

CHAIR'S ANNUAL GOVERNANCE STATEMENT

Chair's Annual Governance Statement regarding the AIB Group UK Defined Contribution Scheme

This Statement has been prepared by the Trustee of the AIB Group UK Defined Contribution Scheme (the "Scheme") in accordance with Regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 (as amended) (the "Regulations") and supporting guidance issued by the Pensions Regulator.

This Statement covers the year ending 31 December 2019 (the "Scheme Year").

As required by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018, the Trustee will publish this Statement on a publicly accessible website. The address for the website is as follows: <https://aibgb.co.uk/help-and-guidance/important-information>
The Scheme is used as a qualifying workplace pension scheme for auto-enrolment purposes.

The Scheme's Default Arrangement

The Trustee has made available a range of investment options for members, including Lifestyle and individual fund options.

Members who join the Scheme and who do not choose an investment option are invested in the Drawdown Lifestyle fund (the "default arrangement").

When deciding on the Scheme's investment strategy, the Trustee recognises that most members do not make active investment decisions and instead invest in the default arrangement. After taking advice, the Trustee decided to make the default arrangement a lifestyle strategy, which means that members' assets are automatically moved between different asset classes as they approach their target retirement date.

The Trustee is responsible for the Scheme's investment governance, which includes setting and monitoring the investment strategy for the default arrangement.

Details of the objectives and the Trustee's policies regarding the default arrangement can be found in a document called the 'Statement of Investment Principles' ("SIP"). The Scheme's SIP (dated 5 September 2019) covering the default arrangement is appended to this Statement at Appendix 1.

Alternative Investment Options

Alongside the default arrangement, the Trustee has also made available two other lifestyles, targeting annuity purchase (the "Annuity Lifestyle fund") and cash withdrawal (the "Cash Lifestyle fund") and a variety of individual fund options.

Review of the default arrangement

The default arrangement is reviewed every three years and was last reviewed by the Trustee on 6 June 2019. As part of this review, the strategy of the default arrangement was reviewed to check that it continues to be suitable and appropriate given the needs and demographic of the membership as well as the Trustee's own investment beliefs.

The Trustee took a number of factors into account when carrying out this review including:

- Analysis of the Scheme membership and any relevant industry data about member behaviour.
- Consideration of whether the underlying funds that make up the default lifestyle strategy remain appropriate.
- Whether the income replacement ratios at retirement, as previously assessed, are still achievable.

This review also included a review of the current alternative lifestyle options and the self-select fund range.

The Trustee concluded from this review that the asset allocation approach of the existing default arrangement remained appropriate but agreed amendments to some of the underlying funds used in

the default arrangement to improve it further, with a specific focus on the Passive Global Equity Fund, Index Linked Bond Fund and Diversified Growth Fund.

The changes set out above were originally due to take place in November 2019. However, due to the political uncertainty existing in the UK in relation to Brexit at that time, the Trustee made a decision to delay implementing these changes, with the exception of the changes to the Diversified Growth Fund, until early 2020. Unfortunately, these changes have now been put on hold due to the current market volatility with the ongoing Covid-19 crisis and the Trustee will review the position once the current market volatility has improved.

In addition to the triennial strategy review, the Trustee, together with its professional advisers, monitors the investment options accessed through the Scheme, including the default arrangement, on a quarterly basis. This monitoring looks at both the performance of the funds to ensure that they remain consistent with the stated aims and objectives, as well as any developments or changes at the fund manager.

The Trustee is satisfied that, based on these reviews, the default arrangement performed in line with its stated aims and objectives during the Scheme Year.

- The Trustee receives a detailed Quarterly report from their investment advisers Aon that provides analysis and commentary on all the fund choices offered to members. The default strategy consists of a range of investments in passively managed funds and a Diversified Growth fund. Over the year to 31 December 2019, all funds met expectations.

The Scheme's Core Financial Transactions

The Regulations require the Trustee to ensure that core financial transactions are processed promptly and accurately. Core financial transactions comprise:

- Investment of contributions to the Scheme.
- Transfers of members' assets into and out of the Scheme.
- Transfers of members' assets between different investments within the Scheme.
- Payments out of the Scheme in respect of members at retirement or on leaving

Service level agreement

The Trustee has outsourced the administration functions of the Scheme to Aon, who administer the arrangement in accordance with the Scheme's Administration Guide. Service level agreements (SLAs) have been agreed as part of the contract between the Trustee and Aon. The SLAs set out the agreed maximum timescales and accuracy standards for all services provided by Aon in respect of the Scheme. Aon undertakes to ensure that a minimum 98% of all calculations and payments performed by Aon, and 100% of all switches, investment and Lifestyling services provided by Aon, are completed within the defined SLAs.

Aon provides the Trustee with quarterly administration reports that document its performance against the SLAs. The Trustee considers these reports in detail as a regular item at its quarterly Trustee Board meetings.

Over the Scheme Year, Aon's performance against the agreed SLAs for the core financial transactions are set out in the table below:

Quarter 2019	Performance level
Q1	100%
Q2	100%
Q3	98%
Q4	99%

Aon internal controls

Aon has confirmed to the Trustee that it allocates the contributions paid by the Scheme's sponsoring employer, AIB Group (UK) plc (the "Bank") and the members, in respect of each member, to the respective investment funds, in accordance with robust internal processes and controls, to minimise the likelihood of errors and delays.

Aon has also confirmed to the Trustee that all contributions were paid on time and invested within the agreed SLA.

Aon has the following processes in place to ensure that the Scheme's core financial transactions are carried out promptly and accurately:

Aon receives (i) HR update reports (ii) Vendor reports (which outlines the total contribution broken down by business area) and (iii) Contribution breakdown reports from the Bank between the 27 and 28th of each month (2-3 working days after payday). The reports are used to confirm the following information:

- (i) The HR update report outlines the month's new entrants, leavers and member data record updates.
- (ii) The Vendor report confirms the contribution amounts from the different areas of the business.
- (iii) The Contribution report gives a breakdown of each active member's employee, employer and additional voluntary contribution.

Aon carries out the following reconciliation:

- 1) Update the administration system with the HR report so new entrants are uploaded and able to receive contributions.
- 2) Check the Trustee bank account to ensure the correct contributions have been received into the account. This is checked against the Contribution report & Vendor report to ensure all monies have been received.
- 3) File prepared and sent to the investment manager for investment.
- 4) Once the money has been invested in each member's pension account, Aon checks this against the member records to ensure the correct amount has been invested for each member.
- 5) Lifestyling report is run and checked to ensure members are at the correct stage of their lifestyle journey.

Aon provides a Contributions Management summary in their Quarterly Stewardship reports with a breakdown of the amount received, date received, and date invested.

Administration is captured as part of the Scheme's risk register and any specific risks are clearly documented. This includes details of the controls established by the Trustee and records details of any required actions. This is reviewed regularly and updated annually with the next/last annual review due/at (insert date).

Monitoring of accuracy is undertaken via the auditing of the Scheme's annual report and accounts and periodic auditing of the Scheme's membership testing.

Aon carried out tests on the Scheme's conditional data (which measures the reliability of scheme-specific data) during the Scheme Year which showed that 97% of the Scheme's data was accurate and correct. The latest score for the Scheme's common data was 96.36%.

Trustee audit

Two Trustee Directors visited Aon's offices in October 2019 and carried out an informal audit of the administration services carried out there. The visit covered the administration team's structure including the project teams and, the contribution and investments team. The Trustee Directors were shown the cashflow systems, complaints procedures and contribution management process. Aon confirmed that they carry out Data Protection training annually and have robust cyber systems in place which are regularly tested. Aon also confirmed that the teams that provide services to the Scheme have Business Continuity Plans in place and are regularly tested. Overall the feedback from the visit was positive. The Trustee has agreed to carry out an annual on-site review of Aon's services at Cork and this has been added to the Trustee's Business Plan.

Conclusion

There were no significant issues reported to or identified by the Trustee in connection to either the promptness or accuracy of core financial transactions processed during the period covered by this Statement.

In June 2019 the monthly DC contribution for June 2019 was paid out of the AIB Group UK Pension Scheme Bank Account rather than the AIB UK Group Defined Contribution Scheme Account, in error, and subsequently corrected. This was a non-material administration error and Aon have put steps in place to prevent this happening again.

No other matters arose during the year that required further attention. Should any administrative concerns arise, the Trustee would work together with the Bank and representatives of Aon to ensure that the administration process is amended to minimise the likelihood of specific errors reoccurring.

The Trustee is therefore satisfied that there have been no material administration errors in relation to processing core financial transactions and that all core financial transactions have been processed promptly and accurately.

Member-borne charges and transaction costs

From 6 April 2018 the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 introduced new requirements relating to the disclosure and publication of the level of charges and transaction costs by the trustee and managers of a relevant scheme. As part of the changes, the Trustee is required to illustrate the cumulative effect over time of the application of transaction costs and charges on the value of a member's benefits.

For completeness, and by reference to the amended regulations, we have included in Appendix 2 the level of charges and transaction costs borne by members for each fund within default arrangement, and also for each alternative fund option that members are able to select.

Calculation of transaction costs

The prescribed method of calculating transaction costs states that the value is arrived at by comparing the price at which the transaction was executed with the price when the order entered the market. When selling into a rising market or buying into a falling market, the calculation produces a credit that may result in negative overall transaction costs (when net off from explicit costs of the trade).

Negative transaction costs represent a gain for members and should therefore not be assumed to occur when assessing costs.

In certain circumstances the methodology used for calculating costs (known as slippage) can lead to negative costs being reported. This can be for example, where other market activity pushes the prices of the asset being traded down whilst the transaction was in process. This can result in the asset being purchased for a lower price than when the trade was initiated.

The level of transaction costs for each fund over the period covered by this Statement are included in Appendix 2. Several of the Scheme's funds have produced negative transactions costs at points during the last three Scheme years. For the purposes of our calculations, we have assumed a minimum of zero on any particular fund in any Scheme year i.e. before averaging.

Representative members

The Trustee is required to illustrate the cumulative effect of the costs and charges paid by a member on their retirement values (as a "pounds and pence figure"). The Trustee has followed DWP guidance with regards to the illustrative examples provided to show the effect of costs and charges over time.

The majority of costs (specifically the Annual Management Charge for each Fund, see Appendix 1) are currently paid by the Bank. We have therefore illustrated separately the costs that members pay, and the total overall costs that are paid by both the sponsor and the members.

The transaction cost figures used in the illustrations are those provided by the Scheme's platform provider, LGIM, for the past three years. The transaction cost figures are therefore an annualised average of the past three years' figures. More detail on how the transaction costs are calculated is provided in [Appendix 2 /the *Charges* section.]

In line with statutory guidance, we have provided illustrations based on three example members for the default arrangement:

- Example member 1: the youngest active member (age 19) with a retirement age of 65 and a starting fund value of £1,620
- Example member 2: a typical (the average) active member (aged 47) with a retirement age of 65 and a fund value of £77,462
- Example member 3: a typical (the average) deferred member (age 47) with a retirement age of 65 and a fund value of £41,429

These illustrations are based on certain assumptions which are set out in Appendix 3. In particular, we have taken consideration of the current age-related contribution matching structure (as set out in Appendix 3) in our projections.

- Example member 1: Pays the lowest level of contributions until age 40, at which point they will pay the highest matching level up to retirement at age 65, based on a starting salary of £20,345
- Example member 2: Pays the highest level of matching contributions until retirement at age 65, based on a starting salary of £63,769
- Example member 3: no further contributions are paid.

Although not every member pays the highest possible matching level, the illustrations can be used as a reference point with regard to the costs and charges incurred on member's total fund value.

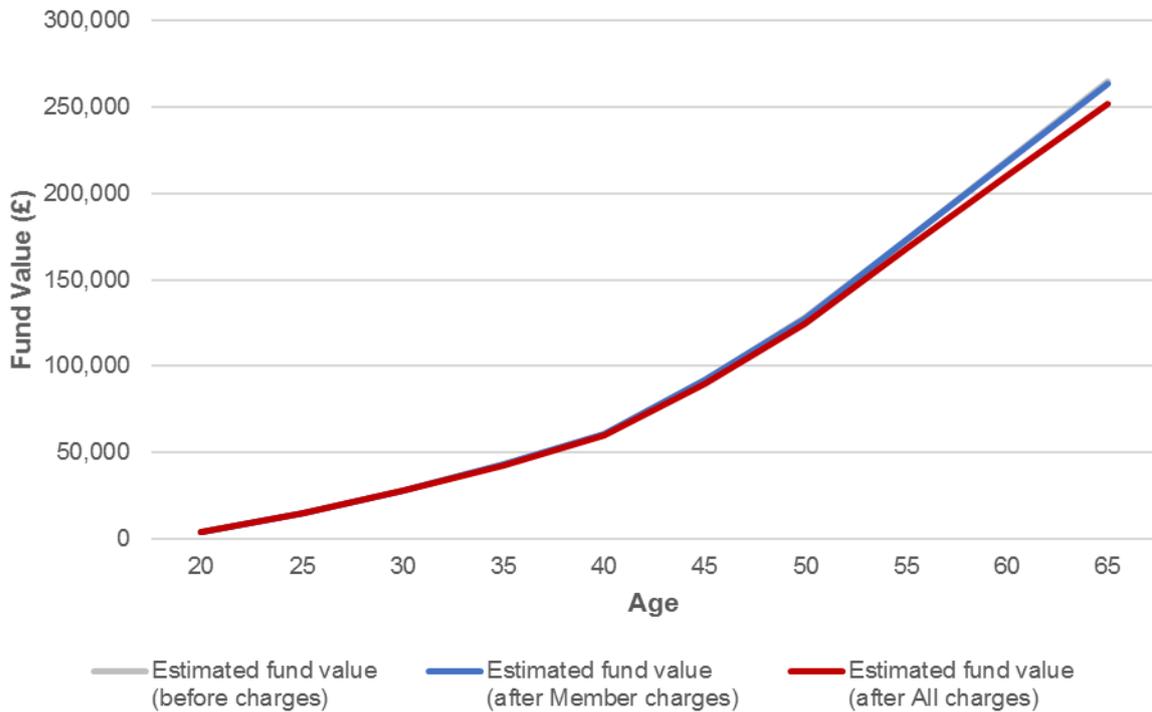
The projected fund values shown are estimates for illustrative purposes only and are not guaranteed.

Example member 1

The table below shows the estimated impact of charges on accumulated fund values for the youngest active member.

Age	The Drawdown Lifestyle Fund (Default Fund) (Member charges)			The Drawdown Lifestyle Fund (Default Fund) (All charges)			Total Equity Fund (All charges)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
20	3,706	3,705	1	3,706	3,701	5	3,724	3,705	19
25	15,089	15,079	10	15,089	14,999	90	15,439	15,069	370
30	28,238	28,207	31	28,238	27,939	299	29,427	28,172	1,255
35	43,428	43,357	71	43,428	42,757	671	46,129	43,279	2,850
40	60,974	60,843	131	60,974	59,728	1,246	66,071	60,697	5,374
45	92,051	91,828	223	92,051	89,924	2,127	100,874	91,578	9,296
50	127,950	127,590	360	127,950	124,506	3,444	142,429	127,182	15,247
55	173,648	173,041	607	173,648	168,017	5,631	198,641	174,711	23,930
60	219,473	218,443	1,030	219,473	210,424	9,049	265,759	229,511	36,248
65	264,675	263,130	1,545	264,675	251,540	13,135	345,897	292,694	53,203

The graph below shows the estimated impact of total charges on accumulated fund values for the youngest active member when invested in the Drawdown Lifestyle Fund (Default Fund) The grey line is hidden by the blue line as the Bank currently pays for the annual management charge.

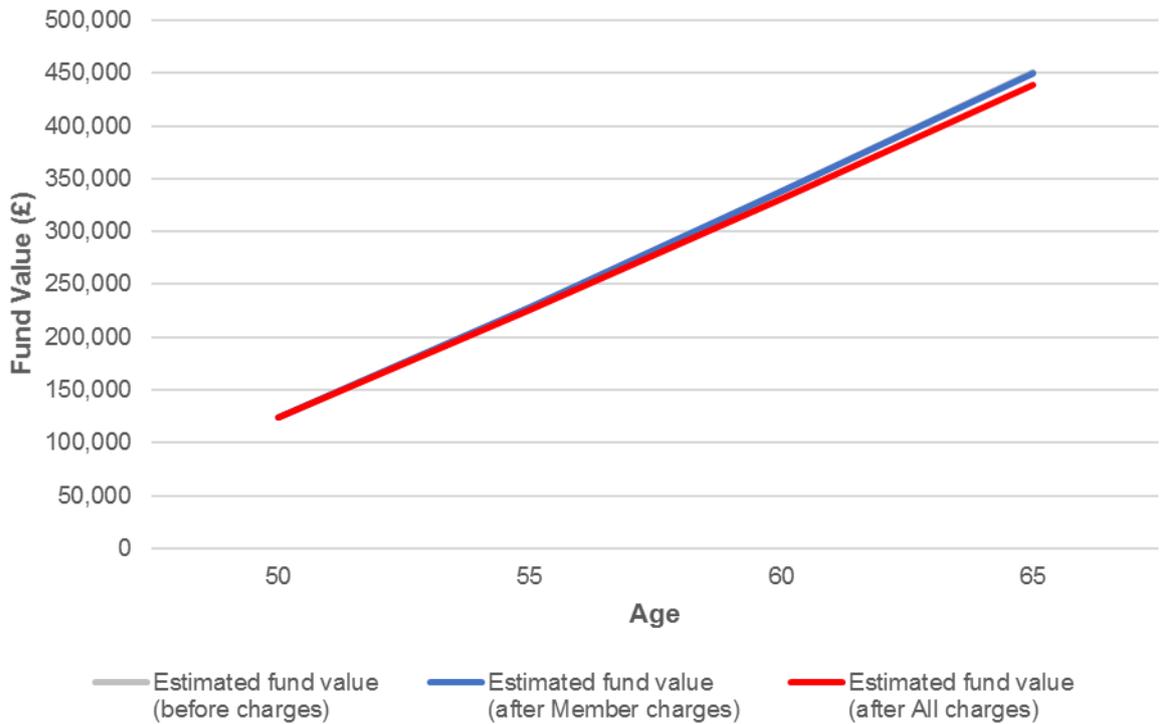


Example member 2

The table below shows the estimated impact of charges on accumulated fund values for the typical active member:

Age	The Drawdown Lifestyle Fund (Default Fund) (Member charges)			The Drawdown Lifestyle Fund (Default Fund) (All charges)			Total Equity Fund (All charges)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	123,939	123,881	58	123,939	123,399	540	126,030	123,820	2,210
55	228,481	228,173	308	228,481	225,817	2,664	240,066	230,756	9,310
60	338,662	337,788	874	338,662	331,573	7,089	376,224	354,050	22,174
65	451,610	449,935	1,675	451,610	438,376	13,234	538,797	496,205	42,592

The graph below shows the estimated impact of total charges on accumulated fund values for the typical active member when invested in the Drawdown Lifestyle Fund (Default Fund). The grey line is hidden by the blue line as the Bank currently pays for the annual management charge.

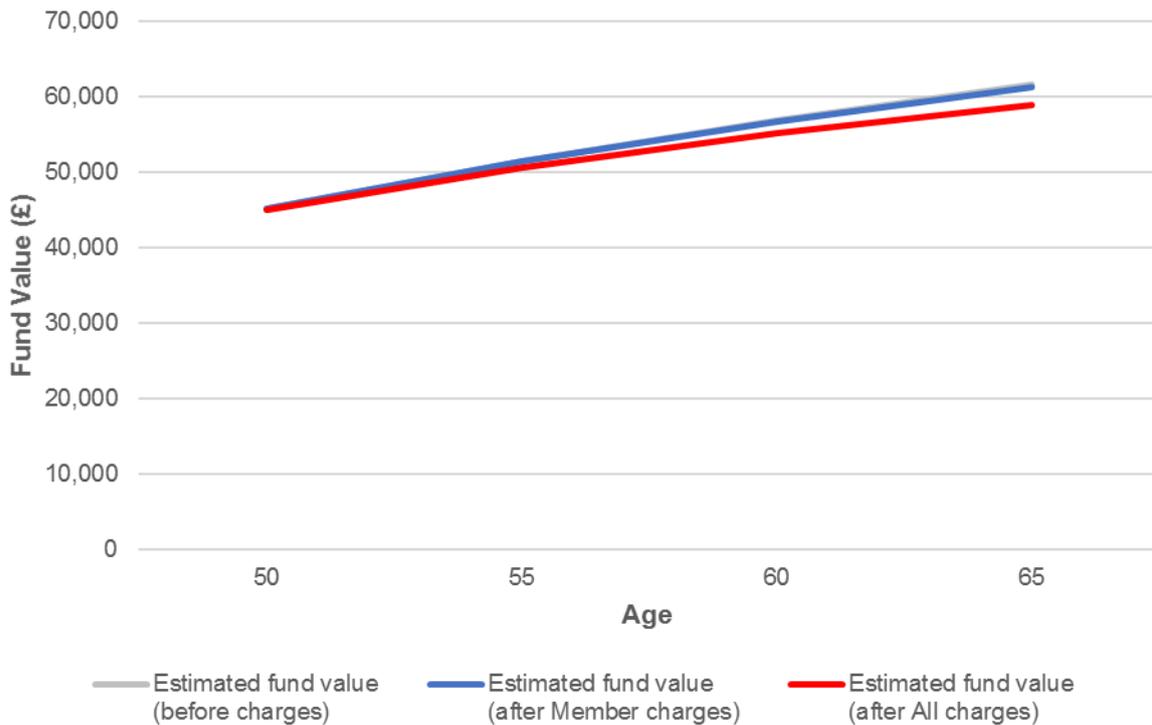


Example member 3

The table below shows the estimated impact of charges on accumulated fund values for the typical deferred member:

Age	The Drawdown Lifestyle Fund (Default Fund) (Member charges)			The Drawdown Lifestyle Fund (Default Fund) (All charges)			Total Equity Fund (All charges)		
	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £	Estimated fund value (before charges) £	Estimated fund value (after charges) £	Effect of charges £
50	45,174	45,150	24	45,174	44,941	233	46,079	45,123	956
55	51,482	51,388	94	51,482	50,660	822	55,018	52,025	2,993
60	56,935	56,730	205	56,935	55,235	1,700	65,692	59,984	5,708
65	61,619	61,290	329	61,619	58,952	2,667	78,436	69,160	9,276

The graph below shows the estimated impact of total charges on accumulated fund values for the typical deferred member when invested in the The Drawdown Lifestyle Fund (Default Fund).



Value for Members

The Regulations require the Trustee to assess the extent to which the charges and transaction costs borne by members represent good value.

There is no legal definition of “good value” which means that determining this is subjective. The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of benefits received has also been considered in its assessment.

The Trustee is committed to ensuring that members receive good value from the Scheme. The Trustee established a cost-benefit analysis framework in 2016 to assess whether the Scheme delivers good “Value for Members”. This framework looks at both the costs borne by members and the other benefits members receive from the Scheme.

In terms of the benefits of membership, the Trustee has identified what they believe their members value most namely:

- The design on the default arrangement and Lifestyling options and range of investment options.
- Efficiency of the administrative processes.
- Quality of communications including regular Newsletters and benefit statements.
- Oversight and governance of the Trustee.

This framework has been reviewed during the Scheme Year in view of any changes which have taken place since then and the following key points are noted:

- The Trustee continued to follow a focused communication strategy during the Scheme Year which included the issue of three shorter Newsletters, in April, October and December, which were designed to provide a simpler and more interactive format and the introduction of a second contribution window during December 2019 which provided members with a further opportunity to increase their contributions.
- Members had responded to a survey to gauge their views on the communications they received from the Trustee and to ascertain any areas on which they needed more information. The results showed that members wanted workshops to provide them with more information to help them to decide when to retire and more information on flexible retirement options.
- Following the results of the survey a series of workshops were held at sites in London and Belfast. These were designed to provide information to members in both the accumulation and pre-retirement phases of their membership.
- Re-designed Benefit Statements were issued in June which enhanced the tone, language and visual appearance of the Statements.
- The cost of communications is paid for by the sponsor.
- Members currently do not incur annual management investment charges, as the Bank bears these costs on the members’ behalf. The cost of the default arrangement is therefore well within the maximum permissible. The Trustee believes that the member borne charges are competitive for the types of fund available to members based on analysis undertaken by its advisers.
- Members do incur investment transaction charges, and the following section provides information about those charges and their impact on members’ retirement funds. (see Charges and Transaction costs on page 10).
- As the requirement to provide details of transaction costs calculated in a standard way is a relatively recent one it is therefore difficult to carry out a market comparison to provide comfort around the reasonableness of the costs disclosed by DC fund managers. However, it is evident from the LGIM data that the transaction costs on the index-tracking funds (with exception of the Diversified Growth Fund) have been negligible over each Scheme year.

The Trustee, having reviewed these costs, believes for the reasons set out above that members of the Scheme are receiving good value for the charges and costs they incur.

The Trustee aims to improve this in future through the new investment and member engagement strategies which are due to be implemented in 2020.

Trustee Board composition

The Trustee Board consists of four Employee Nominated Directors, three member nominated Directors and one deferred Member Nominated Director. A quorum for a meeting of the Trustee is two thirds of the total number of Trustees and any decision of the Trustee shall require the assent of a majority of Trustees.

One of the Member nominated Trustees left the Company during the year and became a Company appointed deferred Trustee. A new Trustee joined the Scheme on 28 November 2019.

The Trustee takes its responsibilities very seriously. The full Trustee Board meets at least four times each year and as part of its agenda reviews all aspects of the Scheme's operation, including investment, member communications, administration, governance and risk management. The Trustee Board also considers regulatory and legal updates applicable to the Scheme.

In addition, the Trustee has established three sub-committees (Investment, General Purposes and Communications). Each sub-committee has Trustee Director representation and has specific Terms of Reference, allowing them to focus on key aspects of the Scheme, manage and review their delegated risks on the Risk Register. All of the sub-committees are supported by the appropriate Trustee advisers and also meet at least four times each year. The Trustee's Governance structure is supported by a professional Trustee secretariat (Inside Pensions), who ensure that the Trustee remains focused on delivering long-term value to its members.

Knowledge and expertise

The current TKU process is set out below.

On appointment, all Trustee Directors attend a training course provided by the Pensions and Lifetime Savings Association which provides them with the information they require to carry out their role. The two-part course covers the following topics:

- Trustee's duties, responsibilities and powers.
- How Trustees protect themselves against legal challenge.
- Types of advisers and advice.
- How workplace pensions are financed and how they value their assets and liabilities.
- Investment strategies.
- Accountability and communication.
- Good pension scheme governance.
- Decision making and discretions.
- Decisions about investments.
- Managing delegates and advisers.
- Trustee communications
- Internal Dispute Resolution Procedures (IDRPs) and the Pensions Ombudsman.
- Conflicts of interest.
- Maintaining a good relationship with the employer.
- Governance

All Trustee Directors are also required to complete the Pensions Regulator's trustee toolkit within six months of being appointed, so that they can demonstrate that they have acquired the necessary knowledge.

All the current Trustee Directors have completed this training, together with the additional modules which were introduced in 2015.

There is also an ongoing education programme for existing Trustee Directors. The Trustee Directors receive additional training at each meeting, usually relevant to issues on the agenda. Details of the training sessions which took place at the Board meetings during the year are shown as follows:

- 28 February 2019 – Trustee’s roles and responsibilities – Provided by Sackers.
- 6 June 2019 – Investment Manager InBriefs – Provided by Aon Investment Consultants.
- 5 September 2019 – Discretions – Provided by Sackers.
- 28 November 2019 – (i) Trustee Library – Provided by Inside Pensions and (ii) Retirement processes – Provided by Aon Administration Services.

The Trustee Directors are also made aware of and are encouraged to attend external training courses throughout the year.

The Trustee also has processes in place to identify any knowledge gaps in the Trustee Board. Firstly, the Trustee keeps a training log and attendance log which are reviewed at each Board meeting and used to identify any knowledge gaps. The Trustee also carries out a biennial Trustee effectiveness review. The last one was carried out in December 2018, (with the next questionnaire due in December 2020) and was in the form of a questionnaire in which Trustee Directors are asked to evaluate the effectiveness of the Board, its committees and their own understanding of their role. The Trustee Directors indicate their agreement, across eight sections, with a series of statements with a scale of 1 – 5 (where 1 is strongly agree and 5 is strongly disagree). The Trustee Directors are also invited to record additional comments in each section

- Results were analysed at the beginning of 2019 and a number of actions were carried out during the Scheme Year, including the arrangement of an Away Day (see details below). Governance was improved through the inclusion of an attendance record at each meeting and the rotation of agenda items throughout the year to ensure all items are given equal time and focus. Private Time for Trustees is now included on all agendas and the Trustee review the investment report before Aon Consulting join the meeting to identify any specific issues or questions.

One of the key outcomes from the Trustee’s responses and comments was the need for an “away day” to enable the Board more time to consider key issues and form a forward-looking agenda. An “away day” was due to take place on 27 March 2020 and would have been attended by the Trustee Board, its advisers and representatives from the Bank. Due to the current circumstances around Covid-19, this meeting will be rescheduled later in the year once social distancing measures are lifted. In the meantime, the Trustee will be addressing some of these questions at its regular Board meetings in order to ensure that progress continues to be made. The intention is to cover the following key topics:

- Member analysis – retirement adequacy and outcomes, PLSA Retirement Living Standards.
- ESG: Analysis of the Trustee Board viewpoints, discussion on available approaches and market activity.
- Incorporating illiquid assets.
- Investment ideas: summary, discussion of next steps and plan.
- Review of the Total Equity Fund.

The Trustee Directors continued to consider the Scheme’s investment strategy in the year and also reviewed other aspects of the Scheme including, communications, administration and governance.

Access to professional advice

The Trustee has appointed recognised and suitably qualified legal advisers, investment consultants and DC consultants who provide advice on the operation of the Scheme in accordance with the Scheme’s Trust Deed and Rules and in compliance with the legislation. The appointment of the Trustee’s advisers are reviewed at least every three years.

The trustee consults with its professional advisers as and when required for example on relevant changes to pensions legislation.

The Trustee Directors are conversant with the trust deed and rules as well as other Scheme documentation, both through their overall experience in managing the Scheme as well as its review of such documentation over the Scheme Year.

Assessment

The Trustee considers that the combined knowledge of the Trustee Board, skills and understanding with the advice which is available to the Trustee from its professional advisers enables the Trustee to properly exercise its functions as Trustee of the Scheme in the following ways:

- The Trustee's advisers are present at the committee and Board meetings as appropriate, to provide advice when needed.
- The Trustee's TKU process helps to ensure good decision making in line with the Scheme Rules.
- The Trustee's TKU process helps to ensure that an effective day to day administration of the Scheme is maintained.
- The Trustee's TKU process helps to ensure that the Trustee offers an appropriate investment choice to members and that this is maintained at all times.
- The Trustee's TKU process helps to ensure that the Trustee Directors keep up to date with new pensions legislation and take appropriate action to incorporate changes into their procedures where appropriate.

Further information is available on request. If you do have any questions, please contact Aon, the Scheme administrator in the usual way.

Tom Hall
Chair of Trustee Board
AIB Group UK Defined Contribution Scheme



15 July 2020