Chair's Annual Governance Statement

This Governance Statement sets out how we, the Trustees, have embraced the statutory governance standards for running the Defined Contribution (DC) Section of the DNB Bank Retirement and Death Benefits Plan (the Plan) and Additional Voluntary Contributions (AVCs). This document sets out the Statement covering the period 31 December 2019 to 31 December 2020.

The statement covers four principal areas:

1. Investment with particular focus on the Plan's default investment arrangements.
2. Internal controls, with particular focus on the processing of core financial transactions.
3. Value, with particular focus on charges and transaction costs deducted from members' funds.
4. The knowledge and resources available to the Trustees, including how the Trustees maintained the statutory levels of knowledge and understanding to govern the Plan and how these help the Trustees ensure that the Plan is governed effectively.

The Plan is administered by Aviva, through the Mercer Workplace Savings (MWS) Platform and is overseen by the Trustees.

Investment strategy and the default investment option

The Trustees are responsible for setting the Plan's investment strategy and for appointing investment managers to carry out that strategy. They must also establish a default investment arrangement for members who do not select their own investment options from the fund range that is available.

The Trustees' Statement of Investment Principles ('SIP'), which includes a statement of principles in relation to the Plan's default investment arrangement, has been prepared for the Plan under Section 35 of the Pensions Act 1995 (the '1995 Act') and Regulation 2 and Regulation 2A of the Occupational Pension Schemes (Investment) Regulations 2005 (the 'Investment Regulations').

This covers the Trustees' aims and objectives in relation to the default investment arrangement as well as their policies in relation to matters such as risk and diversification and more recently updated to include the Trustees' approach to environmental, social and governance factors. It also states why they believe the default investment arrangement to be designed in members' best interests. A copy of the SIP, dated September 2020 is included as an Appendix and the latest version is made available at **https://vfm.aviva.co.uk/dnb-bank**.

In October 2019, as part of their triennial review of the DC Section's default investment option, the Trustees reviewed the ongoing suitability of the lifestyle strategy targeting annuity at retirement.

As part of this review the Trustees considered the needs and demographics of DC section members, the benefits taken at retirement by members and broader retirement benefit trends in the UK DC landscape since the introduction of pension freedoms and flexibility. This was considered in conjunction with the default strategy and performance and whether these continued to be in line with the Trustees' objectives. The Trustees determined that the current default lifestyle arrangement targeting an annuity at retirement for DC Section members was not aligned with how the Trustees and their advisors consider that the majority of members will access their benefits at retirement.

As a result of this review a change to the default lifestyle targeting annuity to the lifestyle strategy targeting drawdown, for new entrants and those members with more than 8 years to retirement, was

implemented on 14 September 2020. Those members within 8 years of retirement remained in the lifestyle strategy targeting annuity unless they made a decision to change their investment choices.

In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustees have identified the lifestyle strategy targeting annuity (Aviva MyMoney ("Av MyM") Mercer Target Annuity) as a 'default arrangement' (as defined by these regulations) in addition to the current default investment option in which new entrants to the Plan, who do not make an active choice, are invested.

The new default investment option for the Plan, is the Av MyM Mercer Target Drawdown. This invests in the AV MyM Mercer Growth/Balanced Risk Fund in the growth phase, the period up to eight years prior to retirement. At eight years from retirement, investments are gradually derisked into lower risk, less volatile investments which aim to target withdrawal of a 25% cash lump sum with the rest of the funds remaining invested through retirement.

This is achieved through investing in the AV MyM Mercer Target Drawdown Funds. The default has been designed this way to reduce members' exposure to investment risk as they approach retirement.

In selecting the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default option utilises a diversified strategic asset allocation consisting of traditional and alternative assets. The asset allocation of both the growth and decumulation phases are consistent with the expected amount of risk that is appropriate given the age of a member and when they expect to retire.

In selecting the current default, the Trustees believed that:

- The growth phase structure is designed to provide growth with some downside protection and protection against inflation erosion.
- The strategy seeks to reduce investment risk as the member approaches retirement.
- Based on their understanding of the membership, a strategy that targets income drawdown and a tax-free cash lump sum (up to 25% of a members' pot) at retirement aims to meet a typical member's requirements for income in retirement.

There are a further two lifestyle strategies available to members targeting annuity purchase or cash at their target retirement age. Members are able to invest in more than one lifestyle strategy and move between them if their plans for retirement change.

In addition, over the year, the Trustees and their advisers have reviewed the performance of the investment funds and the default arrangements on a quarterly basis. To enable the Trustees to review the performance of the investment funds, MWS provide the Trustees with reports that highlight net performance against benchmarks and also any change to the rating Mercer assigns to funds. These reports are reviewed by the Trustees and where there have been any concerns these are raised with the investment manager via Mercer.

The Trustees are committed to keeping all investment options under regular review to ensure they remain appropriate, based on their understanding of the likely requirements of the membership. The next full review of the investment arrangements is due by 11 September 2023.

Internal Controls and processing financial transactions

As required by the Administration Regulations, the Trustees must ensure that core financial transactions are processed promptly and accurately. Core financial transactions are (broadly):

- Investment of contributions made to the Plan by members and their employer(s);
- Transfers into and out of the Plan of assets relating to members;
- Switches of members' investments between different funds within the Plan; and
- Payments from the Plan to or in respect of members (e.g. payment of death benefits and on retirement).

The Trustees operate a system of internal controls aimed at monitoring the Plan's administration and management. Included in this system are mechanisms for ensuring the prompt and accurate processing of financial transactions, including core transactions such as the payment and investment of contributions, the transfer of member assets into and out of the Plan and the payment of benefits.

The Trustees have delegated the administration of Plan, member records and investment platform services to Aviva, under agreement with MWS. The Trustees have agreed minimum timescales with Aviva for processing requests, including core financial functions, which are well within any applicable statutory timescales. Mercer provides ongoing monitoring and assessment of Aviva's operational service levels. On a monthly basis Mercer monitors service levels at both a client and portfolio level and hold Aviva accountable to these. The following Service Level Agreements (SLAs) have been agreed:

SLA	Description	Target Service Level %
2 Working days	Documentation	97%
2 working days	Contribution Processing	100%
3 working days	Investment Transactions	97%
5 working days	General Enquiries	97%
5 working days	Payments Out	97%
5 working days	Payments In	97%

From January 2020 to 31 December 2020 an overall service level of 99.31% was achieved by Aviva.

The processes adopted by Aviva to help meet the SLA's include:

- Timeliness of transactions monitored and reported (escalating/reallocating resources if necessary).
- Straight through processing for contribution payments - automated system (validations built in)
- Manual processes require a separate processor and authoriser (segregation inbuilt into system)
- Daily monitoring of bank accounts
- Quality audit checks are undertaken on a sample of processes throughout the year.
- Unit reconciliation between investment and administration systems undertaken daily and are checked and approved weekly (by platform provider)
- Payments checked and approved independently by one or more individuals (depending on value).

Administration reports are reviewed quarterly by the Trustees, and any inconsistencies or concerns are raised and dealt with as they arise. There were no concerns during the period. The Trustees also monitor the accuracy of the Plan's common and conditional data annually. A summary report is received from the Plan administrator annually.

As a wider review of the Plan administrator in general, the Trustees receive the Plan administrator's assurance report on internal controls. For the Plan year, the report received was for the period to 31

December 2019 (published in 2020) and noted the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively.

The Schedule of Contributions sets out timescales for the Bank to remit monthly contributions to the Plan. However, agreed practice provides for payment of contributions in advance of these timescales. The deduction and payment of contributions are reviewed by the Bank and the Plan Auditor carries out regular spot checks to ensure that contributions are paid in accordance with the Schedule of Contributions.

In addition to the DC assets, there are Defined Benefit (DB) AVC arrangements with Coventry Bank and Utmost Life and Pensions.

There are also DC funds invested in a With Profits policy administered by Mercer and invested on the Prudential platform. This was closed to new members and contributions from existing members from 1 March 2003. There is a documented process in place for dealing with disinvestment and payment of DC funds to enable Aviva to process these with the main DC benefits.

The Trustees are confident that core financial transactions have been processed promptly and accurately in the period.

Charges and transactions costs

As required by the regulations, the Trustees are required to report on the charges and transactions costs for the investments used in both the default investment option and the self-select funds available to members and their assessment on the extent to which the charges and costs represent good value for members.

Transaction charges known as the Total Expense Ratio (TER) consists principally of the manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund, such as the legal costs, registration fees and custodian fees. However, they exclude other costs that are also member borne and which can therefore have a negative effect on investment performance such as transaction costs and interest on borrowings.

Transaction costs are the expenses associated with a member trading in and out of a fund as well as the investment manager trading a fund's underlying securities, including commissions and stamp duty.

The available transaction costs provided by the Plan's investment managers in respect of the DC Section and AVC arrangements have been reported separately to the TER in the table below.

The growth phase of the lifestyle investment strategies is fully invested in the AV MyM Mercer Growth/Balanced Risk Fund. The TER in the de-risking phase of the lifestyle investment strategies varies depending on the length of time from retirement, and the lifestyle strategy invested in. The range of fees for the de-risking phases for the lifestyle strategies, including the default lifestyle investment option, is shown in the tables overleaf.

The Trustees can confirm that the current default fund remains within the statutory charge cap of 0.75% of funds under management.

DNB Bank Retirement and Death Benefits Plan

Lifestyles			
Investment Strategy	**Aviva MyM Mercer Fund**	**TER* (%p.a.)**	**Transaction Costs (%p.a.)**
Growth phase**	Mercer Growth/Balanced Risk	0.470	0.079
AV MyM Mercer Target Drawdown**	Target Drawdown 2021	0.520	0.091
	Target Drawdown 2022	0.530	0.095
	Target Drawdown 2023	0.530	0.099
	Target Drawdown 2024	0.520	0.102
	Target Drawdown 2025	0.510	0.097
	Target Drawdown 2026	0.500	0.093
	Target Drawdown 2027	0.480	0.088
	Target Drawdown 2028	0.480	0.084
	Diversified Retirement	0.480	0.116
AV MyM Mercer Target Annuity	Target Annuity 2021	0.400	0.000
	Target Annuity 2022	0.400	0.000
	Target Annuity 2023	0.420	0.008
	Target Annuity 2024	0.430	0.018
	Target Annuity 2025	0.440	0.031
	Target Annuity 2026	0.450	0.043
	Target Annuity 2027	0.470	0.056
	Target Annuity 2028	0.470	0.068
	Annuity Retirement	0.380	0.000
AV MyM Mercer Target Cash	Target Cash 2021	0.370	0.012
	Target Cash 2022	0.380	0.013
	Target Cash 2023	0.400	0.014
	Target Cash 2024	0.410	0.016
	Target Cash 2025	0.430	0.018
	Target Cash 2026	0.440	0.034
	Target Cash 2027	0.460	0.049
	Target Cash 2028	0.460	0.065
	Cash Retirement	0.350	0.012
Self-Select investment options			
Risk Profiled Funds		**TER* (% p.a.)**	**Transaction Costs (%p.a.)**
AV MyM Mercer Defensive/Lower Risk		0.440	0.011
AV MyM Mercer Moderate Growth/Moderate Risk		0.480	0.050
AV MyM Mercer Growth/Balanced Risk		0.470	0.079
AV MyM Mercer High Growth/Higher Risk		0.480	0.065
Building Block Funds		**TER* (% p.a.)**	**Transaction Costs (%p.a.)**
AV MyM Mercer Cash		0.300	0.012
AV MyM Mercer Pre-Retirement		0.340	0.000
AV MyM Mercer Diversified Retirement		0.480	0.116
AV MyM Mercer Passive UK Equity		0.310	0.004

Source Aviva, all fees are as charged at December 2020, and are derived from information provided by Aviva.

* The TER includes the fees charged by the underlying manager, the platform and administrative charges from Aviva and the intermediary charges from MWS. .

** Current default investment option

Self-Select investment options		
Building Block Funds	**TER* (% p.a.)**	**Transaction Costs (%p.a.)**
AV MyM Mercer Passive Over 5 Year Index-Linked Gilt	0.310	0.000
AV MyM Mercer Passive Over 15 year Gilt	0.300	0.000
AV MyM Mercer Passive Shariah	0.570	0.027
AV MyM Fidelity Moneybuilder Income	0.820	0.154
AV MyM Mercer Absolute Return Fixed Income	0.800	0.997
AV MyM Mercer Active UK Property	0.950	0.000
AV MyM BlackRock (30:70) Currency Hedged Global Equity Index	0.340	0.018
AV MyM BlackRock European Equity Index	0.280	0.008
AV MyM BlackRock Pacific Rim Equity Index	0.280	0.000
AV MyM BlackRock US Equity Index	0.280	0.024
AV MyM Mercer Active Emerging Markets Equity	1.180	0.432
Additional Funds (closed to future contributions)	**TER* (% p.a.)**	**Transaction Costs (%p.a.)**
Prudential With Profits Fund**	N/A	N/A

Source Aviva, all fees are as charged at December 2020, and are derived from information provided by Aviva.

* The TER includes the fees charged by the underlying manager, the platform and administrative charges from Aviva and the intermediary charges from MWS.

** Prudential have confirmed that there are no explicit charges or costs associated with the With Profits policy, rather these are incorporated into the unit price.

Transaction costs are calculated using the 'slippage methodology' and are the difference between:

- arrival price- price of asset at the time the trade is instructed; and
- execution price- price at which the trade is carried out.

This can result in negative values, e.g. if the market falls between arrival and execution, this has a spuriously positive impact on aggregate fund costs.

Where the underlying transaction cost information is not available, the Trustees are working with their advisors to obtain this. This information will continue to be requested until the underlying managers are in a position to provide the transaction costs.

AVC Arrangements			
Provider	**Fund**	**TER (%p.a.)**	**Transaction cost (%p.a.)**
Utmost Life and Pensions[1]	Secure Cash Fund (until 30 June 2020)	0.50	<0.010
	Money Market Fund (from 1 July 2020)	0.50	0.002
Coventry Building Society	Deposit Account (half yearly interest)[2]	N/A	N/A

[1] Transaction cost and charges information as at 30 September 2020, at the time of writing transaction cost information to the end of December was not yet available.

[2] Coventry Building Society confirmed that there are no charges or transaction costs associated with their deposit account.

From 1 January 2020 members' funds with Equitable Life were transferred to Utmost Life and Pensions (Utmost), with the With Profits funds being converted to unit linked funds in Utmost's Secure Cash Fund, including an uplift for the loss of any guarantees available until 30 June 2020 whilst trustees made a decision about where these funds should subsequently be invested.

Illustration of the effect of transaction costs and charges on members' benefits.

Using the charges and transaction cost data provided by Aviva and in accordance with regulation 23(1)(ca) of the Administration Regulations, as inserted by the 2018 Regulations, Aviva have assisted the Trustees with preparing an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings pot. The statutory guidance provided has been considered when providing these examples.

The below illustration, prepared by Aviva, has taken into account the following elements:

- Savings pot size;
- Contributions;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical member's pension pot, we have provided examples below. This includes all member costs, including the TER, transaction costs and inflation. It is important to note that the values shown are estimates and are not guaranteed. The term of investment has been based on the youngest member of the Plan.

Illustration of effect of cost and charges for typical funds with your scheme- DNB Bank Retirement & Death Benefits Plan										
	Av MyM Mercer Growth / Balanced Risk		Av MyM Mercer High Growth / Higher Risk		Av MyM Mercer Passive UK Equity		Av MyM BlackRock Aq Connect US Equity Index		Av MyM Mercer Moderate Growth / Moderate Risk	
	Assumed growth rate 4.6%		Assumed growth rate 4.7%		Assumed growth rate 5%		Assumed growth rate 5%		Assumed growth rate 4.3%	
	Assumed costs and charges 0.64%		Assumed costs and charges 0.65%		Assumed costs and charges 0.5%		Assumed costs and charges 0.3%		Assumed costs and charges 0.61%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,200	£1,190
2	£2,420	£2,410	£2,430	£2,410	£2,430	£2,420	£2,430	£2,430	£2,420	£2,400
3	£3,670	£3,640	£3,680	£3,640	£3,700	£3,670	£3,700	£3,680	£3,660	£3,620
4	£4,950	£4,880	£4,960	£4,890	£4,990	£4,940	£4,990	£4,960	£4,920	£4,860
5	£6,250	£6,150	£6,260	£6,160	£6,310	£6,230	£6,310	£6,260	£6,200	£6,110
10	£13,200	£12,700	£13,200	£12,800	£13,400	£13,100	£13,400	£13,200	£13,000	£12,600
15	£20,800	£19,800	£21,000	£19,900	£21,500	£20,600	£21,500	£21,000	£20,400	£19,400
20	£29,300	£27,400	£29,600	£27,600	£30,500	£28,900	£30,500	£29,600	£28,400	£26,600
25	£38,700	£35,500	£39,200	£35,900	£40,700	£38,000	£40,700	£39,100	£37,200	£34,300
30	£49,000	£44,200	£49,800	£44,800	£52,300	£48,100	£52,300	£49,700	£46,800	£42,400
35	£60,500	£53,500	£61,700	£54,400	£65,300	£59,100	£65,300	£61,500	£57,200	£51,000
40	£73,200	£63,500	£74,800	£64,700	£79,900	£71,200	£79,900	£74,700	£68,600	£60,000
45	£87,300	£74,200	£89,500	£75,800	£96,500	£84,600	£96,500	£89,200	£81,100	£69,600
50	£103,000	£85,700	£106,000	£87,800	£115,000	£99,300	£115,000	£105,000	£94,700	£79,800

DNB Bank Retirement and Death Benefits Plan

Illustration of effect of costs and charges for funds with different growth rates and charges within your Scheme - DNB Bank Retirement and Death Benefits Plan								
	Av MyM Mercer Cash Retirement		Av MyM BlackRock Aq Connect Pacific Rim Equity Index		Av MyM Mercer Passive UK Equity		Av MyM Mercer Absolute Return Fixed Income	
	Assumed growth rate 0.5%		Assumed growth rate 4.5%		Assumed growth rate 4.5%		Assumed growth rate 1.75%	
	Assumed costs and charges 0.36%		Assumed costs and charges 0.29%		Assumed costs and charges 0.3%		Assumed costs and charges 1.71%	
At end of year	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken	Projected value assuming no charges are taken	Projected value after costs and charges are taken
1	£1,170	£1,170	£1,200	£1,200	£1,200	£1,200	£1,180	£1,170
2	£2,320	£2,320	£2,420	£2,410	£2,420	£2,410	£2,350	£2,310
3	£3,450	£3,430	£3,670	£3,650	£3,670	£3,650	£3,520	£3,430
4	£4,560	£4,530	£4,940	£4,910	£4,940	£4,910	£4,680	£4,520
5	£5,640	£5,590	£6,230	£6,190	£6,230	£6,190	£5,820	£5,580
10	£10,800	£10,600	£13,100	£12,900	£13,100	£12,900	£11,400	£10,500
15	£15,400	£15,000	£20,700	£20,200	£20,700	£20,200	£16,800	£14,900
20	£19,600	£18,900	£29,000	£28,100	£29,000	£28,100	£22,100	£18,800
25	£23,400	£22,500	£38,200	£36,700	£38,200	£36,600	£27,100	£22,200
30	£26,900	£25,600	£48,300	£46,000	£48,300	£45,900	£31,900	£25,200
35	£30,000	£28,400	£59,400	£56,200	£59,400	£56,000	£36,600	£27,900
40	£32,800	£30,800	£71,700	£67,200	£71,700	£66,900	£41,100	£30,300
45	£35,400	£33,000	£85,200	£79,100	£85,200	£78,800	£45,500	£32,400
50	£37,700	£35,000	£100,000	£92,100	£100,000	£91,700	£49,600	£34,200

Notes:

1. We've assumed someone doesn't have anything in their pension pot when they start saving. Contributions are assumed to be paid £100 monthly increasing in line with assumed earnings inflation of 2.5% each year.
2. The figures illustrate the pension pot value in 'today's money' which means they take inflation into account by discounting values at 2.5% a year. Seeing the figures in this way shows you what they could be worth today. It's important to note that inflation reduces the worth of all savings and investments. The effect of this is shown in the illustration and could mean the fund may reduce as well as grow in 'today's money'
3. Transaction costs may not have been included where data was not available from the fund managers.

Value for Members

When assessing the charges and transaction costs which are payable by members, the Trustees are required to consider the extent to which these represent good value for members.

The Trustees with support from their advisers, Mercer Ltd, have undertaken the annual value for members assessment in April 2021 for the year to 31 December 2020.

There is no legal definition of "good value", so the process of determining good value is a subjective one. "Value" is not a straightforward concept to quantify and can be open to broad interpretation. In undertaking the assessment, the Trustees recognised that the DC Section of Plan was a bundled arrangement and considered the quality of services provided by Aviva including fund management, administration and communications support.

The value for money assessment also examined the current investment management charges relative to standard institutional fees for equivalent size mandates, Mercer Manager Research Ratings and historical performance in line with their objectives.

The Trustees concluded that the DC Section's overall benefits, options and services represent **good** value for money for the members. The reasons underpinning this conclusion include:

- Charges on funds have been assessed by our advisors as comparing favourably with those of peer funds in most cases.
- Charges for the Plan's default investment arrangement are significantly below the charge cap of 0.75% per annum;
- The funds used by the Plan are highly rated by Mercer Ltd as having good prospects of achieving their risk and return objectives.
- The performance of the Plan's funds over the 3 years to 31st December 2020 compare favourably relative to the benchmark set by the Trustees in most cases.
- Two self-select funds, the Av MyM Mercer Active Emerging Markets Equity Fund and the Av MyM Mercer Active UK Property were rated reasonable overall as they had underperformed compared to their respective benchmarks over the three years to 31 December 2020. The Trustees believe that the fees paid by members in the Av MyM Mercer Active Emerging Markets Equity Fund do not support the performance that has been achieved and have previously written to members invested in the fund. The Trustees will continue to monitor performance of these funds.
- Currently, industry wide reporting on transaction costs is not at a level to allow a meaningful comparison, however once available the Trustees will look to include this in their value for money assessment.
- Through their membership in the Plan, members get the benefit of (amongst other things):
  - Ongoing oversight and review of the default investment option and the DC fund range;
  - The Trustees' and Bank's governance of the services;
  - Efficiency of administration services in relation to communications (webinars) and general member services.
- Active members also have access to an IFA, paid for by the Bank, who will help them make investment choices and support retirement discussions.

Additionally, the Bank pays for all advisory costs associated with operating the Plan, which further enhances the value that members receive.

The Trustees also considered the AVC arrangements in place and recognise due to the decreasing pool of AVC providers and lack of appetite from the wider DC industry, especially in light of the small asset size, there is extremely limited opportunity to move to more competitive funds/arrangements.

In addition, assessing the value for money of a with-profits fund (in respect of the DC Assets invested with Prudential) is directly related to an individual's attitude towards, and capacity for, investment risk. An individual may find comfort in the fact that a with-profits fund provides guarantees; whether that is a guaranteed pension, investment return or "just" capital security. Therefore, the Trustees consider it inappropriate to reach a general conclusion on value for members for the with-profits funds as this will vary from policy to policy and by member.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004, the Trustees are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan.

The Trustees undertook a number of activities over 2020 that involved giving detailed consideration to pensions and trust law, the Plan's governing documents and investment Principles. This allowed them exercise their knowledge and understanding and to further strengthen their capabilities. These included:

- Reviewing and updating the Statement of Investment Principles, particularly in respect of both the further requirements from 1 October 2020 in relation to trustee policies around manager voting and engagement, as well as the change to the default arrangements.
- Reviewing the Default investment Strategy, particularly considering the lifestyle strategies available, member demographics, wider industry trends and legislative requirements.
- Considering Statutory Money Purchase Illustration (SMPI) assumptions with due regard to guidance issued by the Financial Reporting Council.
- The Trustees examined a number of Plan documents and member communications, having regard to pensions law and the trust deed and rules as part of the implementation of the new default investment strategy.
- Considered the suitability of ongoing investment arrangements following the closure of Equitable Life and the conversion and transfer of the With Profits funds to Utmost.

The Trustees have a working knowledge of the Trust Deed and Rules, the current Statement of Investment Principles, as well as knowledge of all documents setting out the Trustee's policies and compliance. For Example, there are documented processes in place for appointing new Trustees although there have been no additions to the Trustee board during the year. The induction process for new Trustees is as follows:

- Newly appointed individuals to have completed the Pensions Regulator's Trustee toolkit within six month of initial appointment;
- Supplemented with targeted individual training based on analysis of learning needs;
- Facilitate familiarisation with the Plan, stakeholders, advisers and providers and working methods.

During the course of the Plan year the Trustees have:

- Undertaken ongoing training both as a group within the regular meetings and individually to keep abreast of relevant developments. These include:
    - The ongoing review of the DC Code of Practice 13.

  - Briefings on forthcoming changes to Pensions law and their possible impact on the Plan, for example the consultation on improving member outcomes and the various proposals relating to this, managing and mitigating cyber risk and changes to the Tapered Annual Allowance.
  - Outcomes of the Competition Market Authority review specifically requirements in relation to Competitive Tender Processes and reporting requirements in relation to these and setting strategic objectives for investment consultants.
- Maintained individual and group training logs.

The Trustees also considered their training requirements in May 2020 and identified additional refresher training required in relation to a number of ongoing projects such as GMP equalisation and bulk buy out. No immediate DC specific training was identified and the Trustees will continue to keep this under review.

The Trustees receive professional advice from Mercer and Stephenson Harwood to support them in reviewing the performance of the Plan and in governing the Plan in line with the Trust Deed and Rules, and the relevant skills and experience of those advisers is a key criterion when evaluating advisor performance or selecting new advisers. The advice received by the Trustees, along with their own experience, allows them to properly exercise their function as Trustees. If there are any ambiguities over the interpretation of the Rules legal advice is sought from Stephenson Harwood.

Chair's declaration

This statement has been prepared in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 as amended by the Occupational Pension Schemes (Charges and Governance) 2015 (together 'the Regulations') and I confirm that the above statement has been produced by the Trustees of the DNB Bank Retirement and Death Benefits Plan.

Signed by: David Sutcliffe

Position: Chair of Trustees of the DNB Bank Retirement and Death Benefits Plan

Date: 2 July 2021

Appendix

Statement of Investment Principles effective September 2020.

STATEMENT OF INVESTMENT PRINCIPLES – SEPTEMBER 2020

DNB BANK RETIREMENT AND DEATH BENEFITS PLAN

1. Introduction

The Trustees of the DNB Bank Retirement and Death Benefits Plan (the Plan) have drawn up this Statement of Investment Principles (the Statement) to comply with the requirements of the 1995 Pensions Act (the Act) and subsequent legislation. As required under the Act, the Trustees have consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). The Trustees in preparing this Statement have also consulted the Company, DNB Bank ASA London Branch, in particular on the Trustees' objectives.

The Plan consists of two sections, a Defined Benefit section (which is closed to new members and future accrual) and a Defined Contribution section. New members automatically join the Defined Contribution section.

The Trustees have adopted a different approach to the investment of the two sections. The Defined Benefit section investment principles are contained in Part A of this Statement. The Defined Contribution section investment principles are contained in Part B. Part C of this Statement relates to both sections of the Plan.

Overall investment policy (for each section of the Plan) falls into two parts. The strategic management of the assets is fundamentally the responsibility of the Trustees acting on advice from their professional advisor, and is driven by their investment objectives as set out below. The remaining elements of policy are part of the day to day management of the assets which is delegated to professional investment managers.

PART A: DEFINED BENEFIT SECTION

2. Overall Policy, Investment Objectives and Risk

2.1. Investment Objectives

To guide them in their strategic management of the assets and control of the various risks to which the Plan is exposed, the Trustees have considered their objectives and adopted the following:

The Trustees' investment policy is to ensure to a reasonable degree that the Plan's assets move in line with the growth of the Plan's liabilities. While the Trustees are prepared to take a reasonable level of investment risk the aim of their policy is that there should be no diminution in the value of Plan assets, relative to the value of the liabilities, at any time which would necessitate the Trustees having to ask the Employer to make a one-off capital payment into the Plan.

In order to achieve these objectives, the Trustees' present policy is to invest the majority of assets in pooled bond funds and the balance in pooled equity funds managed by one or more major investment institutions.

2.2. Risk

The Trustees recognise that it is necessary to take some degree of investment risk to meet the objectives outlined in section 2.1. The Trustees have taken advice on the matter and (in light of the objectives noted previously) considered carefully the implications of adopting different levels of risk.

There are various risks to which any pension plan is exposed. The Trustees believe the following risks to be financially material over the lifetime of the Scheme:

i. The risk of deterioration in the Plan's funding level to the extent that the Trustees have to request a one-off capital payment from the Employer.

ii. The risk of a shortfall of assets relative to the Plan's liabilities.

iii. The risk that the day to day management of the assets will not achieve the rate of investment return expected by the Trustees.

iv. The risk that a mismatch between the assets and the liabilities will cause deterioration in the Plan's funding level.

v. The risk that climate change may impact the value of investments, due to its effect on natural and human systems, across geographical regions. However, due to the inherent uncertainty, the Trustees have not made explicit allowance for it when determining the investment strategy.

The Trustees have identified that mismatch risk to be the primary risk facing the Scheme. It is acknowledged that investing in non-liability matching assets (e.g. gilts) introduces a degree of mismatch risk but the Trustees believe this is acceptable in view of the potential

benefits of higher expected returns, the greater security for members and a lower likelihood of additional contributions from the Employer. Additionally, the Trustees recognise the need for diversification to effectively manage risk exposure and to avoid holding unsuitable instruments.

In addition, from 31 December 2015 the Trustees are required to provide narrative disclosures in their Annual Report and Accounts on the credit and market risks arising from the investment arrangements of the Plan's Defined Benefit Section. These risks are defined as follows:

- *Credit risk*: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- *Market risk*: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:
  - *Currency risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
  - *Interest rate risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
  - *Other price risk*: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

2.3. Investment Strategy

The Trustees have set the strategy taking into account the Plan's current liability profile, the aforementioned risks and advice from their advisors. The strategy will be reviewed from time to time and in particular after each actuarial valuation.

The Trustees have adopted a diversified Plan-specific investment strategy that involves investing the majority of Plan assets in bonds, specifically index-linked gilts and corporate bonds, with the remainder invested in equities. The Trustees believe that such a strategy adequately manages the risks outlined in Section 2.2 and that the associated expected return is consistent with stated investment objectives (see Section 2.1).

Following the completion of the 2018 Actuarial Valuation the Trustees carried out an investment strategy review in late 2019 and agreed to de-risk the assets by selling half the equity allocation and holding this in cash to be used for cashflow requirements until such time as the liabilities of the Plan are secured. The strategy for investment holdings is in the table below:

Asset Class	Benchmark Allocation
Equities	**12.5%**
UK Equity	2.0%
European (ex UK) Equity (75% of non-sterling currencies hedged)	2.5%
North American Equity (75% of non-sterling currencies hedged)	4.87%
Japanese Equity (75% of non-sterling currencies hedged)	0.94%
Pacific Basin ex Japan Equity (75% of non-sterling currencies hedged)	0.94%
Emerging Markets Equity	1.25%
Bonds	**75.0%**
Corporate Bonds	10.0%
Index-Linked Gilts (All Stocks)	65.0%
Cash	**12.5%**
Total	**100.0%**

Exposure to these asset classes is through pooled investment vehicles, with active management deployed where the Trustees expect it to add value over the longer term.

The safe custody of the Scheme's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Although member views are not currently taken into account when determining the investment strategy, underlying manager structure or selection and retention or realisation of investments, there are methods by which they can make views known to the Trustees. The Trustees will review this position periodically.

As mentioned above, the Trustees maintain a balance in an L&G cash fund, to help meet cashflow requirements. The allocation to the cash fund may deviate from the benchmark allocation above. Please see Section 11 for further details.

3. Day to Day Management of the Assets

3.1. Main Assets

With the exception of the corporate bond holding, the Plan's assets are invested in pooled funds managed by Legal & General Investment Management Ltd (L&G). L&G are also responsible for the currency hedging of the Plan's developed market overseas equity assets. The corporate bond assets are invested in a pooled fund managed by Aberdeen Standard Investments ("ASI").

Both managers have full discretion on the day-to-day management of the assets subject to the benchmarks set out in Sections 3.2 and 3.3 and the restrictions set out in the underlying pooled vehicles' governing documents. As the Plan only invests in pooled vehicles, the Trustees have limited scope to influence the investment restrictions on the the underlying assets held.

The Trustees believe that the overall asset mix together with the managers' investment approach to stock selection provides a suitably diversified portfolio of assets.

The Trustees monitor the distribution of investments from time to time and adjust the proportions through cashflow when they consider it appropriate.

3.2. L&G

The Plan's bond assets with L&G are invested in the following asset class:

Asset Class	Benchmark	Index
Index-Linked Gilts (All Stocks)	100.0%	FTSE A Index – Linked (All Stocks)

Equity assets with L&G are invested in the following asset classes:

Asset Class	Benchmark	Index	Rebalancing Ranges
UK Equity	16.0%	FTSE All-Share Index	±1.75%
European (ex UK) Equity	15.0%	FTSE W Europe (ex UK) Index – Sterling Currency Hedged	±1.75%
	5.0%	FTSE W Europe (ex UK) Index	±0.75%
North American Equity	29.25%	FTSE W North America Index – Sterling Currency Hedged	±1.75%
	9.75%	FTSE W North America Index	±1.00%
Japanese Equity	5.63%	FTSE W Japan Index – Sterling Currency Hedged	±0.625%
	1.87%	FTSE W Japan Index	±0.325%
Pacific Basin ex Japan Equity	5.63%	FTSE W Asia Pacific ex Japan Index – Sterling Currency Hedged	±0.625%
	1.87%	FTSE W Asia Pacific ex Japan Index	±0.325%
Emerging Markets Equity	10.0%	FTSE AW - All Emerging Markets Index	±1.00%

Each of the L&G funds are managed on a passive (index-tracking) basis, with a target return in line with the respective fund benchmarks, with stated tracking tolerance levels. The developed market overseas equity assets are invested in several L&G funds with the aim of hedging approximately 75% of non-sterling currency exposures.

3.3. ASI

ASI manages the remainder of the Plan's bond assets in a pooled corporate bond fund which has the following benchmark:

Asset Class	Benchmark	Index
Corporate Bonds	100.0%	Merrill Lynch Sterling Non-Gilts All Stocks

ASI's objective is to outperform the benchmark by 0.75% per annum over rolling three year periods.

PART B: DEFINED CONTRIBUTION SECTION

4. Overall Policy, Investment Objectives and Risk

4.1. Investment Objectives

The Trustees recognise that members have differing investment needs and that these may change during the course of members' working lives. They also recognise that members have different attitudes to risk. The Trustees believe that members should make their own investment decisions based upon their individual circumstances.

The following encapsulates the Trustees' objectives:

"To make available a range of investment vehicles which serve to meet, adequately, the varying investment needs and risk tolerances of Plan members".

The objectives set out above and the risk and other factors referenced in this Statement are those that the Trustees consider to be financially material considerations in relation to the DC Section as a whole. The Trustees believe that the appropriate time horizon within which to assess these considerations should be viewed at the member level. This will be dependent on the member's age and when they expect to retire.

4.2. Risk

The Trustees have considered risk from a number of perspectives. The Trustees believe the following risks may be fundamentally material to the Plan over its lifetime and details of how they are managed are detailed overleaf:

Type of Risk	Risk	Description	How is the risk managed?
Market risks	Inflation risk	The risk that the investment return over members' working lives will not keep pace with inflation and does not, therefore secure an adequate pension.	The Trustees makes available a range of funds, across various asset classes, with the majority expected to keep pace with inflation (with the exception of the money market and fixed interest bond funds).
	Currency risk	The risk that fluctuations in foreign exchange rates will cause the value of overseas investments to fluctuate.	Use of currency hedging in some assets to reduce the influence of currency fluctuation in foreign investments. Members have a choice of funds to select from, in line with their risk tolerances.
	Credit risk	The risk that the issuer of a financial asset, such as a bond, fails to make the contractual payments due.	Members are able to set their own investment allocations, in line with their risk tolerances. Within active funds management of many of these market risks are managed by the investment manager. The Trustees have selected investment options, which utilise pooled vehicles, with the aim of ensuring that the fund choices and underlying manager structures in place result in adequate diversified portfolios for members to invest in.
	Interest rate risk	The risk that unfavourable interest rate movements, particularly in the years just prior to retirement may lead to a reduction in the amount of income that the member's retirement account can secure.	
	Concentration/ Diversification risk	The risk of an adverse influence on investment values from the poor performance of underlying investments and lack of diversification.	
	Equity, property and other price risk	The risk that investment market movements lead to a substantial reduction in the anticipated level of the benefit.	

Risk	Description	How is the risk managed?
Environmental, Social and Corporate Governance risk	The risk that environmental, social or corporate governance issues, including climate change, have a financially material impact on the return of the Plan's assets.	The Trustees have given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations. Similarly, the Plan's voting rights are exercised by its Investment Managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code. Managers are also expected to be signatories to the United Nations-supported Principle Responsible Investment (PRI) unless a suitable reason is provided for not being. As the Plan assets are invested in wholly insured arrangements with investments in pooled vehicles the Trustees accept that the assets are subject to the investment fund managers' own policies in this area. The Trustees consider how ESG, climate change and stewardship is integrated within investment processes when appointing new investment managers and monitoring existing investment managers. The Trustees, in conjunction with their fiduciary manager have a target that all equity investment managers be highly rated for ESG integration and active stewardship with a minimum Mercer rating of ESG3 or better, where possible. Monitoring is undertaken on a regular basis and is documented at least annually. The Trustees will engage with the provider and the investment managers as appropriate, and will ask investment managers to include appropriate risk metrics within their portfolio reporting within the framework of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) and report on voting behaviour. The Trustees also periodically review the appropriateness of making individual ESG or sustainable investment choices available to members.

Risk	**Description**	**How is the risk managed?**
Investment Manager risk	The risk that the investment manager underperforms its objectives, fails to carry out operational tasks, does not ensure safe-keeping of assets or breaches agreed guidelines. In particular, the Trustees have considered the risk that active managers may underperform, whereas passive managers are likely to achieve a return close to any chosen benchmark.	The Trustees regularly review performance of investment funds. The Trustees seek advice from their investment advisers on the suitability of investment vehicles and aim to invest in funds with strategies that are highly rated by their investment adviser, based on forward-looking expectations of meeting objectives.
Liquidity risk	The risk that the Plan's assets cannot be realised at short notice in line with member demand.	The Plan is invested in daily dealt and daily priced pooled funds. Units in the pooled funds in which the Plan invests are believed to be readily redeemable. Where members self-select a fund which can be gated, for example property, as these are self-selected members would be informed of the liquidity constraints when they enter or exit the fund.
Pension Conversion risk	The risk that the member is invested in a strategy that does not reflect the way in which they intend to take their benefits at retirement.	The Trustees makes available three lifestyle strategies for DC members. Lifestyle strategies automatically switch member assets into investments whose value is expected to be less volatile relative to how the member wishes to access their pension savings as they approach retirement age.
Pre-retirement downturn risk	The risk of a downturn in markets in the period leading up to retirement. This could lead to a substantial reduction in the level of retirement benefits that would otherwise be available.	The Trustees offer three lifestyle strategies (DNB Plan Lifestyle Strategy Targeting Drawdown is the default option), which automatically switch member assets as they approach retirement into investments that are expected to be less volatile, in order to reduce the risk of a substantial fall in the value of their accumulated savings near retirement.
Conflicts of Interest	The risk of a potential conflict of interest in appointing Mercer Limited as the provider of consultancy services and as the investment manager for the Mercer funds made available to the Plan.	Mercer, as the Trustees' Investment Advisor, ensure that Mercer Funds are subject to the same analysis as any other investment manager and implement a fully transparent monitoring and reporting process to ensure that the Trustees remain comfortable with the investment advice they receive from Mercer. Mercer follow strict protocols when introducing delegated solutions to clients and provide clear disclosure regarding the fees charged and services to be delivered.

The Trustees monitor and manage the risks set out in the previous tables by keeping the investment arrangements of the Defined Contribution Section under regular review through the quarterly investment reports which includes ESG ratings, the annual reporting produced by the MWS team and the Mercer Smarthpath UK Stewardship Code Monitoring report. In addition, the Trustees take advice from their investment advisors on their continuing appropriateness.

The Plan's Defined Contribution arrangements were reviewed in 2019 and the current range of investment options was determined as a result of this. The arrangements will be reviewed by the Trustees at least every three years and changes made as required.

In considering the range of funds to offer to members, the Trustees acknowledge that the investment time horizon of each individual member is different and will be dependent on their current age and when they expect to retire. In selecting the lifestyle options, the Trustees have taken the proximity to the target retirement date into account (through the use of target dated funds) and the associated financially material risks over the strategies' full time horizon.

Further, to assist members in controlling the risk set out in (iii), the Trustees have made a range of passively managed investment options available, some of which form part of the 'default' arrangement should members not actively choose how their monies are to be invested.

In addition, from 31 December 2015 the Trustees are required to provide narrative disclosures in their Annual Report and Accounts on the credit and market risks arising from the investment arrangements of the Plan's Defined Contribution Section. Please refer to Section 2.2 for further details.

5. Day to Day Management of the Assets

5.1. Day to day management of the Defined Contribution assets is delegated to a range of professional Investment Managers who are administered through the Aviva MyMoney Investment Platform ("Aviva") and Prudential Assurance Company Limited ("Prudential"), where the Trustees hold long term insurance policies. The value of the policies are linked to the value of the underlying pooled funds which the Trustees make available to members.

5.2. The Plan's Investment Platform is provided under agreement with Mercer Workplace Savings ("MWS") and Aviva. MWS combines a corporate investment platform offered by Aviva with Mercer's investment and operational governance and access to funds highly rated by Mercer along with Mercer-built Risk-Rated Funds. The Mercer Funds comprise single, or a combination of, external underlying investment managers, which are highly rated by Mercer.

5.3. The Trustees are responsible for the selection, appointment and retention of the Investment Managers. In this context, Investment Managers refers to the Delegated Investment Manager and external investment managers (when non MWS funds are utilised). "Delegated Investment Manager" refers collectively to Mercer Global Investments Europe Limited (MGIE) and Mercer Limited.

5.4. Funds have been selected on the Aviva platform, that are managed by Mercer Global Investments Europe Limited or white-labelled and managed by Mercer Limited. These provide a range of funds for members' contributions to be invested in. Where a fund is managed by Mercer Global Investments Europe Limited or Mercer Limited the underlying manager(s) may be changed at Mercer's discretion. In addition there are also external funds made available on the Aviva Platform by the Trustees.

5.5. Where necessary, all parties are authorised and regulated by an appropiate regulator. In addition, the Trustees regularly review the role of Aviva by receiving regular written reports from them, and periodically meeting with their representatives.

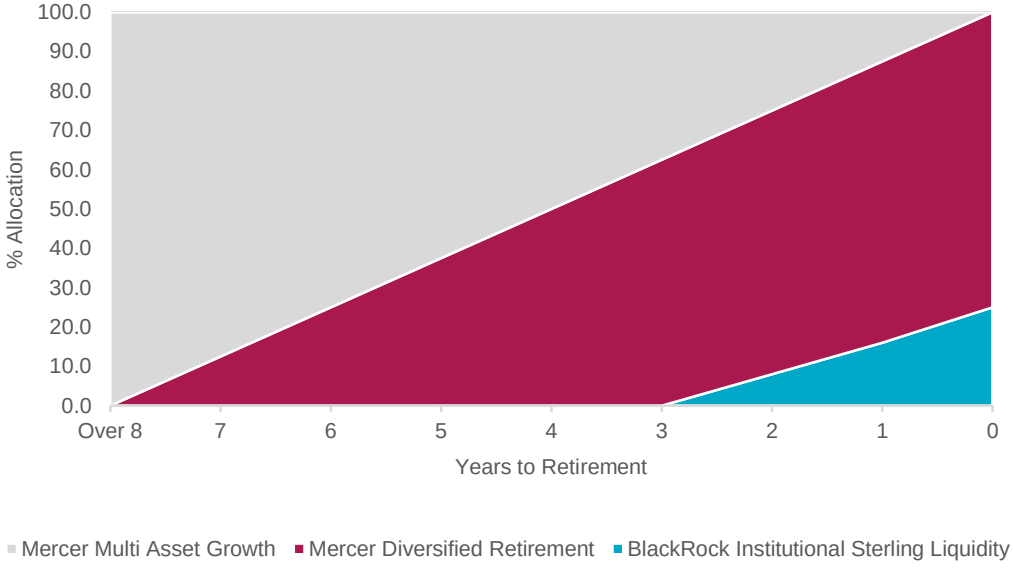
6. Investment Strategy

6.1. The Trustees make a number of investment options available for members to meet different objectives at retirement and/or provide exposure to a variety of asset classes to allow members to tailor their own investments.

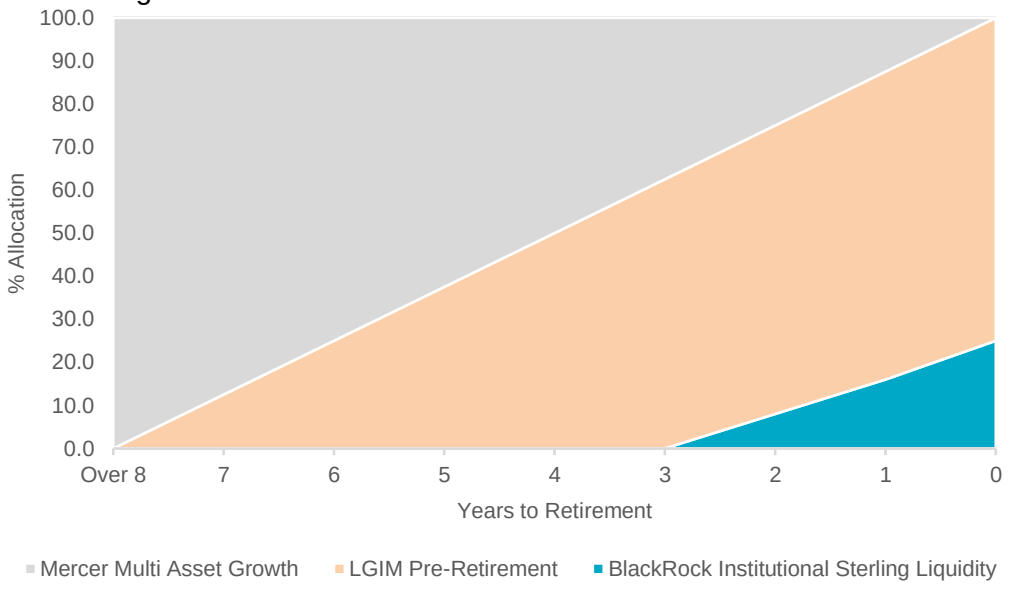
Member views are not currently taken into account when determining the investment strategy or underlying manager structure. The Trustees will review this position periodically.

Lifestyle Options: These represent investment strategies where member assets are automatically de-risked gradually as they get closer to retirement, the point at which they will need to access their assets and volatility in the value of them is less desirable. Three lifestyle options have been made available:

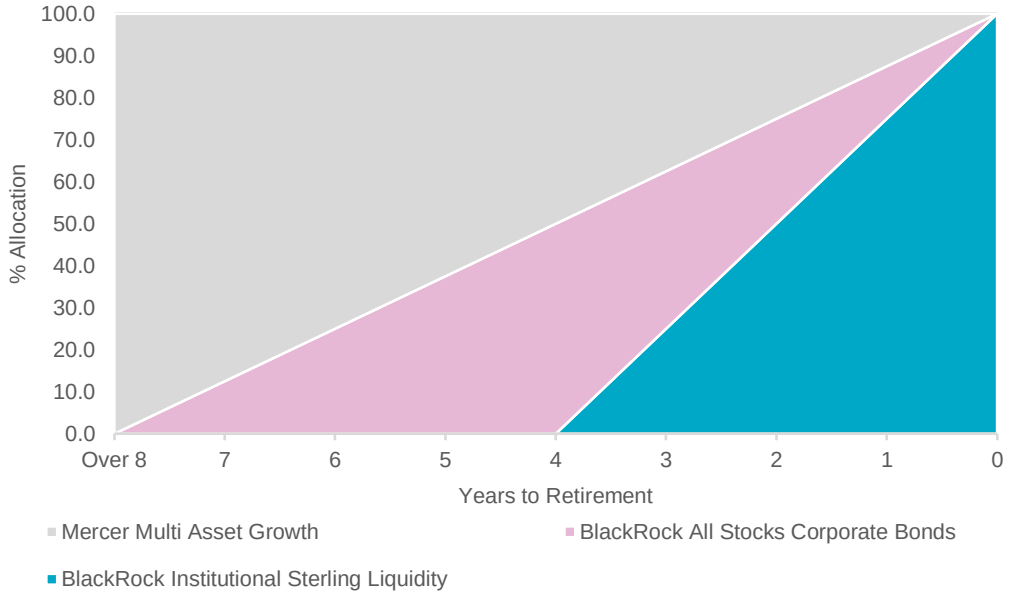
a. *DNB Plan Lifestyle Strategy Targeting Income Drawdown*: This option is suitable for members who wish to take drawdown at retirement. Contributions are invested in the Mercer Growth Fund until eight years from retirement, where monies begin to be switched (on a quarterly basis) into retirement income assets and cash as outlined below:



b. *DNB Plan Lifestyle Strategy Targeting Annuity*: This option is suitable for members who wish to purchase a non-increasing annuity at retirement and take 25% tax-free cash. Contributions are invested in the Mercer Growth Fund until eight years from retirement, where monies begin to be switched (on a quarterly basis) into annuity matching assets and cash as outlined below:



c. *DNB Plan Lifestyle Strategy Targeting Cash:* This option is suitable for members who wish to withdraw their assets as cash at retirement. Contributions are invested in the Mercer Growth Fund until eight years from retirement, where monies begin to be switched (on a quarterly basis) into passively managed corporate bonds and cash as outlined below:



It should be noted that all three lifestyle options are dynamically managed, by Mercer Global Investments Europe Limited, in response to market conditions meaning that the exact composition of the annuity matching assets and retirement income assets will not be known in advance.

Risk-Rated Funds: By offering risk-rated funds the Trustees provide investment options to those members who have considered their risk tolerance and return expectations of their monies. The following four options have been made available:

a. *Mercer Defensive:* The aim of this fund is to produce stable capital growth over the longer term. Assets are invested 16.5% UBS Low Volatility Equity, 5% ILIM Emerging Markets Debt, 5% Mercer Global High Yield Bonds, 7.5% BlackRock UK Credit, 5% BlackRock US Credit, 2.5% BlackRock Eurozone Credit, 10% Mercer Absolute Return Fixed Income, 15% BlackRock UK Gilts, 15% LGIM UK Inflation Linked Gilts, 18.5% ILIM Cash

b. *Mercer Moderate Growth:* The aim of the fund is to produce low to moderate levels of long term capital growth. Assets are invested 11.8% UBS Multi Factor Global Equity, 4% LGIM Sustainable Global Equity, 9.8% ILIM Emerging Markets Equity, 11% UBS Low Volatility Equity, 6.5%% UBS Global Small Cap Equity, 6.5% LGIM Global Listed Infrastructure, 6.5% LGIM Global REITS, 5% ILIM Emerging Markets Debt, 5% Mercer Global High Yield Bonds, 1.5% BlackRock UK Credit, 2% BlackRock US Credit, 1.5% BlackRock Eurozone Credit, 5% Mercer Absolute Return Fixed Income, 9% BlackRock UK Gilts, 5% LGIM UK Inflation Linked Gilts, 10% ILIM Cash.

c. *Mercer Growth:* The aim of this fund is to produce moderate to high levels of long term capital growth. Assets are invested 14% UBS Multi Factor Global Equity, 5% LGIM Sustainable Global Equity, 11% ILIM Emerging Markets Equity, 11% UBS Low Volatility Equity, 10% UBS Global Small Cap Equity, 7.5% LGIM Global Listed Infrastructure, 7.5% LGIM Global REITS, 10% ILIM Emerging Markets Debt, 5% Mercer Global High Yield Bonds, 3.5% BlackRock UK Credit, 5% BlackRock US Credit, 3.5% BlackRock Eurozone Credit, 7% Mercer Absolute Return Fixed Income.

d. *Mercer High Growth:* The aim of this fund is to produce high levels of long term capital growth. Assets are invested 19% UBS Multi Factor Global Equity, 8% LGIM Sustainable Global Equity, 13.5% ILIM Emerging Markets Equity, 13.5% UBS Low Volatility Equity, 13.5% UBS Global Small Cap Equity, 8.5% LGIM Global Listed Infrastructure, 8.5% LGIM Global REITS, 5.3% ILIM Emerging Markets Debt, 5.3% Mercer Global High Yield Bonds, 5% Mercer Absolute Return Fixed Income.

The Strategic Asset Allocations for the risk profiled funds shown above are correct as at 30th June 2020.

Self-Select Options: To offer members additional flexibility, the Trustees have made the following investment options available:

a. *Mercer Passive UK Equity*
b. *Mercer Passive Over 15 Year Gilts*
c. *Mercer Passive Over 5 Year Index-Linked Gilts*
d. *Mercer Passive Shariah*
e. *Mercer Diversified Retirement*
f. *Mercer Pre-Retirement*
g. *Mercer Absolute Return Fixed Income*
h. *Mercer Active UK Property*
i. *Mercer Active Emerging Market Equity*
j. *Mercer Active Cash*
k. *Fidelity Moneybuilder Income*
l. *BlackRock (30:70) Currency Hedged Global Equity Index*
m. *BlackRock European Equity Index*
n. *BlackRock Pacific Rim Equity Index*
o. *BlackRock US Equity Index*

Inactive Investment Option: The Trustees also previously made available the Prudential With-Profits Fund for members to invest in; this fund is closed to future contributions.

6.2. Members can combine the self select investment funds in any proportion in order to determine the balance between different kinds of investments. This will allso determine the expected return on a member's assets and should be related to the member's own risk appetite and tolerances. The Trustees are satisfied that, within each investment option, the spread of assets by type and the investment manager's policy on investing in individual securities within each type provides adequate diversification of investments.

6.3. Further, members are free to choose between any of the investment options. If members do not actively choose one (or more) of these options, they will automatically be enrolled into the default option. The Trustees have identified the DNB Plan Lifestyle Strategy Targeting Income Drawdown as the default option. The Trustees believe that this investment option meets the requirements of the Pensions Regulator Code, Section 17(2) of the Pensions Act 2008 and the DC Code and therefore represents an appropriate default option for members (please see Section 7 for further details).

7. Default Option

7.1. Typically, a proportion of members will actively choose the default option because they feel it is most appropriate for them. However, the vast majority of Defined Contribution Section members do not make an active investment decision and are invested in the default option.

7.2. The Trustees' policies in relation to the default option are detailed below:

- The default option is a lifestyle strategy that manages investment and other risks through a diversified strategic asset allocation consisting of traditional and alternative assets. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members (see section 4.2 for further details). Any

investment in derivative instruments contributes to risk reduction, or efficient portfolio management.

- In designing the default option, the Trustees have explicitly considered the trade-off between risk and expected returns. Risk is not considered in isolation, but in conjunction with expected investment returns and outcomes for members. The default option utilises a diversified strategic asset allocation consisting of traditional and alternative assets. The asset allocation of both the growth and decumulation phases are consistent with the expected amount of risk that is appropriate given the age of a member and when they expect to retire.

- If members wish to, they can opt to choose their own investment strategy or an alternative lifestyle strategy on joining but also at any other future date.

- Assets in the default option are invested in the best interests of members and beneficiaries, taking into account the profile of members.

- Assets in the default option are invested in a manner which aims to ensure the security, quality, liquidity and profitability of a member's portfolio as a whole.

- Assets are invested mainly on regulated markets (those that are not must be kept to prudent levels).

- Assets in the default option are invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles which are managed by various investment managers. The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment managers in line with the mandates of the funds.

- Likewise, the investment managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.

7.3. In designing the default option, the Trustees have considered risks from a number of perspectives. In general the risks are considered to be the same as those disclosed in Section 4.2. More specifically the main risks that the Trustees consider in relation to the default and how they are managed are listed below.

- The risk that investment returns over members' working lives will not keep pace with inflation and will not, therefore, secure adequate benefits at retirement.

  The Trustees manage this risk by ensuring that the default fund invests in a diversified range of assets which are likely to grow in real terms.

  The Trustees monitor this risk by measuring and considering the real returns (returns above inflation) of the funds, with positive values indicating that returns have kept up with inflation.

- The risk that assets may not be readily marketable when required.

The Trustees manage this risk by ensuring that the insurance contract with Aviva ensures access to daily dealt and daily priced pooled funds.

- The risk that investment market movements in the period immediately prior to retirement lead to a substantial reduction in the anticipated level of retirement benefits.

  The default lifestyle strategy automatically switches assets as members approach retirements into assets that are less susceptible to market volatility.

  The funds used by the default strategy are monitored by the Trustees with guidance from their Investment Consultant.

- The risk that the investment vehicles, in which monies are invested underperforms the expectation of the Trustees.

  The default investment strategy is set with the intention of diversifying this risk to reach a level of risk deemed appropriate for the relevant members by the Trustees.

  The Trustees monitor the performance of these funds regularly and ensure that their members receive good value for money through an annual value for members assessment.

7.4. In addition to the Trustees' Investment Beliefs (please see Section 4 for details) the aims of the default option are:

- The default option's growth phase structure, which invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.

- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that the default option that seeks to reduce investment risk as the member approaches retirement is appropriate.

- Based on their understanding of the Plan's membership, an investment strategy that targets income drawdown in retirement and a tax-free cash lump sum (up to 25% of a members' pot at retirement) is likely to meet a typical member's requirements for income in retirement. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or even choosing their own investment strategy.

7.5. Taking into account the demographics of the Plan's membership and the Trustees' views of how the membership will behave at retirement, the Trustees believe that the current default option is appropriate and will continue to review this over time, at least triennially, or after significant changes to the Plan's demographic, if sooner.

8. Additional default arrangements

8.1. In accordance with the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Plan has identified the DNB Plan Lifestyle Strategy Targeting Annuity as a 'default arrangement' (as defined by these regulations) in addition to the current default investment option in which new entrants to the Plan are directed.

This strategy has been identified as an 'additional default arrangement' following the change of the default to the DNB Plan Lifestyle Strategy Targeting Drawdown on 14 September 2020. Following the change members within 8 years of retirement remained in the DNB Plan Lifestyle Strategy Targeting Annuity. This was the previous default investment option for the Plan.

8.2. Prior to the change to the default strategy, the Trustees took appropriate investment advice and considered that the DNB Plan Lifestyle Strategy Targeting Annuity remained suitable for members within 8 years of retirement and in their best interest. The Trustees also took account of the demographics of the members invested in the strategy. The Total Expense Ratio ('TER'), which is the cost associated with the managing and operating of the fund, is below the charge cap legislation requirement of 0.75% p.a. that applies to default investment options.

8.3. In addition from 1 July 2020 the Utmost Money Market Fund has been identified as an 'additional default arrangement' as members' accrued DB AVC funds have been directed to this fund without members having instructed the Trustees where their assets are to be invested. This is not a default arrangement for the purposes of auto-enrolment. This default exists due to the closure of the Equitable Life Assurance Society Funds. Section 9 deals with the DB AVC arrangements.

At the start of 2020, the assets previously held in the Equitable Life With Profits Fund were transferred into the Utmost Life Secure Cash Fund without members' consent. This occurred as part of the transfer of the Equitable Life Assurance Society's UK policies to Utmost Life and Pensions Limited. This Fund was being used as a temporary measure following the transfer from Equitable Life to Utmost Life. The Trustees transitioned the holdings in the Utmost Life Secure Cash Fund to the Utmost Life Money Market Fund in July 2020.

Prior to mapping members' investments across to the replacement fund, the Trustees took appropriate investment advice and considered this fund to be suitable for the members and in their best interest. The Trustees also took account of the demographics of the members invested in the fund. The Total Expense Ratios ('TERs'), which is the cost associated with the managing and operating of the fund, is below the charge cap legislation requirement of 0.75% p.a.

8.4. The Trustees' aims and policies in relation to the additional default arrangements are detailed below:

- Risks associated with these investments have been considered in line with the Trustee's Policy with Regard to Risk (Section 4.2).

- The Trustees review the additional default arrangements at least every three years and without delay after any significant change in the investment policy or the demographic

profile of relevant members. The policies set out in Sections 12, 13 and 14 apply to these additional defaults.

- Assets are ultimately invested in daily traded pooled funds which hold highly liquid assets. The pooled funds are commingled investment vehicles, which are managed by investment managers appointed by MWS and external managers respectively. The selection, retention and realisation of assets within the pooled funds are delegated to the respective investment managers in line with the mandates of the funds. Likewise, the investment managers have full discretion (within the constraints of their mandates) on the extent to which social, environmental or ethical conditions are taken into account in the selection, retention and realisation of investments.

DNB Plan Lifestyle Strategy Targeting Annuity

- The growth phase structure, which invests in equities and other growth-seeking assets, will provide growth with some downside protection and some protection against inflation erosion.

- As a member's pot grows, investment risk will have a greater impact on member outcomes. Therefore, the Trustees believe that the default option that seeks to reduce investment risk as the member approaches retirement is appropriate.

- Based on the Trustees' understanding of the members who at 14 September 2020 had less than 8 years to retirement, an investment strategy that targets annuity purchase and a tax-free cash lump sum (up to 25% of a members' pot at retirement) is suitable. This does not mean that members have to take their benefits in this format at retirement – it merely determines the default investment strategy that will be in place pre-retirement. Members who intend to take their retirement benefits through other formats have the option of switching to an alternative lifestyle strategy prior to retirement or choosing their own investment strategy.

- The performance of this strategy is monitored quarterly. Following categorisation as a 'default arrangement' a strategic review will be carried out at least triennially which will coincide with the next review of the current default arrangement in line with legislative requirements.

Utmost Money Market Fund

- To provide members with a fund that is expected to provide a level of capital preservation across market environments, whilst aiming to provide a return in line with prevailing short term money market rates. The fund invests in the short term deposits.

- The performance of this fund is monitored regularly. Following categorisation as 'default arrangement' a strategic review will be carried out at least triennially in line with legislative requirements.

- This fund is closed to future contributions.

PART C: GENERAL

9. Other Assets

The Trustees offer several investment vehicles for members to make Additional Voluntary Contributions. The Trustees also retain small working cash balances in a pooled Trustee bank account administered by Mercer.

Other Plan assets include sundry amounts owed to the Plan.

10. Employer-Related Investments

The Trustees recognise that investment in pooled funds may result in employer-related investments being held within the Plan. However, given the nature of the pooled funds selected by the Trustees and the diversification of assets held within the pooled funds, it is unlikely that such investment could breach the restriction under Section 40 of the Pensions Act.

11. Realisation of Investments

To more effectively meet the cashflow needs of the Plan, the Trustees maintain a cash fund balance with L&G. The Plan's administrator has authority to redeem assets from the cash fund as and when a shortfall is identified. The Trustees monitor the balance and will organise a 'top-up' investment if it falls below £125k.

If the cash fund balance is insufficient to meet a shortfall, the Trustees will seek advice from its investment advisors on where monies should be sourced. In such circumstances, monies will typically be disinvested such that the Plan's asset allocation is moved towards the investment strategy outlined in Section 2.3.

In terms of the DC Assets, the investment managers have discretion in the timing of the realisation of investments and in considerations relating to the liquidity of those investments within parameters stipulated in the relevant appointment documentation and pooled fund prospectuses.

The Trustees monitor the allocation between the appointed managers and between asset classes.

12. Responsible Investment and Corporate Governance

12.1. Financially material considerations and Stewardship

The Trustees believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Trustees also recognise that long term sustainability issues, particularly, but not limited to, climate change, present risks and opportunities that increasingly may require explicit consideration.

As the Plan only invests in pooled vehicles, the Trustees recognise that the Investment Managers have full discretion when evaluating ESG issues, exercising rights and stewardship obligations attached to the Plan's investments, including engagement with issuers of debt and equity and other relevant persons about relevant matters such as performance, strategy, capital structure and management of actual or potential conflicts of interest and risks. In addition, the Investment Managers have full discretion when deciding on the degree to which the above are integrated into their investment processess. The Trustees are satisfied this corresponds with their responsibilities to the beneficiaries but will assess the extent to which they adhere to their stated policies on a triennial basis.

The Trustees do not monitor or engage directly with issuers or other holders of debt or equity. It expects the investment managers to exercise ownership rights and undertake monitoring and engagement in line with the investment managers' general policies on stewardship, as provided to the Trustees from time to time, considering the long-term financial interests of the beneficiaries.

12.2. **DC Stewardship Policy**

In addition to the above, in the context of the DC Assets and the requirements imposed on the Trustees from 1 October 2019, the Trustees expect the investment managers who are registered with the FCA to comply with the UK Stewardship Code and UK Corporate Governance Code, including public disclosure of compliance via an external website.

The Plan's investment managers exercise voting rights and undertake engagement (collaborative or otherwise) in accordance with their own corporate governance policies and the Trustees will review the following reporting on an annual basis:

- UK Stewardship Code Review which assesses each underlying equity manager's compliance against the seven principles of the UK Stewardship Code.
- Stewardship monitoring reporting which assesses each underlying equity manager's record of executing and disclosing voting activity and the extent to which they are engaging with the underlying companies in which they invest.
- ESG ratings of all investment managers versus the asset class universe ESG ratings. In addition, ESG ratings are disclosed in the quarterly performance report which reviewed by the Trustees.

The Trustees have and will continue to consider sustainability themed investments. The Trustees have made the Mercer Passive Shariah fund available to members as a self select option which falls into this category.

12.3. **Corporate Governance**

Similarly, due to only holding pooled vehicles, the Plan's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

Equity managers who are FCA registered are expected to report on their adherence to the UK Stewardship Code on an annual basis and the Trustees will monitor the extent (and

manner in which) the investment managers exercise voting and engagement rights at least every three years.

13. Non-Financial Matters

The Trustees do not take into account any non-financial matters (i.e. matters relating to the ethical and other views of members and beneficiaries, rather than considerations of financial risk and return) in the selection, retention and realisation of investments.

14. Investment Manager Appointment, Engagement and Monitoring

14.1. Aligning Investment Manager Appointments with Investment Strategy

In relation to the DB section, the investment managers are appointed by the Trustees based on their capabilities and, therefore, their perceived likelihood of achieving the expected return and desired risk characteristics.

The Trustees look to Mercer, where appropriate, for their forward-looking assessment of an investment manager's ability to outperform over a full market cycle. This view will be based on the Mercer's assessment of the investment manager's idea generation, portfolio construction, implementation and business management, in relation to the particular investment fund that the Plan invests in.

Mercer's manager research ratings assist with due diligence (and questioning the investment managers during presentations to the Trustees) and are used in decisions around selection, retention and realisation of investment manager appointments.

If the investment objective for a particular investment manager's fund changes, the Trustees will review the fund appointment to ensure that it remains appropriate and consistent with the wider Trustee's investment objectives.

The Plan's investments are all made through pooled investment vehicles. The Trustees accept that they have no ability to specify the risk profile and return targets of the investment manager. Such issues are taken into consideration when selecting and monitoring the investment managers to align with the overall investment strategy requirements.

In relation to the DC section the Trustees access the Investment Manager's products (or funds) through the MWS provider's insurance platform. The Delegated Investment Manager appoints underlying investment managers and the Trustees select funds from external investment managers based on their capabilities, and therefore the perceived likelihood of achieving the expected return and risk characteristics required.

Mercer's manager research rating reflects Mercer's forward-looking assessment of a manager's ability to meet or exceed their objectives. As the Trustees invest in pooled investment vehicles they accept that they have no ability to influence the Investment Managers to align their decisions with the Trustees' policies set out in this Statement. However, appropriate mandates can be selected to align with the overall investment strategy.

14.2. Incentivising Investment Managers to Consider Long-Term Financial and Non financial Performance

The Trustees also consider Mercer's assessment of how each investment manager embeds ESG into its investment process and how the investment manager's responsible investment philosophy aligns with the Trustees' beliefs around responsible investment. This includes the investment managers' policy on voting and engagement (where relevant). The Trustees will use this assessment in decisions around selection, retention and realisation of investment manager appointments where applicable.

The Trustees meet with L&G and ASI from time to time and can challenge decisions made including voting history and engagement activity to ensure the best performance over the medium to long term.

The investment managers are aware that their continued appointment is based on their success in delivering the mandate for which they have been appointed. If the Trustees are dissatisfied, then they will consider replacing the investment manager.

In relation to the DC Section the Delegated Investment Manager expects all underlying investment managers to incorporate the consideration of longer term factors, such as ESG, into their decision making process where appropriate. The extent to which this is so will be considered during the selection, retention and realisation of manager appointments. Voting and engagement activity should be used by investment managers to discuss the performance of an issuer of debt or equity.

The Delegated Investment Manager engages with underlying investment managers on this activity and if dissatisfied will look to replace the manager. The Trustees expect external investment managers to incorporate consideration of longer term factors, such as ESG into their decision-making process where appropriate. If the Trustees are dissatisfied, then they will consider replacing the external investment manager.

14.3. Evaluating Investment Manager Performance and Remuneration

In relation to the DB section, the performance and fees of L&G and ASI are reviewed by the Trustees on a regular basis.

Mercer will prepare a report when requested by the Trustees summarising the distribution of investments and the requirements for rebalancing the portfolio. The report will also review the performance of the investment managers. The Trustees review absolute performance and in many cases relative performance, either against a suitable index used as a benchmark (where relevant) and/or against the investment manager's stated performance target (over the relevant time period).

The Trustees' focus is primarily on long-term performance but will put a manager 'on watch' if there are short-term performance concerns.

If investment managers are not meeting performance objectives, or investment objectives for mandates have changed, the Trustees may ask investment managers to review the Annual Management Charge or decide to switch investment managers.

In relation to the DC Section, the Trustees' focus is on longer-term performance but shorter-term performance is monitored to ensure any concerns can be identified in a

timely manner. The Trustees review performance of the Investment Managers products (or funds) on a quarterly basis, including assessments of both shorter and longer time horizons.

The Trustees and the Delegated Investment Manager also rely upon Mercer's manager research capabilities. The remuneration for Investment Managers used by the Plan is based on assets under management. The levels of these fees is reviewed annually as part of the annual value for money assessment to ensure they continue to represent value for members.

If the Investment Managers' performance is not satisfactory, the Trustees will request an explanation of performance and process from the relevant investment manager. If not satisfied with this, the Trustees may request further action be taken, including a review of fees.

14.4. **Portfolio Turnover Costs**

In relation to the DB section, the Trustees do not currently monitor portfolio turnover costs.

The Trustees will continue to monitor industry improvements concerning the reporting of portfolio turnover costs. In future, the Trustees may ask investment managers to report on portfolio turnover cost. They may assess this by comparing portfolio turnover across the same asset class, on a year-on-year basis for the same investment manager fund, or relative to the investment manager's specific portfolio turnover range in the investment guidelines or prospectus.

In relation to the DC section portfolio, turnover costs for each of the funds are reviewed on an annual basis as part of the annual value for members assessment. The ability to assess the appropriateness of these costs is limited by the availability of data. The Trustees will monitor industry developments in how to assess these costs and incorporate this in future value for members assessments. Importantly, performance is reviewed net of portfolio turnover costs.

14.5. **Investment Manager Turnover**

The Trustees are long-term investors and are not looking to change the investment arrangements on a frequent basis.

For open-ended funds (which all of the Plan's assets are invested in), there is no set duration for the investment manager appointments.

In relation to the DB section the Trustees will therefore retain an investment manager unless:

- There is a strategic change to the overall strategy that no longer requires exposure to that asset class or investment manager;

- The investment manager appointed has been reviewed and the Trustees have decided to terminate the mandate.

In relation to the DC section, the Delegated Investment Manager is responsible for the selection, appointment, monitoring and removal of the underlying investment managers.

The Trustees are responsible for the selection, appointment and removal of the delegated investment managers and the external investment managers.

The Trustees may also choose to remove a fund from the fund range, if no longer considered appropriate. The fund range is formally reviewed on at least a triennial basis. The Mercer funds in use are also looked at on an annual basis through the Mercer SmartPath review.

The Trustees do not currently define target portfolio turnover ranges for investment managers, particularly as the Trustees use pooled fund structures which may limit the ability to do so.

15. Compliance with this Statement

The Trustees will monitor compliance with this Statement annually.

16. Review of this Statement

The Trustees will review this Statement in response to any material changes to any aspect of the Plan, its liabilities, finances and the attitude to risk of the Trustees and the Company which they judge to have a bearing on the stated Investment Policy. As part of the review, the Trustees will take expert investment advice and consult the Company. Such a review will normally be carried out every three years.