

# **Royal London Group Pension Scheme**

## **Annual Report and Financial Statements**

**for the year ended 31 December 2016**

**Scheme Registration Number: 100154281**

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2016

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## **Royal London Group Pension Scheme**

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### **Trustee and advisers**

#### **Corporate Trustee**

RLGPS Trustee Limited

#### **Trustee Directors**

##### **Employer nominated**

Richard Balding (*Chairman*) (*Pensioner member*)

Ewan Smith (appointed 1 January 2016) (*Deferred member*)

Jon Taylor

The Law Debenture Pension Trust Corporation plc represented by  
Andrew Parker (*Independent Trustee*)

##### **Member nominated**

John Tovey (*Pensioner member*)

Caroline Instance (appointed 1 January 2016) (*Deferred member*)

#### **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

#### **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 36

## **Royal London Group Pension Scheme**

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### **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 2016.

#### **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 12 to 32.

#### **Membership**

The Scheme was closed to future benefits accrual on 1 April 2016 and all active members as at 31 March 2016 became deferred.

Details of membership of the Scheme as at 31 December 2016 are given below:

<b>Deferred members</b>	<b>Pensioner members</b>	<b>Beneficiaries</b>	<b>Life cover only members</b>	<b>Total</b>
11,673	8,653	2,083	2,863	25,272

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### 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 <sup>4</sup>	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
	2016	2015	2016	2015	2016	2015	
RLGPS (standard benefits members)	n/a	n/a	n/a	n/a	0.8%	2.3%	1-Jul
RASF Scheme II (members joining before 1 August 2001)	1.6% <sup>1</sup>	0.9% <sup>1</sup>	1.6% <sup>1</sup>	0.9% <sup>1</sup>	1.6% <sup>1</sup>	0.9% <sup>1</sup>	1-Jul
RASF Scheme II (members joining from 1 August 2001)	n/a	n/a	0.8%	2.3%	0.8%	2.3%	1-Jul
RLSPF	0.5%	1.0%	0.0%	1.2%	0.8%	2.3%	1-Apr
UFGPS (contracted-in before 17 September 2002 leavers)	0.5%	1.0%	0.0% <sup>3</sup>	1.2% <sup>3</sup>	1.3%	1.0%	1-Apr
UFGPS (contracted-out before 17 September 2002 leavers)	1.3%	1.0%	1.3% <sup>2</sup>	1.0% <sup>2</sup>	1.3%	1.0%	1-Apr
SLORBS	1.1%	2.0%	1.1%	2.0%	0.8%	2.3%	1-Jan
SLIORBS	1.6%	0.9%	1.6%	0.9%	1.6%	0.9%	1-Jul
SLDRBS	1.1%	2.0%	1.1%	2.0%	n/a	n/a	1-Jan

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

<sup>2</sup> Increase of higher of (a) 1.3% (2015: 1.2%) on RPI cumulative pension from retirement date or (b) 0.0% on pension in payment on the pension benefits for members contracted out before 17 September 2002.

<sup>3</sup> Increase of 1.3% (2015: 1.0%) for those contracted in after 17 September 2002.

<sup>4</sup> 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%. 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

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### Trustee's report (continued)

During 2016, the Company granted a discretionary increase at the rate of 0.5% (2015: 1.0%) 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 RLSPP 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 assumptions agreed between the Trustee and the Company. The method and assumptions are documented in a Statement of Funding Principles a copy of which is available to members on request from the address set out on page 36.

A full actuarial valuation of the Scheme as at 31 December 2016 is being carried out and the results of this valuation will be available later in 2017. A recent funding update was performed as at 31 December 2016. The most recent triennial actuarial valuation of the Scheme was performed as at 31 December 2013. The results of the funding update as at 31 December 2016 and the actuarial valuation as at 31 December 2013 are provided in the table below:

<b>Funding update / Valuation date: 31 December</b>	<b>2016</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>
Value of technical provisions	<b>2,656,800</b>	2,095,500
Value of assets available to meet technical provisions	<b>2,610,800</b>	2,155,500
Funding (deficit) / surplus	<b>(46,000)</b>	60,000
Funding level as a percentage of technical provisions	<b>98%</b>	103%

## **Royal London Group Pension Scheme**

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### **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 deterioration of the Scheme's surplus as at 31 December 2013 resulting in a deficit as at 31 December 2016 was mainly due to a fall in nominal gilt and corporate bond yields and a rise in inflation expectations during the period.

As a full actuarial valuation as at 31 December 2016 is being carried out and a recovery plan would be considered in the final report should the results of the valuation show a deficit as presented in the funding update as at 31 December 2016.

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 actuarial valuation report as at 31 December 2013 are summarised into the following main categories:

- Discount interest rate for pre-retirement at 5.7% p.a. and post retirement at 4.1% p.a.
- Future retail price inflation (RPI) at 3.4% p.a.
- Future consumer price inflation (CPI) at 2.4% p.a.
- Pension increases derived from RPI and CPI allowing for floors and caps according to the provisions in the Scheme rules.
- Salary increases split for accrual up to 31 March 2011 at 3.4% p.a. and from 1 April 2011 at 2.5% p.a.
- Mortality for the period in retirement applying the SAPS "S1" series tables with a relevant multiplier factor.

The Scheme has agreed a schedule of contributions following the actuarial valuation as at 31 December 2013 which the Scheme actuary certified on 28 January 2015. A copy of the Scheme actuary's certificate signed on 28 January 2015 is included on page 35 of this annual report and financial statements.

## **Royal London Group Pension Scheme**

Annual report and financial statements

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### **Trustee's report (continued)**

#### **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 March 2016.

A copy of the SIP is available on request from the contact address set out on page 36 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 Schemes 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.

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.



## Royal London Group Pension Scheme

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### Trustee's report (continued)

#### 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
<b>Sterling corporate bonds</b>	<b>14.0%</b>	<b>9.9%</b>	<b>9.4%</b>	<b>29%</b>
<i>Benchmark</i>	<i>14.6%</i>	<i>9.7%</i>	<i>8.3%</i>	
<b>Global high yield bonds</b>	<b>10.4%</b>	<b>5.0%</b>	<b>-</b>	<b>5%</b>
<i>Benchmark</i>	<i>14.8%</i>	<i>5.1%</i>	<i>-</i>	
<b>Index linked gilts</b>	<b>26.4%</b>	<b>15.0%</b>	<b>9.2%</b>	<b>26%</b>
<i>Benchmark</i>	<i>26.8%</i>	<i>14.9%</i>	<i>8.9%</i>	
<b>Overseas bonds</b>	<b>4.1%</b>	<b>4.7%</b>	<b>4.2%</b>	<b>1%</b>
<i>Benchmark</i>	<i>2.9%</i>	<i>4.3%</i>	<i>3.5%</i>	
<b>UK Equities</b>	<b>14.9%</b>	<b>5.2%</b>	<b>10.2%</b>	<b>11%</b>
<i>Benchmark</i>	<i>16.8%</i>	<i>6.1%</i>	<i>10.1%</i>	
<b>Overseas equities</b>	<b>29.3%</b>	<b>14.1%</b>	<b>16.1%</b>	<b>18%</b>
<i>Benchmark</i>	<i>28.9%</i>	<i>15.5%</i>	<i>16.7%</i>	
<b>Property fund</b>	<b>4.9%</b>	<b>7.5%</b>	<b>6.6%</b>	<b>9%</b>
<i>Benchmark</i>	<i>3.7%</i>	<i>11.2%</i>	<i>8.5%</i>	
<b>Cash fund</b>	<b>(17.0%)</b>	<b>(5.2%)</b>	<b>(3.0%)</b>	<b>1%</b>
<i>Benchmark</i>	<i>0.4%</i>	<i>0.5%</i>	<i>0.5%</i>	
<b>Scheme</b>	<b>18.1%</b>	<b>10.7%</b>	<b>10.2%</b>	<b>100%</b>
<i>Benchmark</i>	<i>19.2%</i>	<i>11.1%</i>	<i>9.9%</i>	

The asset allocation in all asset categories was within target weight ranges as at 31 December 2016 (2015: overseas equities was 1% above on the 2014 SIP range) as set out in the 2016 updated SIP.

The cash fund has the largest negative variance compared to the benchmark in the 1 year performance which is attributed to high net foreign exchange losses in respect of forward foreign exchange contracts as shown in note 14.

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.

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 Scheme's illiquid assets include the global high yield bonds, the property fund, senior secured loans and private placement debts. The value of these assets as at 31 December 2016 was £354.4 million (2015: £325.6 million).

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2016

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### **Trustee's report (continued)**

#### **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 UK 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 the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

The Trustee is responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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 adequate 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.

##### **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 towards the Scheme by or on behalf of the employer 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.

**Royal London Group Pension Scheme**

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**Trustee's report (continued)**

**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 36. 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**

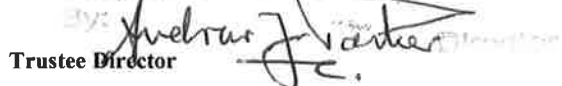
The Trustee's report was approved and signed by the Trustee Directors on 22 June 2017.

**Signed for and on behalf of RLGPS Trustee Limited by:**



**Trustee Director**

The Law Debenture Pension Trust  
Corporation p.l.c.

  
**Trustee Director**

## **Royal London Group Pension Scheme**

Annual report and financial statements

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

### **Report on the financial statements**

#### **Our 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 2016, 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; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

#### **What we have audited**

Royal London Group Pension Scheme's financial statements comprise:

- the Statement of net assets available for benefits as at 31 December 2016;
- the Fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the Trustee has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, it has made assumptions and considered future events.

### **Responsibilities for the financial statements and the audit**

#### **Our responsibilities and those of the Trustee**

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

**Royal London Group Pension Scheme**

Annual report and financial statements

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

**Responsibilities for the financial statements and the audit (continued)**

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Trustee; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Trustee's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**22 June 2017**

# Royal London Group Pension Scheme

Annual report and financial statements

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## Fund account

	<i>Note</i>	<b>2016</b> <b>£'000</b>	2015 £'000
<b>Contributions and other income</b>			
Employer contributions		<b>3,215</b>	11,231
Employee contributions		<b>31</b>	126
Total contributions	4	<b>3,246</b>	11,357
Other income	5	<b>154</b>	198
		<b>3,400</b>	11,555
<b>Benefits and other payments</b>			
Benefits	6	<b>82,802</b>	82,245
Transfers to other schemes	7	<b>28,698</b>	25,820
Administrative expenses	8	<b>2,583</b>	2,412
		<b>114,083</b>	110,477
<b>Net withdrawals from dealings with members</b>		<b>(110,683)</b>	(98,922)
<b>Returns on investments</b>			
Investment income	9	<b>83,536</b>	63,551
Change in market value of investments	14	<b>365,768</b>	(18,983)
Investment management expenses	10	<b>(2,607)</b>	(2,332)
Investment management fee rebates	11	<b>1,325</b>	1,255
Taxes on investment income	12	<b>(322)</b>	(279)
<b>Net returns on investments</b>		<b>447,700</b>	43,212
<b>Net increase/(decrease) in the Scheme</b>		<b>337,017</b>	(55,710)
<b>Opening net assets</b>		<b>2,276,906</b>	2,332,616
<b>Closing net assets</b>		<b>2,613,923</b>	2,276,906

The notes to the financial statements on pages 14 to 32 form part of these financial statements.

# Royal London Group Pension Scheme

Annual report and financial statements

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## Statement of net assets available for benefits as at 31 December 2016

	Note	2016 £'000	2015 £'000
<b>Investment assets</b>			Restated
Equities	14	583,125	574,909
Bonds	14	1,542,070	1,309,618
Derivatives	15	19,722	2,246
Pooled investment vehicles	17	384,835	354,291
Cash	18	79,126	26,738
Other investment balances	19	17,246	17,809
AVC investments	20	2,830	2,965
		<b>2,628,954</b>	<b>2,288,576</b>
<b>Investment liabilities</b>			
Derivatives	15	(7,607)	(5,800)
Other investment balances	19	(5,830)	(7,383)
		<b>(13,437)</b>	<b>(13,183)</b>
<b>Total net investments</b>		<b>2,615,517</b>	<b>2,275,393</b>
<b>Current assets</b>	25	<b>3,598</b>	<b>5,747</b>
<b>Current liabilities</b>	26	<b>(5,192)</b>	<b>(4,234)</b>
<b>Net assets available for benefits as at 31 December 2016</b>		<b>2,613,923</b>	<b>2,276,906</b>

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustee. They do not take account of obligations to pay pensions and other benefits which are expected to become payable after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Trustee's report under Report on Actuarial liabilities on pages 4 and 5 and these financial statements should be read in conjunction with this report.

The 2015 comparative figures for derivatives and other investment balances have been restated to more accurately reflect the split between assets and liabilities as at 31 December 2015 as explained in notes 15 and 19.

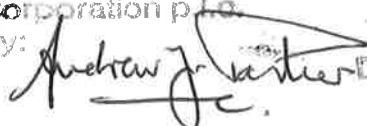
The notes to the financial statements on pages 14 to 32 form part of these financial statements.

The financial statements on page 12 to 32 were approved and signed by the Trustee Directors on 22 June 2017.

Signed for and on behalf of RLGPS Trustee Limited by:

  
Trustee Director

Trustee Director

The Law Debenture Pension Trust  
Corporation plc  
By:  Trustee Director

## **Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2016

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### **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 Pensions Schemes" (Revised November 2014) ("the SORP").

The Trustee has adopted early the provisions of "Amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland – Fair value hierarchy disclosures (March 2016)".

#### **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

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### **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**

Income from equities and any 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 2016

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### 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 2016

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### **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.

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.

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2016

### Notes to the financial statements (continued)

#### 4. Contributions

	2016 £'000	2015 £'000
<b>Employee</b>		
Normal	24	89
Additional voluntary contributions	7	37
	<u>31</u>	<u>126</u>
<b>Employer</b>		
Salary sacrifice contributions	279	1,513
Normal	1,231	6,568
Augmentation	1,705	3,150
	<u>3,215</u>	<u>11,231</u>
	<u>3,246</u>	<u>11,357</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 with effect from 1 April 2016 contributions other than augmentation contributions are no longer required to be paid to the Scheme with effect from this day.

The employer augmentation contribution of £1.71 million in 2016 (2015: £3.15 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

	2016 £'000	2015 £'000
VAT refund	16	18
Claims on life insurance policy	138	180
	<u>154</u>	<u>198</u>

**Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2016

**Notes to the financial statements (continued)****6. Benefits**

	2016 £'000	2015 £'000
Pensions	71,043	70,457
Commutations and retirement lump sums	11,388	11,631
Lump sum death benefits	371	157
	<u>82,802</u>	<u>82,245</u>

**7. Transfers to other schemes**

	2016 £'000	2015 £'000
Individual transfers to other schemes	28,698	25,820

**8. Administrative expenses**

	2016 £'000	2015 £'000
Administration fees	1,393	1,348
Actuarial fees	235	241
Levies paid to the Pensions Regulator	662	579
Trusteeship fees	68	77
Audit fees	46	56
Legal fees	174	107
Sundry expenses	5	4
	<u>2,583</u>	<u>2,412</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 2016

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

	2016 £'000	2015 £'000
Income from bonds	42,688	44,609
Net receipts / (payments) from swaps	18,410	(3,616)
Dividends from equities	19,001	17,053
Income from pooled investment vehicles	3,270	5,501
Interest on cash deposits	61	4
Other investment income	106	-
	<u>83,536</u>	<u>63,551</u>

**10. Investment management expenses**

	2016 £'000	2015 £'000
Administration and management fees	2,125	2,006
Custodian charges	221	204
Investment advisory fees	192	120
Consultancy on overseas tax claims	36	2
Bank interest/charges	33	-
	<u>2,607</u>	<u>2,332</u>

**11. Investment management fee rebates**

	2016 £'000	2015 £'000
Investment management fee rebates	1,325	1,255

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 2016

### 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				2016	2015
	Equities £'000	Bonds £'000	Other £'000	Total £'000	Total £'000
Fees	27	-	110	137	79
Commissions	119	2	-	121	175
Taxes	340	-	-	340	278
<b>Total 2016</b>	<b>486</b>	<b>2</b>	<b>110</b>	<b>598</b>	
Total 2015	473	1	58		532

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 2016 £'000	Purchases at cost and derivative payments £'000	Sale proceeds and derivative receipts £'000	Change in market value £'000	Value as at 31 December 2016 £'000
Equities	574,909	140,754	(219,041)	86,503	583,125
Bonds	1,309,618	3,978,150	(3,977,457)	231,759	1,542,070
Derivatives - swaps	581	2,405,487	(2,420,549)	30,835	16,354
Pooled investment vehicles	354,291	63,206	(74,275)	41,613	384,835
AVC investments	2,965	7	(506)	364	2,830
	<u>2,242,364</u>	<u>6,587,604</u>	<u>(6,691,828)</u>	<u>391,074</u>	<u>2,529,214</u>
Cash	26,738			592	79,126
Derivatives – forward foreign currency contracts	(4,135)			(25,898)	(4,239)
Other investment balances	10,426			-	11,416
	<u>33,029</u>			<u>(25,306)</u>	<u>86,303</u>
	<u>2,275,393</u>			<u>365,768</u>	<u>2,615,517</u>

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2016

### Notes to the financial statements (continued)

#### 15. Derivatives

Over the counter contracts	2016			2015		
	Assets £'000	Liabilities £'000	Total £'000	Assets £'000	Liabilities £'000	Total £'000
				Restated	Restated	
Swaps	19,326	(2,972)	16,354	2,202	(1,621)	581
Forward foreign currency contracts	396	(4,635)	(4,239)	44	(4,179)	(4,135)
	<u>19,722</u>	<u>(7,607)</u>	<u>12,115</u>	<u>2,246</u>	<u>(5,800)</u>	<u>(3,554)</u>

The 2015 comparative figures have been restated to accurately reflect the swaps position of assets and liabilities as at 31 December 2015. Whereas in 2015 the swaps were shown on a gross basis for the asset and liability sides of a swap contract the restated balances have netted off the asset and liability sides of each contract as being the best practice also adopted in the 2016 positions. The net position of the swaps has not been impacted by the restatement.

#### 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 2016

## 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	2016 Net £'000
<b>Total return swaps</b>						
Pay fixed interest for total return (Gilts)	1 year	42	329,951	12,919	(2,972)	9,947
Pay total return (Gilts) for fixed interest	1 year	6	86,470	1,431	-	1,431
				<u>14,350</u>	<u>(2,972)</u>	<u>11,378</u>
<b>Inflation swaps</b>						
Pay fixed interest for variable (RPI)	1 – 5 years	2	32,000	1,374	-	1,374
Pay fixed interest for variable (RPI)	5 – 10 years	3	46,500	2,482	-	2,482
Pay fixed interest for variable (RPI)	10 – 20 years	1	12,500	1,120	-	1,120
				<u>4,976</u>	<u>-</u>	<u>4,976</u>
				<u>19,326</u>	<u>(2,972)</u>	<u>16,354</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	2016 Net £'000
1 Month	1	GBP	USD	2,300	-	(19)	(19)
1 Month	1	GBP	JPY	11,800	216	-	216
3 Months	7	GBP	USD	137,992	-	(4,031)	(4,031)
3 Months	5	GBP	EUR	33,852	-	(552)	(552)
3 Months	1	GBP	AUD	12,273	-	(33)	(33)
3 Months	3	EUR	GBP	7,851	122	-	122
3 Months	1	USD	GBP	2,337	58	-	58
					<u>396</u>	<u>(4,635)</u>	<u>(4,239)</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 2016

### 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 2016 of £9.5 million (2015: £nil). These assets are not included in the net investment assets.

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 2016 of £2.3 million (2015: £8.0 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 2016 amounted to £69.1 million (2015: £11.2 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 2016 was £75.2 million (2015: £13.7 million) and is not included in the net investment assets.

#### 17. Pooled investment vehicles

	2016 £'000	2015 £'000
Equities	154,221	130,978
Bonds	13,424	12,937
Property	217,186	200,262
Cash	4	10,114
	<u>384,835</u>	<u>354,291</u>

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

#### 18. Cash

	2016 £'000	2015 £'000
UK GBP Sterling	75,834	19,857
Foreign currency	3,292	6,881
	<u>79,126</u>	<u>26,738</u>

**Royal London Group Pension Scheme**

Annual report and financial statements

for the year ended 31 December 2016

**Notes to the financial statements (continued)****19. Other investment balances**

	2016 £'000	2015 £'000
		Restated
Accrued interest receivable	15,017	13,575
Investment income receivable	1,402	1,102
Trade settlements due from brokers	2	3,001
Tax reclaims	825	131
	<u>17,246</u>	<u>17,809</u>
Accrued interest payable	(5,817)	(6,497)
Trade settlements due to brokers	-	(886)
Tax payable	(13)	-
	<u>(5,830)</u>	<u>(7,383)</u>
	<u>11,416</u>	<u>10,426</u>

The 2015 comparative figures for interest accrual have been restated to accurately reflect the split between amounts receivable and payable as at 31 December 2015. Whereas in 2015 the balances were shown on a net of receivables and payables basis the restated balances have been grossed up for receivables split from payables as the best practice adopted in the 2016 balances. The net position has not been impacted by the restatement.

**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:

	2016 £'000	2015 £'000
Clerical Medical Investment Group Limited	1,389	1,510
Royal London Group	741	744
Scottish Widows plc	372	422
The Equitable Life Assurance Society	328	289
	<u>2,830</u>	<u>2,965</u>

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2016

### 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 2016 or 31 December 2015.

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

Asset category	Hierarchy level			2016
	1	2	3	Total
	£000	£000	£000	£000
<b>Investment assets</b>				
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>
<b>Investment liabilities</b>				
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>
<b>Total investments</b>	<u>1,436,354</u>	<u>943,494</u>	<u>235,669</u>	<u>2,615,517</u>

## Royal London Group Pension Scheme

Annual report and financial statements

for the year ended 31 December 2016

### 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			2015
	1	2	3	Total
	£000	£000	£000	£000
	Restated	Restated		Restated
<b>Investment assets</b>				
Equities	572,573	19	2,317	574,909
Bonds	583,987	710,455	15,176	1,309,618
Derivatives	-	2,246	-	2,246
Pooled investment vehicles	141,093	-	213,198	354,291
Cash	26,738	-	-	26,738
Other investment balances	5,539	12,147	123	17,809
AVC investments	-	-	2,965	2,965
	<u>1,329,930</u>	<u>724,867</u>	<u>233,779</u>	<u>2,288,576</u>
<b>Investment liabilities</b>				
Derivatives	-	(5,800)	-	(5,800)
Other investment balances	(886)	(6,497)	-	(7,383)
	<u>(886)</u>	<u>(12,297)</u>	<u>-</u>	<u>(13,183)</u>
<b>Total investments</b>	<u>1,329,044</u>	<u>712,570</u>	<u>233,779</u>	<u>2,275,393</u>

The 2015 comparative figures have been restated to accurately reflect the split between assets and liabilities for derivatives and other investment balances as at 31 December 2015 as shown in notes 15 and 19.

#### 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 2016

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### 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:

- 32% in return-seeking investments comprising UK and overseas equities, property and high yield debt.
- 68% 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 2016

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### **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 and high yield debt 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 2016

## 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:

	2016		2015	
	£'000	%	£'000	%
RL Property Authorised Investment Fund	217,186	8.31	191,120	8.39

### 24. Employer related investments

There were no employer related investments held directly or indirectly by the Scheme during the year (2015: None).

### 25. Current assets

	2016 £'000	2015 £'000
Cash balances	3,285	4,866
Prepayments	171	147
Contributions due	-	697
Other debtors	142	37
	<u>3,598</u>	<u>5,747</u>

### 26. Current liabilities

	2016 £'000	2015 £'000
Unpaid benefits	3,055	2,562
Amounts due to employer	491	271
Accrued expenses	702	465
Other creditors	944	936
	<u>5,192</u>	<u>4,234</u>



## **Royal London Group Pension Scheme**

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### **Notes to the financial statements (continued)**

#### **27. Related party transactions**

##### **a. Transactions with key management personnel**

###### **The Trustee Directors**

During the year two Trustee Directors were paid fees in respect of Trustee services amounting to £45,000 (2015: £45,000). 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 2016 the fee amounted to £28,569 (2015: £43,685) and is included in note 8. Fees amounting to £6,807 (2015: £16,516) were payable by the Scheme as at the year-end and are included in note 26.

During the year two Trustee Directors were in receipt of a pension from the Scheme. One Trustee Director paid contributions into the Scheme as an active member until 31 March 2016 when the Scheme was closed to future benefits accrual and no contributions payable to the Scheme were required after this date. In addition two Trustee Directors were life assurance cover only members on normal terms of employment.

##### **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 £0.3 million (2015: £0.3 million) in respect of these services which are included in note 8, of which £0.1 million was payable (2015: £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 2016, these investments which are held in the member's names had a market value of £0.7 million (2015: £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 £2.1 million (2015: £2.0 million) are in respect of this remuneration for the year ended 31 December 2016 which is included in note 10, of which £0.7 million (2015: £0.5 million) was payable at the year-end and are included in note 26.

The Scheme received investment management fee rebates of £1.3 million (2015: £1.3 million) from RLAM for the year ended 31 December 2016 which is included in note 11, of which £0.4 million (2015: £0.5 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 2016

### Notes to the financial statements (continued)

#### 27. Related party transactions (continued)

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

Fund	Managed by:	2016		2015	
		£'000	%	£'000	%
Royal London Cash Plus Fund	Royal London Unit Trust Managers Limited	4	-	10,114	0.4
RLPPC Global bond Fund	Royal London Pooled Pension Company	13,424	0.5	12,937	0.6
Royal London Japan Tracker Fund	Royal London Unit Trust Managers Limited	82,778	3.2	79,215	3.5
Royal London Asia Pacific ex Japan Tracker Z Accumulation Fund	Royal London Unit Trust Managers Limited	71,443	2.7	51,763	2.3
Property Authorised Investment Fund	Royal London Unit Trust Managers Limited	217,186	8.3	200,262	8.8
		<b>384,835</b>		<b>354,291</b>	

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 2016 (2015: nil).

As at 31 December 2016 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 2016

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

**Statement about contributions**

**Our opinion**

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 December 2016 as reported in the Royal London Group Pension Scheme's summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Scheme actuary on 28 January 2015.

**What we have examined**

The Royal London Group Pension Scheme's summary of contributions for the Scheme year ended 31 December 2016 is set out on the following page.

**Responsibilities for the statement about contributions**

**Our responsibilities and those of the Trustee**

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 the employer in accordance with relevant requirements.

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

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.

**What an examination of the summary of contributions involves**

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.

We test and examine information, using sampling and other techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

*PricewaterhouseCoopers LLP*

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**Manchester**

**22 June 2017**

## Royal London Group Pension Scheme

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### Summary of Contributions

During the year, the contributions payable to the Scheme were as follows:

	Employee 2016 £000	Employer 2016 £000
<b>Contributions required by the Schedule of Contributions</b>		
Normal contributions	24	1,231
Salary sacrifice contributions made by the employer on behalf of the employees	-	255
	<u>24</u>	<u>1,486</u>
<b>Other contributions payable</b>		
Augmentation	-	1,705
Additional Voluntary Contributions (AVC)	7	-
Other	-	24
	<u>31</u>	<u>3,215</u>

Details of contribution rates are included in the Schedule of Contributions which can be made available to members on request from the contact details set out on page 36.

The Scheme was closed to future benefits accrual with effect from 1 April 2016 as such contributions other than augmentation contributions ceased to be paid to the Scheme with effect from this day.

### Approval

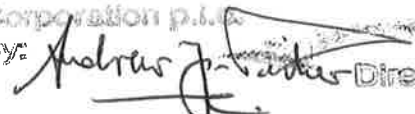
The Summary of Contributions was approved and signed by the Trustee Directors on 22 June 2017.

Signed for and on behalf of RLGPS Trustee Limited by:



Trustee Director

Trustee Director

The Law Debenture Finance Trust  
Corporation p.l.c.  
By:  Director

**Royal London Group Pension Scheme**

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**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 could have been expected at 31 December 2013 to continue to be met for the period for which the schedule is to be in force.

**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 5 June 2014.

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**

**28 January 2015**

## Royal London Group Pension Scheme

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for the year ended 31 December 2016

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### 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:

c/o Willis Towers Watson Limited

1 Wellington Place

Wellington Street

Leeds

LS1 4AP

Email: [royallondongroup@towerswatson.com](mailto:royallondongroup@towerswatson.com)

Phone: 0113 234 3222

Queries from current employee members about their benefit entitlements:

c/o Staff Pensions Team

Royal London House

Alderley Road

Wilmslow

SK9 1PF

Email: [staff.pensions@royallondon.com](mailto:staff.pensions@royallondon.com)

Phone: 01625 605 106

All other queries, including complaints or requests for Scheme documentation:

Staff Pensions Trustee Secretarial

Royal London House

Alderley Road

Wilmslow

SK9 1PF

Email: [staff.pensions@royallondon.com](mailto:staff.pensions@royallondon.com)

Phone: 01625 605 385