scheme.

In preparing the Statement, the Trustees have:

- Obtained and considered written advice from a suitably qualified individual, employed by their investment consultants, Aon Hewitt Limited ("Aon"), whom they believe to have a degree of knowledge and experience that is appropriate for the management of their investments; and
- Consulted with the Sponsoring Employer, Europe Arab Bank plc, although they affirm that no aspect of their strategy is restricted by any requirement to obtain the consent of the Sponsoring Employer.

The advice and the consultation process considered the suitability of the Trustees' investment policy for the Scheme.

The Trustees will review the Statement formally at least every three years. Furthermore, the Trustees will review the Statement without delay after any significant change in investment policy or member demographics. Any changes made to the Statement will be based on written advice from a suitably qualified individual and will follow consultation with the Sponsoring Employer.

2 Investment Objectives

The Trustees aim to provide suitable investment options that are aligned to the needs of their members. The Trustees have taken into account members' circumstances, in particular the expected range of members' attitudes to risk and term to retirement.

The Trustees recognise that in a defined contribution arrangement, members assume the investment risks themselves. The Trustees further recognise that members are exposed to different types of risk at different stages of their working lifetimes. Broadly speaking, five main types of investment risk can be identified, as noted below:

- Opportunity cost risk – taking insufficient investment risk when the member can afford to, resulting in a lower level of retirement savings. This risk is most important when members are younger. Early career members have longer time horizons and higher levels of human capital which results in the ability to assume more investment risk in order to achieve higher expected returns.
- Inflation risk – the risk that the return on members' investments does not sufficiently exceed price inflation resulting in a loss of purchasing power. This risk is important throughout a member's career. Investment strategies that deliver performance above or in-line with inflation are important for members.
- Capital risk – the risk that the value of invested capital may decrease significantly. This risk increases in importance as retirement savings grow. Mid-career members generally have higher pension savings and shorter investment horizons, which results in more of a focus on capital preservation than solely on maximising investment growth.
- Market-switching risk – the risk arises if there is to be switching between investment vehicles. The risk is that large investment switches are made at one point in time, thereby unnecessarily exposing members to unfavourable market pricing on a particular day.
- Mismatch risk – the risk that investments do not move in line with the change in the value of the expected approach to withdrawing retirement savings. This risk is most important when members are approaching retirement.

The Trustees have determined their investment policy in such a way as to address the above risks.

Further investment strategy details are covered in Section 4, and further risk considerations are set out in Section 5.

3 Investment Responsibilities

3.1 Trustees' Duties and Responsibilities

The Trustees are responsible for setting the investment objectives and determining the strategy to achieve the objectives.

They carry out their duties and fulfil their responsibilities as a single body. They have considered establishing an investment sub-committee but have decided not to do so, as each of the Trustees wishes to contribute directly to the formulation of the Scheme's investment policy and to the monitoring of the Scheme's investment managers. Moreover, the trustee body is not so large as to be unwieldy in its operations. Sub-committees may be formed from time to time to examine specific issues.

The duties and responsibilities of the Trustees include, but are not limited to, the following tasks and activities:

- The regular approval of the content of the Statement.
- The appointment and review of the investment managers and investment advisers.
- The assessment and review of the performance of each investment manager.
- The setting and review of the investment parameters within which the investment managers can operate.
- The assessment of risks at a total scheme level as well as on a manager by manager basis.
- The assessment of the suitability of investment options, including design of the default strategy.
- The approval and review of the asset allocation benchmarks for blended fund options.
- The compliance of the investment arrangements with the principles set out in the Statement.

3.2 Investment Adviser's Duties and Responsibilities

The Trustees have appointed Aon as the independent investment adviser to the Defined Contribution section of the Scheme. Aon provides advice as and when the Trustees require it, as well as raising any investment-related issues, of which it believes the Trustees should be aware. Matters on which Aon expects to provide advice to the Trustees include the following:

- Setting of investment objectives.
- Determining investment strategy and asset allocation benchmarks.
- Determining an appropriate investment structure.
- Investment manager mandates.
- Advising on the selection and replacement of investment managers and the fund provider.

The Trustees may seek advice from Aon with regard to investment decisions; however, they recognise that they retain responsibility for all such decisions.

The Trustees, with advice from Aon, monitor the performance of the Scheme's investment managers against their benchmarks.

Aon is remunerated primarily on a capped fixed fee basis, where the Trustees will look to agree the scope and budget for any project work in advance. Aon does not receive commission or any other payments in respect of

the Scheme that might affect the impartiality of their advice. The Trustees believe that this is the most appropriate adviser remuneration structure for the Scheme.

Aon is authorised and regulated by the Financial Conduct Authority ("FCA").

3.3 Investment Managers' Duties and Responsibilities

The Trustees, after considering appropriate investment advice, have appointed professional, authorised investment managers to manage the assets of the Scheme.

The investment managers are responsible for all decisions concerning the selection of individual securities within the portfolios they manage.

In the case of multi-asset mandates, the investment managers are responsible for all decisions concerning the allocation to individual asset classes and changes in the allocations to individual asset classes.

All of the investment managers engaged by the Trustees are authorised and regulated by the FCA.

The investment managers are remunerated by ad valorem charges based on the value of the assets that they manage on behalf of the Scheme. The Trustees believe that this is the most appropriate basis for remunerating managers.

3.4 Summary of Responsibilities

A summary of the responsibilities of all relevant parties in so far as they relate to the Scheme's investments, is set out in Appendix 2.

4 Investment Strategy

4.1 Setting Investment Strategy

The Trustees, with advice from Aon and in consultation with the Sponsoring Employer, completed a formal review of the investment strategy during early 2017, including the suitability of the default option and self-select funds available. The current strategy was implemented in July 2017, and is reviewed in detail at least annually.

The Trustees have taken advice to ensure that the lifestyle strategies and self-select fund options are suitable for the Scheme, taking into account:

- Members' circumstances, in particular the expected range of members' attitudes to risk and term to retirement
- Liquidity requirements
- The ongoing costs to members
- Any legal requirements and regulatory guidance
- Any restrictions in the Trust Deed.

In particular, the current investment strategy, including the default option, was designed following analysis of the membership profile of the Scheme. This analysis took into account factors such as age, accumulated fund values and term to retirement, to identify different types of members and to compare projected outcomes under alternative investment strategies.

The Trustees' policies in relation to the default option in respect of matters set out in Regulation 2(3) of the Occupational Pension Schemes (Investment) Regulations 2005, as amended, are those set out elsewhere in this document.

4.2 Expected return on investments

Over the long-term the Trustees' expectations are:

- For units representing "growth" assets (UK equities, overseas equities and multi-asset funds) to achieve a real return (in excess of inflation) over the long term. The Trustees consider short-term volatility in equity prices to be acceptable, given the general expectation that over the long-term equities will outperform the other major asset classes.
- For units representing monetary assets (UK fixed interest bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing fixed income annuities.
- For units representing inflation linked assets (UK index-linked bonds), to achieve a rate of return which is expected to be approximately in line with changes in the cost of providing real annuities that increase in line with inflation;
- For units representing cash, to protect the capital value of the investment and achieve a rate of return in line with money market interest rates.

4.3 Investment options

The Trustees offer members a choice of two lifestyle strategies, which take into account the various options open to members regarding the way in which they choose to draw their benefits in retirement. Members are also free to choose from a range of self-select fund options. The Trustees have chosen one of the lifestyle strategies, the 'Flexible Income Lifestyle', as the default option for members.

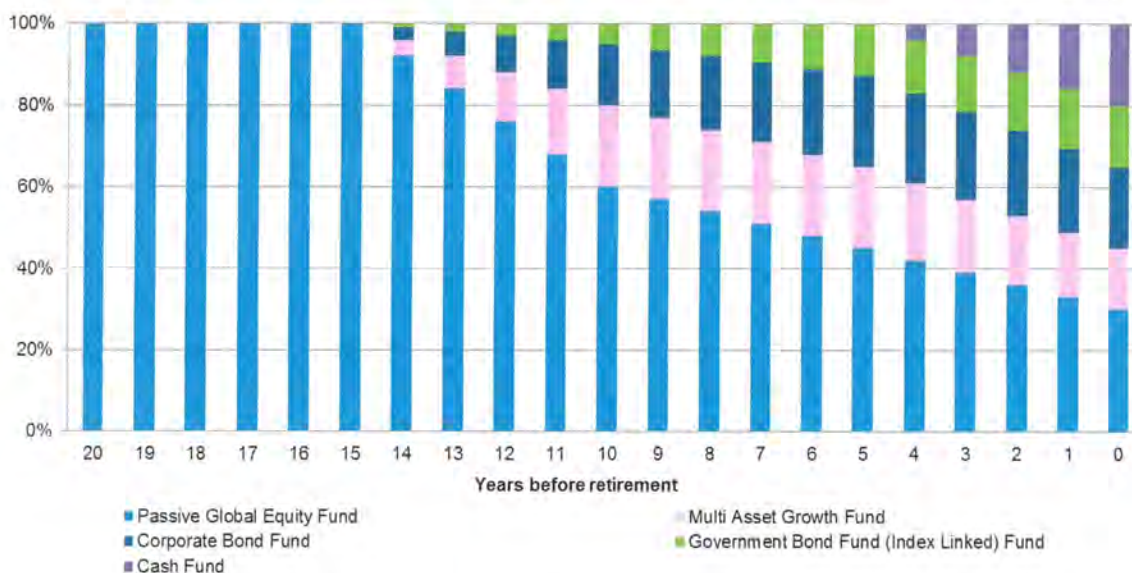
The funds that are utilised in the lifestyle and self-select range have been designed by the Trustees and "white labelled" to reduce disruption to members should a change need to be made at manager or strategy level.

4.3.1 Flexible Income Lifestyle (default option)

The Flexible Income Lifestyle strategy aims to be suitable for members who plan to access their retirement benefits via flexible drawdown, which could be through a maximum of five cash lump sum withdrawals while remaining invested in the Scheme, or by transferring their savings to a specialist income drawdown arrangement outside of the Scheme.

Up until 15 years before target retirement date, members' savings are invested in funds which aim to deliver long-term growth (i.e. equities). After that time, members' assets are gradually moved into a mix of bonds and multi asset growth funds, with a portion remaining in equities, aiming to retain some growth potential whilst also providing some protection of the capital value of members' savings. This transition is undertaken over a 15-year period of time to avoid placing reliance on asset values on any one particular transition date.

The following chart illustrates how members' funds will be invested under the Flexible Income Lifestyle option:



Note that switches between funds are carried out on a monthly basis. A summary of the underlying funds used in the Flexible Income Lifestyle strategy and their charges is included in Appendix 1.

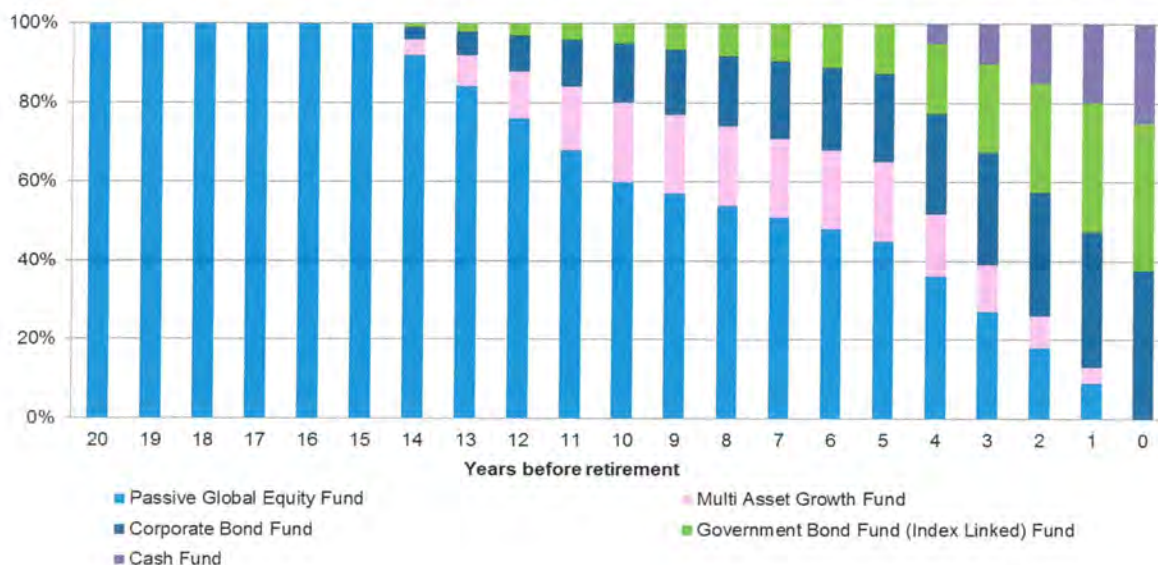
4.3.2 Annuity Lifestyle

The Annuity Lifestyle strategy is designed to be suitable for members who, at retirement, will take the maximum tax-free cash sum (25% of the value of a member's savings under current laws) and use the rest to buy an annuity.

Up until 15 years before target retirement date, members' savings are invested in funds which aim to deliver long-term growth (i.e. equities). After that time, members' savings are gradually moved into a mix of bonds

and multi asset growth funds, aiming to retain some growth potential whilst also providing some protection of the capital value of members' savings. Then, from five years up until target retirement date, members' savings are switched into a mix of bonds and cash, to broadly match annuity prices and protect the value of savings which may be taken as tax-free cash.

The following chart illustrates how members' funds will be invested under the Annuity Lifestyle option:



Note that switches between funds are carried out on a monthly basis. A summary of the underlying funds used in the Annuity Lifestyle strategy and their charges is included in Appendix 1.

4.3.3 Self-select options

The following table outlines the range available to members. Each fund consists of one or more investments in pooled investment vehicles operated by underlying investment managers.

A summary of the underlying managers and charges is included in Appendix 1. Further details are also available in the fund factsheets produced by the fund provider.

Fund	Self-Select	Flexible Income Lifestyle (Default)	Annuity Lifestyle
Passive Global Equity Fund	✓	✓	✓
Passive UK Equity	✓	✗	✗
Ethical Global Equity Fund	✓	✗	✗
Shariah Compliant Global Equity Fund	✓	✗	✗
Multi Asset Growth Fund	✓	✓	✓
Government Bond Fund (Index Linked)	✓	✓	✓
Corporate Bond Fund	✓	✓	✓
Cash Fund	✓	✓	✓

4.3.4 AVCs

Any member opting to pay Additional Voluntary Contributions (AVCs) may choose to invest contributions in any of the options described above.

4.4 Investment Decisions

The Trustees distinguish between three types of decisions: strategic, tactical and security-level.

Strategic Investment Decisions

These decisions are long-term in nature and driven by an understanding of the objectives and needs of the membership of the Scheme.

The Trustees take all such decisions themselves. They do so after receiving written advice from their investment adviser and consulting with the Sponsoring Employer. Examples of such decisions and of tasks relating to the implementation of these decisions include:

- Setting investment objectives
- Determining the range of options available to members
- Designing the default option and alternative lifestyle option
- Determining the asset allocation benchmarks and rebalancing policy for blended fund options

Tactical Investment Decisions

These decisions are shorter-term and based on expectations of near-term market movements. Such decisions may involve deviating temporarily from the strategic asset allocation and may require the timing of entry into, or exit from, an investment market or asset class.

These decisions are the responsibility of the Trustees. However, where such decisions are made within a pooled fund, they are the responsibility of the investment manager of the fund.

Stock Selection Decisions

All such decisions are the responsibility of the investment managers of the pooled funds in which the Scheme is invested.

4.5 Custody of assets

The Scheme's assets are invested wholly via pooled vehicles. Investment in pooled funds gives the Trustee rights to the cash value of the units rather than to the underlying assets. The underlying investment manager of each of the pooled funds is ultimately responsible for the appointment and monitoring of the custodian of the fund's assets.

4.6 Environmental, Social and Governance (ESG) Considerations

In setting the Scheme's default investment strategy, the Trustees primary concern is to act in the best financial interests of the Scheme and its beneficiaries, seeking the best return that is consistent with an appropriate level of risk. These include the risk that environmental, social and governance factors, including climate change, negatively impact the value of investments held if not understood and evaluated properly. The Trustees take account of financially material risks, including climate change.

The Trustees consider this risk by taking advice from their investment adviser when setting the Scheme's asset allocation, when selecting managers and when monitoring their performance.

As part of ongoing monitoring of the Scheme's investment managers, the Trustees will use ESG ratings information provided by Aon, where relevant and available, to monitor the level of the Scheme's investment managers' integration of ESG on a quarterly basis.

Members' Views and Non-Financial Factors

The Trustees recognise the importance of offering a suitable range of investment options for members, and where applicable will consider any member feedback received when taking decisions in relation to the default fund and range of funds.

The Trustees have made the Ethical and Shariah compliant funds available to members who would like to invest in funds with these specific considerations.

The Trustees have however not imposed any restrictions on their investment managers and there are currently no exclusions based on non-financial factors.

4.7 Corporate Governance and Voting Policy

The Trustees have concluded that the decision on how to exercise voting rights should be left with their investment managers, who will exercise these rights in accordance with their respective published corporate governance policies. These policies, which are provided to the Trustees from time to time, take into account the financial interests of shareholders and should be for the Scheme's benefit.

As part of their delegated responsibilities, the Trustees expect the Scheme's investment managers to:

- Where appropriate, engage with investee companies with the aim of protecting and enhancing the value of assets; and
- exercise the Trustees' voting rights in relation to the Scheme's assets, while disclosing and managing any potential conflicts of interest that may arise.

The Trustees regularly review the continuing suitability of the appointed managers and take advice from the investment adviser with regard to any changes. This advice includes consideration of broader stewardship matters as well as monitoring the exercise of voting rights by the appointed managers.

4.8 Realisation of investments

The investment managers have discretion in the timing of realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation.

The Trustees aim to ensure that all investments in funds made available to members are sufficiently liquid to ensure daily pricing of the funds.

4.9 Monitoring of investment adviser

The Trustees continually assess and review the performance of their adviser in a qualitative way, and conduct a formal review at least every three years.

5 Risk

The Trustees are aware, and seek to take account, of a number of risks in relation to the Scheme's investments including, but not limited to, the risks listed below, and those outlined in Section 2.

The Trustees and their investment advisors carry out periodic reviews to ensure the Trustees understand the extent to which these represent risks to members. Should there be a material change in the Scheme's circumstances, the Trustees will review whether and to what extent the investment arrangements should be altered and in particular whether the current risk profile remains appropriate.

Under the requirements of the Pensions Act, the Trustees are required to state their policy regarding the ways in which risks are to be measured and managed. These are set out below.

Manager Risk

- This is assessed as the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy.
- It is measured by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process, and is managed through regular monitoring and review. The Trustees provide primarily passive options to reduce the risk of active manager underperformance.

Liquidity Risk

- This is the risk of being forced to sell investments to pay benefits in unfavourable financial market conditions.
- It is managed by investing unitised pooled funds which are easily redeemable.

Political Risk

- This is measured by the level of concentration in any one market leading to the risk of adverse influence on investment values arising from political intervention.
- It is managed by regular reviews of the investments and through regular assessment of the levels of diversification within the investment policy.

Corporate Governance Risk

- This is assessed by reviewing the Scheme's investment managers' policies regarding corporate governance.
- It is managed by delegating the exercise of voting rights to the managers, who exercise this right in accordance with their published corporate governance policies. Summaries of these policies are provided to the Trustees from time to time and take into account the financial interests of the shareholders, which should ultimately be to the Scheme's advantage.

Due to the complex and interrelated nature of these risks, the Trustees consider these risks in a qualitative rather than quantitative manner as part of each formal strategy review. The Trustees' policy is to review the range of funds offered and the suitability of the default option periodically.

In addition, the Trustees measure risk in terms of the performance of the assets compared to the benchmarks on a regular basis as part of each quarterly reporting cycle.

6 Compliance

Copies of the Scheme's Statement of Investment Principles and Annual Report and Accounts are available to members on request.

A copy of the Scheme's current Statement plus Appendices is also supplied to the Sponsoring Employer, the Scheme's investment managers, and the Scheme's auditors.

This Statement of Investment Principles, taken as a whole with the Appendices, supersedes all others.

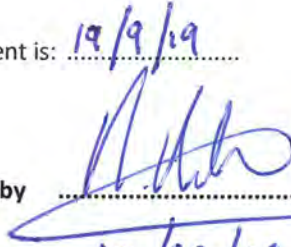
The effective date of this Statement is: 19/9/19

Signed on behalf of the Trustees by

On

Full Name

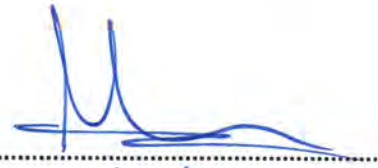
Position



19/39/19

ROGER ALAN
RICHARD MATTINGER

CHIEF OF TRUSTEES



19/9/19

CHARLES WILLIAM PICKIN

CHIEF RISK OFFICER

Appendix 1: Investment funds

Section 4 sets out information on the Scheme's default lifestyle strategy, additional lifestyle strategy and range of self-select funds. This Appendix sets out further detail on the underlying investments and charges.

White label fund options	Fund	Total expense ratio* (% p.a.)
Passive Global Equity Fund	15% LGIM World Equity Index	0.28
	15% LGIM World Equity Index (currency-hedged)	
	15% LGIM RAFI All World 3000 Equity Index	
	15% LGIM RAFI All World 3000 Equity Index (currency-hedged)	
	30% LGIM Minimum Volatility Index	
	10% LGIM World Emerging Markets Equity Index	
Passive UK Equity	LGIM UK Equity Index	0.10
Ethical Global Equity Fund	LGIM Ethical Global Equity Index	0.30
Shariah Compliant Global Equity Fund	HSBC Islamic Global Equity Index	0.35
Multi Asset Growth Fund	Schroder Dynamic Multi Asset Fund	0.35
Government Bond Fund (Index Linked)	LGIM Over 5 Year Index-Linked Gilt Index	0.10
Corporate Bond Fund	LGIM Investment Grade Over 15 Year	0.15
Cash Fund	LGIM Cash Fund	0.125

* As at effective date of this Statement. Note total expense ratios may change over time. The latest figures are available on the fund factsheets.

Further information on the above funds is available from the employer.

Appendix 2: Responsibilities of Parties

Trustees

The Trustees' responsibilities include the following:-

- Reviewing at least triennially, and more frequently if necessary, the content of this Statement in consultation with the Investment Adviser and modifying it if deemed appropriate.
- Appointing the Investment Managers.
- Assessing the quality of the performance and processes of the Investment Managers by means of regular reviews of investment returns and other relevant information, in consultation with the Investment Adviser.
- Consulting with the sponsoring employer regarding any proposed amendments to this Statement.
- Monitoring compliance of the investment arrangements with this Statement on a continuing basis.

Investment Adviser

The Investment Adviser's responsibilities include the following:-

- Participating with the Trustees in reviews of this Statement.
- Production of independent performance monitoring reports.
- Advising the Trustees, at their request, on the following matters:
 - » How any changes in the Investment Managers organisation could affect the interests of the Scheme.
 - » How any changes in the investment environment could present either opportunities or problems for the Scheme.
- Undertaking project work, as requested, including:
 - » Reviews of the fund range offered to members.
 - » Research into and reviews of Investment Managers.
- Advising on the selection of new managers and/or fund providers.

Investment Managers

The Investment managers' responsibilities include the following:

- Providing the Trustees on a quarterly basis (or as frequently as required) with a statement and valuation of the assets and a report on their actions and future intentions, and any changes to the processes applied to their portfolios.
- Informing the Trustees of any changes in the internal performance objectives and guidelines of any pooled fund used by the Scheme as and when they occur.
- Having regard to the need for diversification of investments, so far as appropriate for the particular mandate, and to the suitability of investments.
- Giving effect to the principles contained in the Statement as far as is reasonably practicable.

Administrator

The Administrator's responsibilities include the following:

- Ensuring members' contributions are invested / disinvested appropriately, including ensuring that the Lifestyle Strategies are implemented in accordance with the Trustee's instructions.
- Processing switches at members' requests.
- Paying benefits and making transfer payments.