

Royal London Group Pension Scheme

Annual Report and Financial Statements

for the year ended 31 December 2017

Scheme Registration Number: 100154281

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Contents

	Page
Trustee and advisers	1
Trustee's report	2
Independent Auditors' report	10
Fund Account	13
Statement of net assets available for benefits	14
Notes to the financial statements	15
Independent Auditors' statement about contributions	34
Summary of contributions	35
Actuarial certificate	36
Further information	37

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee and advisers

Corporate Trustee	RLGPS Trustee Limited
Trustee Directors	Employer nominated Richard Balding (<i>Chairman</i>) (<i>Pensioner member</i>) Ewan Smith (<i>Deferred member</i>) Jon Taylor The Law Debenture Pension Trust Corporation plc represented by Andrew Parker (<i>Independent Trustee</i>) Member nominated John Tovey (retired 31 December 2017)(<i>Pensioner member</i>) Ian Forder (appointed 1 January 2018)(<i>Pensioner member</i>) Caroline Instance (<i>Deferred and pensioner member</i>)
Scheme actuary	Jonathan Howes FIA of Willis Towers Watson Limited
Administrators	Willis Towers Watson Limited
Independent Auditors	PricewaterhouseCoopers LLP
Legal advisers	CMS Cameron McKenna LLP Cannings Connolly Solicitors Slaughter and May DLA Piper UK LLP
Investment consultant	Lane Clark & Peacock LLP
Investment managers	Royal London Asset Management Limited
Investment custodian	HSBC Bank plc (HSBC Securities Services)
Additional Voluntary Contribution (AVC) providers	Clerical Medical Investment Group Limited Royal London Group Scottish Widows plc The Equitable Life Assurance Society
Bankers	HSBC Bank plc National Westminster Bank plc
Principal employer	The Royal London Mutual Insurance Society Limited ("the Company")
Participating employers	Royal London Asset Management Limited Royal London Management Services Limited
Contact for enquiries	Provided on further information page 37

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report

Introduction

The Trustee Directors of the RLGPS Trustee Limited ("the Trustee") present their annual report and financial statements of the Royal London Group Pension Scheme ("the Scheme") for the year ended 31 December 2017.

Scheme constitution and management

The Scheme is an occupational pension scheme established under trust to provide retirement benefits to all eligible employees of Royal London Group. The Scheme is a final salary pension scheme whereby benefits are payable to members in accordance with the Scheme Rules based on their length of service, accrual rate and their pensionable earnings as defined by the Scheme Rules prior to leaving the service of Royal London Group.

The Scheme is governed by a definitive Trust Deed and Scheme Rules and is overseen by a Corporate Trustee whose Trustee Directors are responsible for setting the strategy and for managing the Scheme. The Trustee Directors are required to act in accordance with the Trust Deed and the Scheme Rules and the Memorandum and Articles of Association of the Trustee within the framework of pension and trust law.

The Trustee Directors are appointed and removed in accordance with the Trust Deed, the Articles of Association of the Corporate Trustee and the overriding provisions in the Pensions Act 2004. The Scheme ordinarily has six Trustee Directors, four of whom are appointed by the Company and two by the Scheme's members. The member nominated trustee arrangements are determined by the Trustee. The persons who acted as Trustee Directors of the Trustee are listed on page 1.

Financial developments and financial statements

The financial statements included in this annual report are the financial statements required by the Pensions Act 1995. They have been prepared and audited in compliance with the regulations made under sections 41(1) and 41(6) of the Act.

Details of the financial statements are provided on pages 13 to 33.

Membership

Details of membership of the Scheme as at 31 December 2017 are given below:

Year	Deferred members	Pensioner members	Beneficiaries	Life cover only members	Total
2017	10,993	8,725	2,071	3,185	24,974
2016	11,673	8,653	2,083	2,863	25,272

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report (continued)

Pension increases

The Trust Deed and Rules makes provision for increases in pensions in payment and deferred pensions. Entitlement to pension increases depends on the legacy scheme and the period in which the pension is earned.

(a). Pensions accrued before 1 April 2011

Pension increases in respect of pensions accrued before 1 April 2011 in excess of the guaranteed minimum pension were awarded as provided in the table below:

Legacy scheme ¹	Pension in excess of Guaranteed Minimum Pension accrued before 6 April 1997		Pension accrued after 5 April 1997 and before 30 November 2001		Pension accrued after 29 November 2001 and before 1 April 2011		Pension increase date
	2017	2016	2017	2016	2017	2016	
RLGPS (standard benefits members)	n/a	n/a	n/a	n/a	2.0%	0.8%	1-Jul
RASF Scheme II (members joining before 1 August 2001)	3.1% ¹	1.6% ¹	3.1% ¹	1.6% ¹	3.1% ¹	1.6% ¹	1-Jul
RASF Scheme II (members joining from 1 August 2001)	n/a	n/a	2.0%	0.8%	2.0%	0.8%	1-Jul
RLSPF	0.5%	0.5%	1.0%	0.0%	2.0%	0.8%	1-Apr
UFGPS (contracted-in before 17 September 2002 leavers)	0.5%	0.5%	1.0% ³	0.0% ³	3.2%	1.3%	1-Apr
UFGPS (contracted-out before 17 September 2002 leavers)	3.0%	1.3%	3.2% ²	1.3% ²	3.2%	1.3%	1-Apr
SLORBS	2.2% ⁴	1.1%	2.2% ⁴	1.1%	2.0%	0.8%	1-Jan
SLIORBS	3.1%	1.6%	3.1%	1.6%	3.1%	1.6%	1-Jul
SLDRBS	2.2%	1.1%	2.2%	1.1%	n/a	n/a	1-Jan

¹ Special arrangements in first year following retirement apply. No increase was applied at 1 July in the calendar year of retirement.

² Increase of higher of (a) 3.0% (2016: 1.3%) on RPI cumulative pension from retirement date or (b) 1.0% on pension in payment on the pension benefits for members contracted out before 17 September 2002.

³ Increase of 3.2% (2016: 1.3%) for those contracted in after 17 September 2002.

⁴ Increase of lower of 2 factors within a range of 2.2% (RPI at November 2016) and 3.0%.

⁵ There are some other small categories of members within the legacy schemes whose increases differ slightly to those shown in the table above. Those affected have been communicated to separately.

(b). Pensions accrued from 1 April 2011

Pension benefits accrued from 1 April 2011 were increased at a rate equal to the Consumer Prices Index ("CPI") subject to a maximum of 2.5% (2016: maximum 2.5%). The increases were applied from the effective dates indicated in the table above.

New pensions commencing after the pensions increase date were increased on a proportional basis. The increases were applied to both guaranteed and discretionary elements as appropriate.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report (continued)

Pension increases (continued)

During 2017, the Company granted a discretionary increase at the rate of 0.5% (2016: 0.5%) to pensions in payment with no guaranteed increases (in excess of guaranteed minimum pensions). All other pensions in payment increased in line with either the Scheme's Rules and/or pensions legislation.

(c). Pension in deferment

Pensions in deferment accrued prior to 6 April 2009 are revalued in accordance with the Pension Schemes Act 1993, at a rate equal to the increase in the CPI (prior to 1 January 2014 at Retail Prices Index ("RPI")) except for RLSPF members (whose increase remains linked to the RPI in accordance with the Scheme's Rules) or to the increase produced by the application of 5% per annum, whichever is the lower.

Pensions in deferment accrued after 5 April 2009 are revalued in accordance with the Pension Schemes Act 2008, at a rate equal to the increase in the CPI (prior to 1 January 2014 at RPI) or to the increase produced by the application of 2.5% per annum, whichever is the lower.

Transfer values

Cash equivalents paid during the Scheme year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits. With effect from 1 January 2004, Royal London Group ceased to allow the Scheme to accept transfers in.

Report on Actuarial liabilities

The Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), does not require the financial statements to include liabilities in respect of promised retirement benefits.

The Scheme is subject to a Statutory Funding Objective as required under section 222 of the Pensions Act 2004, which requires a scheme to have sufficient and appropriate assets to cover its technical provisions. The technical provisions are calculated by projecting the benefits expected to be paid in each year after the valuation date and discounting the cash flows to obtain the present value. This assessment is carried out every 3 years using the method and assumptions agreed between the Trustee and the Company. The method and assumptions are documented in the Statement of Funding Principles dated 22 June 2017 a copy of which is available to members on request from the address set out on page 37.

A full actuarial valuation of the Scheme was carried out as at 31 December 2016. A recent annual actuarial report was carried out as at 31 December 2017. The results of the annual actuarial report as at 31 December 2017 and the full actuarial valuation as at 31 December 2016 are provided in the table below:

Actuarial report date: 31 December	2017	2016
	£'000	£'000
Value of technical provisions	2,684,900	2,672,100
Value of assets available to meet technical provisions	2,687,500	2,611,100
Funding surplus (deficit)	2,600	(61,000)
Funding level as a percentage of technical provisions	100%	98%

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report (continued)

Report on Actuarial liabilities (continued)

The value of liabilities (technical provisions) in the above table exclude those in respect of Additional Voluntary Contributions which are fully met by matching assets and exclude any allowance for advance funding of non-guaranteed discretionary pension increases.

The value of liabilities is based on pensionable service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns, when members will retire and how long members will live.

The improvement in the Scheme's deficit as at 31 December 2016 resulting in a surplus as at 31 December 2017 was mainly due to the outperformance of the Scheme's investment assets during the period.

Recovery plan

As the full actuarial valuation as at 31 December 2016 showed a funding deficit, a recovery plan is required to be agreed by the Trustee and the Company which specifies how and by when the statutory funding objective is expected to be met.

The Trustee agreed that no contributions will be paid to the Scheme by the Company as it is expected that investment returns in excess of the prudent discount rates underlying the technical provisions will be sufficient to eliminate the funding deficit by 30 June 2019. This expectation is based on the assumption that the return on Scheme assets during the period from the valuation date to 30 June 2019 will be 1% per annum in excess of the average discount rate used in the calculation of the technical provisions.

The method and significant assumptions used in the calculations are as follows:

Method

The actuarial method used in the calculation of the liabilities is the Projected Unit Method.

Significant actuarial assumptions

The assumptions used to calculate the Scheme's technical provisions set out in the triennial actuarial valuation report as at 31 December 2016 are summarised in the following main categories. All percentage rates are per annum:

- Discount interest rate for pre-retirement at 4.0% and post retirement at 2.4%
- Deferred pension revaluation
 - RPI subject to a 5.0% cap at 3.4%
 - CPI subject to a 5.0%/2.5% cap at 2.3%
- Pension increases linked to RPI but subject to:
 - a minimum of 0% and a maximum of 7.5% at 3.4%
 - a minimum of 0% and a maximum of 5.0% at 3.1%
 - a minimum of 0% and a maximum of 3.0% at 2.3%
- Pension increases linked to CPI but subject to:
 - a minimum of 0% and a maximum of 5.0% at 2.3%
 - a minimum of 0% and a maximum of 3.0% at 1.9%
 - a minimum of 0% and a maximum of 2.5% at 1.7%
- Salary increases are not applicable as the Scheme was closed to future accrual from 1 April 2016.

Royal London Group Pension Scheme

Annual report and financial statements
for the year ended 31 December 2017

Trustee's report (continued)

Report on Actuarial liabilities (continued)

- Mortality for the period in retirement applying the SAPS "S2" series tables with a relevant multiplier factor.

The Trustee agreed a schedule of contributions for the Scheme following the actuarial valuation as at 31 December 2016 which the Scheme actuary certified on 22 June 2017. A copy of the Scheme actuary's certification of the schedule of contributions signed on 22 June 2017 is included on page 36 of this annual report and financial statements.

Investment report

Investment principles and strategy

The ultimate responsibility for deciding investment policy lies with the Trustee.

The Trustee maintains a Statement of Investment Principles ("SIP") as required by section 35 of the Pensions Act 1995 and meets the requirements of the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee reviews the SIP for appropriateness from time to time and last updated it in June 2017.

A copy of the SIP is available on request from the contact address set out on page 37 of this annual report and financial statements under 'Further information'.

Details of the Scheme's investments are given in note 14 to the financial statements.

Management of investments

The Trustee has appointed Royal London Asset Management Limited ("RLAM") to manage the Scheme's investments on a day-to-day basis. RLAM have full discretion to invest world-wide subject to the restrictions set out in the investment management agreement which is designed to ensure that the objectives and investment policies set out in the SIP are followed.

RLAM are authorised and regulated by the Financial Conduct Authority in the United Kingdom under the Financial Services and Markets Act 2000.

Custodial arrangements

The Trustee has appointed HSBC Bank plc (HSBC Securities Services) as custodian of the Scheme's investments other than pooled investment vehicles and Additional Voluntary Contributions. The Scheme's direct investment assets are held in the names of the nominees by the Scheme's custodian. The custodian operates a system of internal controls to ensure the security of the Scheme's assets.

The custody of underlying assets in pooled investment vehicles and Additional Voluntary Contributions is arranged by the manager of those investments.

Trustee's policy on voting rights and social, environmental and ethical factors

The Trustee has examined how rights, including voting rights, attached to investments should be exercised by considering and supporting the UK Stewardship Code ("the Code") issued by the Financial Reporting Council ("FRC"). The Trustee has decided that investment rights should be exercised by investment managers on its behalf in line with the investment managers' general policies on corporate governance.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report (continued)

Investment report (continued)

The Trustee considers that it is necessary in all circumstances to act in the best financial interests of beneficiaries and, where this primary consideration is not prejudiced, the investment managers can take social, environmental and ethical issues into account.

The Trustee has less influence over the underlying investments within the pooled investment vehicles held by the Scheme but review the managers' policies and statements of compliance in respect of these investments.

Review of investment performance

The table below shows the performance of the Scheme investment assets over various periods relative to the appropriate benchmarks.

Annualised return over	1 year	3 years	5 years	Asset allocation
Sterling corporate bonds	7.1%	7.2%	7.8%	28%
Benchmark	5.1%	6.3%	6.8%	
Multi Asset Credit *	-	-	-	6%
Benchmark	-	-	-	
Global high yield bonds	6.2%	6.7%	5.8%	4%
Benchmark	6.3%	6.1%	5.5%	
Index linked gilts	3.7%	9.3%	9.8%	28%
Benchmark	2.5%	8.7%	9.3%	
Overseas bonds	1.1%	2.5%	3.2%	1%
Benchmark	1.2%	2.0%	2.8%	
UK Equities	13.5%	9.4%	10.1%	7%
Benchmark	13.1%	10.1%	10.3%	
Overseas equities	12.6%	15.8%	15.9%	14%
Benchmark	16.1%	16.8%	17.3%	
Property fund	6.5%	6.1%	7.6%	9%
Benchmark	10.6%	9.0%	10.7%	
Cash fund	4.7%	(3.8%)	(2.2%)	3%
Benchmark	0.4%	0.4%	0.4%	
Scheme	7.8%	9.1%	9.7%	100%
Benchmark	7.2%	9.1%	9.6%	

* Fund inception is under 1 year (June 2017) therefore fund return is not included.

The asset allocation in all asset categories was within target weight ranges as at 31 December 2017 (2016: within target weight ranges) as set out in the 2017 updated SIP.

The Trustee has considered the nature, disposition, marketability, security and valuation of the Scheme's investments and considers them to be appropriate to justify the holding of each class of the investments.

The Trustee considers that the spread of investments both geographically and by investment category enables the Scheme to benefit from potentially higher rates of investment growth in different markets whilst also decreasing the effect that price fluctuations within a particular market may have on the Scheme. The proportion of the Scheme's assets invested in a particular market is determined by reference to the relative rate of return and the relative level of risk associated with that market.

Royal London Group Pension Scheme

Annual report and financial statements
for the year ended 31 December 2017

Trustee's report (continued)

Investment report (continued)

The Trustee considers that all the Scheme's investments are readily marketable with the exception of the global high yield bonds, pooled investment vehicle in property, senior secured loans and private placement debts. The liquidity of senior secured loans and private placement debt is lower than the average of the Scheme investments. If there was a material disposal of units in the Royal London Property Fund, the Fund's Prospectus does provide for deferred redemption (on a normal basis, redemption requests must be received three months in advance, but this may be deferred for one further month) as the underlying assets would have to be sold in the marketplace.

The value of the Scheme's illiquid assets as at 31 December 2017 was £339.4 million (2016: £354.4 million).

Employer related investments

Details of employer related investments are given in note 24 to the financial statements.

Statement of Trustee's responsibilities

Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Trustee's report (continued)

Statement of Trustee's responsibilities (continued)

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

Further information

Any enquiries about the Scheme can be made by contacting the Staff Pensions Team at the address provided in the 'Further information' on page 37. A copy of this annual report and financial statements is available on the Royal London Group website: <http://www.royallondon.com/about/annual-reports/>.

Approval

The Trustee's report was approved and signed by the Trustee Directors on 21 March 2018.

Signed for and on behalf of RLGPS Trustee Limited by:



Trustee Director



Trustee Director

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Independent Auditors' report to the Trustee of the Royal London Group Pension Scheme

Report on the audit of the financial statements

Opinion

In our opinion, Royal London Group Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2017, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the annual report and financial statements, which comprise: the statement of net assets available for benefits as at 31 December 2017; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Independent Auditors' report to the Trustee of the Royal London Group Pension Scheme

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all the information in the annual report and financial statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Trustee for the financial statements

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the scheme, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Royal London Group Pension Scheme

Annual report and financial statements

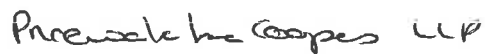
for the year ended 31 December 2017

Independent Auditors' report to the Trustee of the Royal London Group Pension Scheme

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

21 March 2018

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Fund Account

	<i>Note</i>	2017 £'000	2016 £'000
Contributions and other income			
Employer contributions		1,378	3,215
Employee contributions		-	31
Total contributions	4	1,378	3,246
Other income	5	305	154
		1,683	3,400
Benefits and other payments			
Benefits	6	83,958	82,802
Transfers to other schemes	7	35,862	28,698
Administrative expenses	8	3,266	2,583
		123,086	114,083
Net withdrawals from dealings with members		(121,403)	(110,683)
Returns on investments			
Investment income	9	65,119	83,536
Change in market value of investments	14	133,622	365,768
Investment management expenses	10	(2,666)	(2,607)
Investment management fee rebates	11	1,822	1,325
Taxes on investment income		(329)	(322)
Net returns on investments		197,568	447,700
Net increase in the Scheme		76,165	337,017
Opening net assets		2,613,923	2,276,906
Closing net assets		2,690,088	2,613,923

The notes to the financial statements on pages 15 to 33 form part of these financial statements.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Statement of net assets available for benefits as at 31 December 2017

	<i>Note</i>	2017 £'000	2016 £'000
Investment assets			
Liquities	14	453,765	583,125
Bonds	14	1,613,940	1,542,070
Derivatives assets	15	19,735	19,722
Pooled investment vehicles	17	521,474	384,835
Cash	18	86,995	79,126
Other investment assets	19	16,621	17,246
AVC investments	20	2,308	2,830
		2,714,838	2,628,954
Investment liabilities			
Derivatives liabilities	15	(8,690)	(7,607)
Other investment liabilities	19	(16,462)	(5,830)
		(25,152)	(13,437)
Total net investments		2,689,686	2,615,517
Current assets	25	4,491	3,598
Current liabilities	26	(4,089)	(5,192)
Net assets available for benefits as at 31 December 2017		2,690,088	2,613,923

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account of such obligations, is dealt with in the Trustee's report under the Report on Actuarial liabilities on pages 4 to 6 of the annual report and these financial statements should be read in conjunction with this report.

The notes to the financial statements on pages 15 to 33 form part of these financial statements.

The financial statements on page 13 to 33 were approved and signed by the Trustee Directors on 21 March 2018.

Signed for and on behalf of RLGPS Trustee Limited by:



Trustee Director



Trustee Director

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements

1. General information

The Scheme is an occupational pension scheme established by the Trust Deed dated 5 October 1988. The Scheme is a defined benefit ("DB") scheme which was established to provide retirement benefits for its members. The beneficial members of the Scheme are eligible employees of the Royal London Group who commenced service on or before 1 September 2005. The benefits are payable to members in accordance with the Scheme Rules based on their length of service, accrual rate and their pensionable earnings as defined by the Scheme Rules prior to leaving the service of Royal London Group. The life cover only members do not accrue pension benefits in the Scheme.

The Trustee's registered office address is at 55 Gracechurch Street, London, EC3V 0RL.

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief and income and capital gains earned by the Scheme receive preferential tax treatment.

2. Statement of compliance

The financial statements of the Royal London Group Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, the Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidelines set out in the Statement of Recommended Practice, "Financial Reports of Pension Schemes" (Revised November 2014) ("the SORP").

3. Summary of significant accounting policies

The principal accounting policies set out below have been consistently applied in the preparation of the financial statements.

a. Currency

The functional currency and presentation currency of the Scheme is the Great British Pound Sterling (GBP (£)).

b. Foreign currency conversion

Assets and liabilities in foreign currencies are expressed in GBP at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into GBP at the spot rate at the date of the transaction.

Gains and losses arising on conversion are dealt with as part of change in market value of investments.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

c. Contributions

Normal contributions including salary sacrifice contributions, both from employees and employers, are accounted for on an accruals basis in the payroll period to which they relate at rates agreed by the Trustee as recommended by the actuary.

Other employer contributions such as augmentations are accounted for in accordance with the agreement under which they are being paid or in the absence of an agreement, on a receipt basis.

Additional Voluntary Contributions (AVC) from the employees are accounted for in the month deducted from payroll.

d. Benefit payments

Where a member can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or if there is no member choice, on the date of retirement or leaving.

Pensions in payment are accounted for in the period to which they relate.

e. Transfers to other schemes

Transfer values represent the amounts payable during the year for members who have left the Scheme. All values are based on methods and assumptions determined by the Actuary advising the Trustee. The values are accounted for upon liability being accepted by the receiving scheme.

f. Administrative and other expenses

Administrative expenses are accounted for on an accruals basis by reference to the period to which they relate. Pension levy is accounted for in the period the levy is payable.

g. Investment income and expenses

Dividends from equities and any income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date when stock is quoted ex-dividend and in the case of unquoted instruments, when the dividend is declared.

Interest on bonds, including income bought and sold on purchases and sales of bonds, is accounted for on an accruals basis.

Interest on cash and short term deposits is accounted for on an accruals basis.

Other investment income is in respect of commissions received from stock lending and underwriting activities and is accounted for on a receipt basis.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

g. Investment income and expenses (continued)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. The change in market value also includes realised profits and losses on closed derivative contracts and unrealised profits and losses on open derivative contracts.

Income generated by pooled investment vehicles which are accumulation funds is retained within the funds without issue of further units and is reflected in the change in market value of the units. The tax element on the income from the property pooled investment vehicle is reclaimed and reinvested through the purchase of additional units and is reflected in the purchases.

Receipts or payments under swap contracts representing the difference between the swapped cash flows are recognised in investment income when received or paid.

Investment income includes any reclaimable tax credits. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.

Investment management expenses are accounted for on an accruals basis by reference to the period to which they relate.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. In addition there are indirect transaction costs which are incurred through the bid – offer spread on pooled investments. The amount of indirect transaction costs is not separately provided to the Scheme.

h. Valuation and classification of investments

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used. Where quoted or other unit prices are not available, the Trustee adopts valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

h. Valuation and classification of investments (continued)

- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- The value of AVCs and other investment balances which are unquoted or not actively traded on a quoted market is driven by the fair value of its underlying assets as advised by the asset managers. Where there are restrictions or other factors which prevent realisation at the fair value an adjustment is made to value of the asset.

Accrued interest is excluded from the market value of bonds but is included in other investment balances.

i. Other investment arrangements

The Scheme recognises assets delivered out under stock-lending arrangements and as collateral under derivative contracts to reflect its ongoing interest in those securities.

Collateral securities received in respect of stock-lending arrangements and derivative contracts are disclosed but not recognised as Scheme assets.

The value of collateral received in respect of derivative contracts reflects the exposure value of the derivatives at the middle of bid and offer prices including interest accrual.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

4. Contributions

	2017 £'000	2016 £'000
Employee		
Normal	-	24
Additional voluntary contributions	-	7
	<u>-</u>	<u>31</u>
Employer		
Salary sacrifice contributions	-	279
Normal	-	1,231
Augmentation	1,378	1,705
	<u>1,378</u>	<u>3,215</u>
	<u>1,378</u>	<u>3,246</u>

Employer contributions in respect of salary sacrifice arrangements are normal contributions made by certain members of the Scheme and paid by the employer under the arrangements.

Following the closure of the Scheme to future benefits accrual as at 31 March 2016 normal contributions are no longer required to be paid to the Scheme with effect from 1 April 2016.

The employer augmentation contribution of £1.38 million in 2017 (2016: £1.71 million) was made to fund the capital cost of granting discretionary pension increases and other benefit augmentations as certified by the Scheme actuary as the Scheme had insufficient surplus assets to meet the augmentation cost.

5. Other income

	2017 £'000	2016 £'000
VAT refund	24	16
Claims on life insurance policy	281	138
	<u>305</u>	<u>154</u>

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

6. Benefits

	2017 £'000	2016 £'000
Pensions	72,339	71,043
Commutations and retirement lump sums	11,062	11,388
Lump sum death benefits	557	371
	<u>83,958</u>	<u>82,802</u>

7. Transfers to other schemes

	2017 £'000	2016 £'000
Individual transfers to other schemes	35,862	28,698

8. Administrative expenses

	2017 £'000	2016 £'000
Administration fees	1,753	1,393
Actuarial fees	375	235
Levies paid to the Pensions Regulator	770	662
Trusteeship fees	143	68
Audit fees	60	46
Legal fees	159	174
Sundry expenses	6	5
	<u>3,266</u>	<u>2,583</u>

Some of the administration of the Scheme is provided by the Company. The direct costs of employees involved in the administration are recharged to the Scheme. Indirect costs incurred by the Company are recharged to the Scheme on an allocation methodology agreed by the Trustee. These costs are included in the administration fees and are provided in note 27 (Related party transactions).

Trusteeship fees include fees paid directly to the Trustee Directors as disclosed in note 27 (Related party transactions) to the financial statements.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)**9. Investment income**

	2017 £'000	2016 £'000
Dividends from equities	17,725	19,001
Income from bonds	44,942	42,688
Net (payments)/receipts from swaps	(2,294)	18,410
Income from pooled investment vehicles	4,516	3,270
Interest on cash deposits	65	61
Other investment income	165	106
	<u>65,119</u>	<u>83,536</u>

10. Investment management expenses

	2017 £'000	2016 £'000
Administration and management fees	2,232	2,125
Custodian charges	207	221
Investment advisory fees	195	192
Consultancy on overseas tax claims	-	36
Bank interest/charges	32	33
	<u>2,666</u>	<u>2,607</u>

11. Investment management fee rebates

	2017 £'000	2016 £'000
Investment management fee rebates	1,822	1,325

The fee rebates represent amounts received by the Scheme as reimbursement representing a proportion of investment management charges by the investment manager on pooled investment vehicles in which the Scheme has investments.

12. Taxes on investment income

The taxation charge within investment returns represents irrecoverable withholding tax arising on certain classes of investment income.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

13. Investment transaction costs

Transaction costs relating to purchases of investments are added to the cost of investments and those relating to sales of investments are netted against proceeds of investments. These costs include fees, commissions, stamp duty and other fees. Direct transaction costs incurred during the year are analysed as follows:

Transaction fee category	Equities £'000	Bonds £'000	Other £'000	2017 Total £'000	2016 Total £'000
Fees	10	-	92	102	137
Commissions	106	-	-	106	121
Taxes	276	-	-	276	340
Total 2017	392	-	92	484	
Total 2016	486	2	110		598

In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within the pooled investment vehicles and charges within those vehicles. It has not been possible for the Scheme to quantify such indirect transaction costs.

14. Reconciliation of net investments

	Value as at 1 January 2017 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 December 2017 £'000
Equities	583,125	148,612	(334,668)	56,696	453,765
Bonds	1,542,070	5,497,355	(5,459,958)	34,473	1,613,940
Derivatives – swaps	16,354	3,721,847	(3,729,905)	2,476	10,772
Pooled investment vehicles	384,835	266,543	(163,036)	33,132	521,474
AVC investments	2,830	-	(522)	-	2,308
	2,529,214	9,634,357	(9,688,089)	126,777	2,602,259
Cash	79,126			(1,368)	86,995
Derivatives – forward foreign currency contracts	(4,239)			8,213	273
Other investment balances	11,416			-	159
	86,303			6,845	87,427
	2,615,517			133,622	2,689,686

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

15. Derivatives

Over the counter contracts	2017			2016		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
Swaps	19,462	(8,690)	10,772	19,326	(2,972)	16,354
Forward foreign currency contracts	273	-	273	396	(4,635)	(4,239)
	<u>19,735</u>	<u>(8,690)</u>	<u>11,045</u>	<u>19,722</u>	<u>(7,607)</u>	<u>12,115</u>

Objectives and policies for holding derivatives

The Trustee allows RLAM the discretion to use derivatives to support the investment strategy. These are financial instruments whose value is dependent on the value of an underlying index, currency, commodity or other asset.

The Trustee authorised the use of derivatives for hedging purposes and to enhance the efficient management of the investment portfolios where they provide the opportunities to achieve the overall portfolio objective more efficiently than would be the case through direct dealing in the underlying securities.

Derivatives are not used for speculative purposes. Furthermore, restrictions are in place with RLAM to limit the overall extent of derivatives usage and exposure to certain types of derivatives.

Derivative contracts are included in the financial statements at fair value. During the year the Scheme used swaps and forward foreign currency contracts.

Swaps

The Scheme used swaps which are over the counter contracts and fair value is the current value of future expected net cash flows arising from the swap, taking into account the time value of money. Fair value is normally calculated using discounted cash flow models and using market data at the reporting date. The Scheme participated in two types of swaps during the year, which are inflation swaps and total return swaps as follows:

(a). Inflation swap

An inflation swap is a contract under which inflation-indexed payments are exchanged for fixed payments based on an agreed principal amount. Only the net interest payments are exchanged. No exchange of principal takes place.

(b). Total return swaps

A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. No exchange of principal takes place.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

15. Derivatives (continued)

Outstanding swap contracts at the year-end are detailed as follows:

Nature of Swap	Expires within	Number of Contracts	Notional principal £'000	Assets £'000	Liabilities £'000	2017 Net £'000
Total return swaps						
Pay fixed interest for total return (Gilts)	1 year	51	571,466	9,060	(7,782)	1,278
Pay total return (Gilts) for fixed interest	1 year	20	301,649	5,002	(908)	4,094
				<u>14,062</u>	<u>(8,690)</u>	<u>5,372</u>
Inflation swaps						
Pay fixed interest for variable (RPI)	1 – 5 years	1	22,000	1,665	-	1,665
Pay fixed interest for variable (RPI)	5 – 10 years	2	23,500	1,779	-	1,779
Pay fixed interest for variable (RPI)	10 – 20 years	2	21,000	1,956	-	1,956
				<u>5,400</u>	<u>-</u>	<u>5,400</u>
				<u>19,462</u>	<u>(8,690)</u>	<u>10,772</u>

The notional principal of a swap is the amount used to determine the swapped receipts and payments.

Forward foreign currency contracts

A forward foreign currency contract is an agreement to exchange an agreed amount of currency (contract or notional amount) at a specified exchange rate and on a specified date. The contract is used to reduce exposure to movements in exchange rates.

Outstanding forward foreign currency contracts at the year-end are detailed as follows:

Settlement date within	Number of contracts	Currency bought	Currency Sold	Contract /notional amount £'000	Assets £'000	Liabilities £'000	2017 Net £'000
2 Months	1	GBP	JPY	14,008	213	-	213
2 Months	1	GBP	USD	9,055	60	-	60
					<u>273</u>	<u>-</u>	<u>273</u>

The contract or nominal amount represents the sterling value of the foreign currency amount of the contract translated at the year-end spot rate.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

16. Collateral and stock lending arrangements

Stock collateral was received by the Scheme in respect of derivative contracts outstanding at the year-end in the form of gilts with a market value as at 31 December 2017 of £1.4 million (2016: £9.5 million). These assets are not included in the net investment assets.

Cash collateral of £4.5 million was received by the Scheme in respect of derivative contracts outstanding as at 31 December 2017 (2016: nil). The cash collateral is included within cash with an offset liability included within the other investment balances (liabilities).

Stock collateral was pledged by the Scheme in respect of derivative contracts outstanding at the year-end in the form of gilts with a market value as at 31 December 2017 of £2.4 million (2016: £2.3 million). The pledged assets are included in the net investment assets.

The Scheme has undertaken stock loan transactions during the year, which transfer the legal title to an asset to a third party but not the right to the income and change in market value of the asset. The Scheme retains the risks and rewards of ownership of assets under stock loan arrangements. The market value of the assets as at 31 December 2017 amounted to £57.2 million (2016: £69.1 million) and is included in the net investment assets.

The assets transferred under stock loan arrangements are secured by the receipt of collateral from the third party in the form of government bonds, corporate bonds and quoted equities, which may be re-pledged or sold if there is default. The market value of collateral held by the Scheme as at 31 December 2017 was £60.8 million (2016: £75.2 million) and is not included in the net investment assets.

17. Pooled investment vehicles

	2017 £'000	2016 £'000
Equities	121,198	154,221
Bonds	169,878	13,424
Property	230,396	217,186
Cash	2	4
	<u>521,474</u>	<u>384,835</u>

All pooled investment vehicles are managed by companies registered in the United Kingdom.

18. Cash

	2017 £'000	2016 £'000
UK GBP Sterling	83,723	75,834
Foreign currency	3,272	3,292
	<u>86,995</u>	<u>79,126</u>

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

19. Other investment balances

	2017 £'000	2016 £'000
Accrued interest receivable	13,733	15,017
Investment income receivable	1,085	1,402
Trade settlements due from brokers	814	2
Tax reclaims	989	825
	<u>16,621</u>	<u>17,246</u>
Accrued interest payable	(8,103)	(5,817)
Trade settlements due to brokers	(8,351)	-
Tax payable	(8)	(13)
	<u>(16,462)</u>	<u>(5,830)</u>
	<u>159</u>	<u>11,416</u>

20. Additional Voluntary Contributions (AVC) investments

The Trustee holds assets invested separately from the main fund in the form of insurance policies, which secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year. The aggregate amounts of AVC investments are shown below:

	2017 £'000	2016 £'000
Clerical Medical Investment Group Limited	1,081	1,389
Royal London Group	569	741
Scottish Widows plc	354	372
The Equitable Life Assurance Society	304	328
	<u>2,308</u>	<u>2,830</u>

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

21. Fair value of investments

The fair value of investments in the statement of net assets available for benefits has been determined using an analysis of the level in the following hierarchy:

Valuation methodology	Level
Unadjusted quoted price in an active market for identical instruments that the entity can access at the measurement date	1
Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly	2
Inputs are unobservable, i.e. for which market data is unavailable.	3

Pooled investment vehicles which are traded regularly are generally included in level (1). Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair value applies, valuation techniques are adopted and the vehicles are included in level (3).

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustee. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made. No such adjustments have been made to the valuations at 31 December 2017 or 31 December 2016.

The Scheme's investment assets and liabilities have been included at fair value within the hierarchical levels as follows:

Asset category	Hierarchy level			2017
	1	2	3	Total
	£000	£000	£000	£000
Investment assets				
Equities	453,760	-	5	453,765
Bonds	782,609	828,866	2,465	1,613,940
Derivatives	-	19,735	-	19,735
Pooled investment vehicles	291,078	-	230,396	521,474
Cash	86,995	-	-	86,995
Other investment balances	3,400	13,216	5	16,621
AVC investments	-	-	2,308	2,308
	<u>1,617,842</u>	<u>861,817</u>	<u>235,179</u>	<u>2,714,838</u>
Investment liabilities				
Derivatives	-	(8,690)	-	(8,690)
Other investment balances	(8,359)	(8,103)	-	(16,462)
	<u>(8,359)</u>	<u>(16,793)</u>	<u>-</u>	<u>(25,152)</u>
Total investments	<u>1,609,483</u>	<u>845,024</u>	<u>235,179</u>	<u>2,689,686</u>

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

21. Fair value of investments (continued)

An analysis for the prior year-end is as follows:

Asset category	Hierarchy level			2016
	1	2	3	Total
	£000	£000	£000	£000
Investment assets				
Equities	580,896	-	2,229	583,125
Bonds	619,103	922,967	-	1,542,070
Derivatives	-	19,722	-	19,722
Pooled investment vehicles	154,225	-	230,610	384,835
Cash	79,126	-	-	79,126
Other investment balances	3,017	14,229	-	17,246
AVC investments	-	-	2,830	2,830
	<u>1,436,367</u>	<u>956,918</u>	<u>235,669</u>	<u>2,628,954</u>
Investment liabilities				
Derivatives	-	(7,607)	-	(7,607)
Other investment balances	(13)	(5,817)	-	(5,830)
	<u>(13)</u>	<u>(13,424)</u>	<u>-</u>	<u>(13,437)</u>
Total investments	<u>1,436,354</u>	<u>943,494</u>	<u>235,669</u>	<u>2,615,517</u>

22. Investment risks

Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

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 comprises currency risk, interest rate risk and other price risk.

- **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.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

22. Investment risks (continued)

- **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.

The Trustee manages investment risks, including credit risk and market risk, considering the Scheme's investment objectives and the investment strategy after receiving advice from a professional advisor, and delegates implementation to the Scheme's investment manager.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

Investment strategy

The investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with any future contributions, the benefits payable under the trust deed and rules as they fall due.

The Trustee sets the investment strategy taking into account considerations such as the strength of the employer covenant, the long term liabilities and the funding plan agreed with the employer. The investment strategy is set out in the Scheme's Statement of Investment Principles ("SIP").

The target investment strategy is to hold:

- 30% in return-seeking investments comprising UK and overseas equities, high yield debt and multi-asset credit.
- 70% in investments that are expected to move in line with the long term liabilities of the Scheme. This is referred to as LDI and comprises UK government and corporate bonds, UK property and interest rate and inflation swaps, the purpose of which is to hedge against the impact of interest rate and inflation movements of the long term liabilities.

Credit risk

The Scheme invests in pooled funds and is therefore directly exposed to credit risk in relation to the solvency of the investment manager and the custodian of the funds. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being "ring-fenced" from the pooled fund manager, the regulatory environments in which the manager operates and diversification of investments amongst pooled arrangements. The Trustee also carries out due diligence checks on the appointment of new pooled investment vehicles and on an ongoing basis monitors any changes to the operating environment of the pooled fund manager.

The Scheme is also subject to direct credit risk arising from investments in bonds, over-the-counter ("OTC") derivatives and cash balances.

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal or corporate bonds where the overwhelming majority of the investments have a minimum investment-grade credit rating across a diversified exposure of different credit issuers.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

22. Investment risks (continued)

The Scheme's OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to the risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by limits on the exposure to any single counterparty and a minimum credit rating that all counterparties must meet. In addition, the derivative positions are collateralised daily to ensure that the extent of the credit risk is limited to one day's market movements. Collateral in relation to the Scheme's OTC derivative contracts and manager stock lending activities is typically posted in the form of government bonds or cash held with investment banks that are at least investment grade credit rated.

Where the Scheme's investment manager engages in stock lending activities, the Trustee manages the credit risk arising from such activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements.

The Trustee considers financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Cash is held within financial institutions which are at least investment grade credit rated.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year-end.

Currency risk

As the Scheme's liabilities are denominated in Sterling, any non-Sterling currency exposure within the assets presents additional currency risk. The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure).

The Trustee considers the overseas currency exposure in the context of the overall investment strategy and believes that the non-Sterling currency exposure that exists diversifies the strategy and is appropriate. The Scheme's mandate with the investment manager places restrictions on the amount of non-Sterling currency exposure.

Interest rate risk

The Scheme is subject to interest rate risk as some of the Scheme's investments are held in bonds, interest rate swaps and cash. The Scheme's liabilities are also subject to interest rate movement. The Trustee seeks to reduce the Scheme's exposure to this risk by investing some of the Scheme's assets in bonds and derivatives (such as interest rate swaps) whose values move in a similar way to the value of the liabilities. The net effect is to reduce the volatility of the funding level.

Other price risk

Other price risk arises principally in relation to the Scheme's equity, property, high yield debt and multi-asset credit investments. This risk will vary depending on the particular market invested in.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)**22. Investment risks (continued)**

The Trustee seeks to reduce the Scheme's exposure to overall price risk by investing in a diversified range of investments across various markets. The Scheme's exposure to other price risk will vary over time depending on any "active" asset allocation decisions taken by the investment manager to reflect its market views, or any changes to the Scheme's overall target investment strategy.

23. Concentration of investments

The following investments are held which represent over 5% of the net assets of the Scheme:

	2017		2016	
	£'000	%	£'000	%
Royal London Property Authorised Investment Fund	230,396	8.57	217,186	8.31
Royal London Multi-Asset Credit Fund	156,349	5.81	-	-
	<u>386,745</u>		<u>217,186</u>	

24. Employer related investments

There were no employer related investments held directly or indirectly by the Scheme during the year (2016: None).

25. Current assets

	2017	2016
	£'000	£'000
Cash balances	4,254	3,285
Prepayments	199	171
Other debtors	38	142
	<u>4,491</u>	<u>3,598</u>

26. Current liabilities

	2017	2016
	£'000	£'000
Unpaid benefits	1,943	3,055
Amounts due to employer	261	491
Accrued expenses	938	702
Other creditors	947	944
	<u>4,089</u>	<u>5,192</u>

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

27. Related party transactions

a. Transactions with key management personnel

The Trustee Directors

During the year three Trustee Directors were paid fees in respect of Trustee services amounting to £84,000 (2016: £45,000) of which £24,000 was paid in arrears for the service in 2016. In addition, the Trustee Directors claimed expenses including travel expenses for attendance at Trustee meetings. The fees and expenses are included in note 8.

The Law Debenture Pension Trust Corporation plc is a Corporate Trustee Director of the Scheme. They are paid a fee in respect of their services. In 2017 the fee amounted to £53,049 (2016: £28,569) and is included in note 8. Fees amounting to £10,198 (2016: £6,807) were payable by the Scheme as at the year-end and are included in note 26.

During the year three Trustee Directors were in receipt of a pension from the Scheme. In addition two Trustee Directors were life assurance cover only members on normal terms of employment. In January 2018 a pensioner Trustee Director replaced another pensioner Trustee Director who retired in December 2017.

b. Transactions with other related parties

1. The Employer

Royal London Group provides certain administration and accountancy services to the Scheme. Costs incurred for these services are recharged to the Scheme. During the year the Scheme was recharged £0.4 million (2016: £0.3 million) in respect of these services which are included in note 8, of which £0.1 million was payable (2016: £0.1 million) at the year-end and are included in note 26.

A certain section of AVC investments is managed by the Royal London Group. As at 31 December 2017, these investments which are held in the member's names had a market value of £0.6 million (2016: £0.7 million) and are included in note 20.

2. The Investment manager

Royal London Asset Management Limited (RLAM) is a subsidiary company within the Royal London Group. RLAM manages the investments of the Scheme on an arm's length basis and is remunerated in accordance with the terms of a normal commercial contract. Investment management expenses totalling £2.2 million (2016: £2.1 million) are in respect of this remuneration for the year ended 31 December 2017 which is included in note 10, of which £0.5 million (2016: £0.7 million) was payable at the year-end and are included in note 26.

The Scheme received investment management fee rebates of £1.7 million (2016: £1.3 million) from RLAM for the year ended 31 December 2017 which is included in note 11, of which £0.4 million (2016: £0.4 million) was receivable at the year-end and is included in note 26.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Notes to the financial statements (continued)

27. Related party transactions (continued)

The Scheme holds units in the following funds managed by Royal London Group or subsidiaries of RLAM in proportion to the total Scheme assets as shown:

Fund	Managed by:	£'000	2017 %	£'000	2016 %
Royal London Cash Plus Fund	Royal London Unit Trust Managers Limited	-	-	4	-
RLPPC Global bond Fund	Royal London Group	13,529	0.5	13,424	0.5
Royal London Japan Tracker Fund	Royal London Unit Trust Managers Limited	58,284	2.2	82,778	3.2
Royal London Asia Pacific ex Japan Tracker Z Accumulation Fund	Royal London Unit Trust Managers Limited	27,841	1.0	71,443	2.7
Property Authorised Investment Fund	Royal London Unit Trust Managers Limited	230,396	8.6	217,186	8.3
Royal London Multi-Asset Credit Fund	Royal London Unit Trust Managers Limited	156,349	5.8	-	-
Royal London Emerging Markets Equity Tracker	Royal London Unit Trust Managers Limited	35,073	1.3	-	-
		521,472		384,835	

All investment income as disclosed in note 9 is generated by RLAM.

28. Contingent liabilities and contractual commitments

In the opinion of the Trustee, the Scheme had no contingent liabilities as at 31 December 2017 (2016: nil).

As at 31 December 2017 the Scheme had contractual commitments in the form of stock collateral arrangements which are disclosed in note 16.

29. Subsequent events

Since the year-end, there have been no events that would require amendment to or disclosure in the financial statements.

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Independent Auditors' Statement about Contributions to the Trustee of the Royal London Group Pension Scheme

Statement about contributions

Opinion

In our opinion, the contributions required by the schedules of contributions for the Scheme year ended 31 December 2017 as reported in Royal London Group Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the schedules of contributions certified by the Scheme actuary on 28 January 2015 and 22 June 2017.

We have examined Royal London Group Pension Scheme's summary of contributions for the Scheme year ended 31 December 2017 which is set out on the following page.

Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

Responsibilities for the statement about contributions

Responsibilities of the Trustee in respect of contributions

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

Auditors' responsibilities in respect of the statement about contributions

It is our responsibility to provide a statement about contributions and to report our opinion to you..

Use of this report

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester

21 March 2018

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Summary of Contributions

Following the closure of the Scheme to future benefits accrual as at 31 March 2016, the Company is no longer required to pay any contributions in respect of future service with effect from 1 April 2016 onwards.

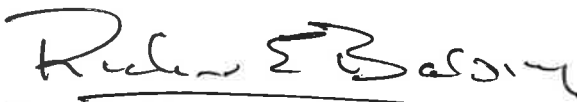
However, during the year, the Company made the following augmentation contributions to the Scheme to fund the capital cost of granting discretionary pension increases and other benefit augmentations.

	Employer 2017 £000
Other contributions payable (not required under the schedules of contributions)	
Augmentation	1,378

Approval

The Summary of Contributions was approved and signed by the Trustee Directors on 21 March 2018.

Signed for and on behalf of RLGPS Trustee Limited by:



Trustee Director



Trustee Director

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Actuarial certificate

Actuary's certification of the schedule of contributions

Actuarial certificate given for the purposes of section 58 of the Pensions Act 1995 (Certificate of Schedule of Contributions)

Name of scheme: Royal London Group Pension Scheme

Adequacy of rates of contributions

I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective on 31 December 2016 could have been expected to be met by the end of the period specified in the recovery plan dated 22 June 2017.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 22 June 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Jonathan Howes

Scheme actuary

Fellow of the Institute and Faculty of Actuaries

22 June 2017

Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2017

Further information

The Registrar, TPAS, the Pensions Ombudsman and The Pensions Regulator

In accordance with the Occupational and Personal Pensions Schemes (Disclosure of Information) Regulations 2013, members are advised that:

- information regarding the Scheme has been given to the Registrar of Occupational Pension Schemes;
- the Pensions Advisory Service (TPAS, formerly known as OPAS) of 11 Belgrave Road, London, SW1V 1RB is able to assist members and beneficiaries with difficulties which may arise;
- the Pensions Ombudsman of 11 Belgrave Road, London, SW1V 1RB may investigate and determine any complaint or dispute of fact or law which they have failed to resolve with the Trustee or the Scheme administrator, in relation to an occupational pension scheme.

In addition to the above, The Pensions Regulator regulates company pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the power to:

- suspend, disqualify and remove a trustee, or a director of a trustee company, for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for injunctions to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary.

The Auditors and Actuary have a statutory duty to make an immediate written report to The Pensions Regulator if they believe that legal duties concerned with the running of the Scheme are not being carried out.

Internal disputes resolution procedure

A disputes resolution procedure has been agreed by the Trustee to try to resolve any queries raised by beneficiaries or potential beneficiaries of the Scheme and details of this can be obtained by writing to the contact below.

Contact for further information

Any queries or complaints about the Scheme, including requests from individuals for information about their benefits, or for a copy of Scheme documentation, should be sent to the Trustee of the Royal London Group Pension Scheme at the following addresses.

Queries from deferred and pensioner members about their benefit entitlements:	Queries from current employee members about their benefit entitlements:	All other queries, including complaints or requests for Scheme documentation:
c/o Willis Towers Watson Limited	c/o Staff Pensions Team	Staff Pensions Trustee Secretarial
1 Wellington Place	Royal London House	Royal London House
Wellington Street	Alderley Road	Alderley Road
Leeds	Wilmslow	Wilmslow
LS1 4AP	SK9 1PF	SK9 1PF
Email: royallondongroup@towerswatson.com	Email: staff.pensions@royallondon.com	Email: staff.pensions@royallondon.com
Phone: 0113 234 3222	Phone: 01625 605 106	Phone: 01625 605 385

