

LV= EMPLOYEE PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017
SCHEME REGISTRATION NUMBER: 10200449

LV= EMPLOYEE PENSION SCHEME

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Chair and Governance Statement

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TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2017

| | |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Principal Employer | Liverpool Victoria Friendly Society Limited |
| Participating Employers | LV Life Services Limited LV Insurance Management Limited |
| Trustee | The LV= Pension Trustee Limited |
| Directors of the Trustee | <u>Appointed by the Principal Employer</u> BESTrustees plc (Independent Trustee Director represented by Peter Thompson until 31 December 2016 and by Huw Evans from 1 January 2017. Elected Trustee Chair on 27 September 2016) Paul Cassidy (Trustee Chair) (resigned 27 September 2016) Lisa Mundy (appointed 27 September 2016) Peter Sinden (appointed 27 September 2016) Michael Leonard (resigned 27 September 2016) Michael White (resigned 30 June 2016) <u>Selected by active Members</u> Judith Hibbert (appointed 12 December 2016) Nigel Simons Stephen Longden (resigned 7 June 2016) Craig Stokes (appointed 8 July 2016 and resigned 12 September 2016) <u>Selected by pensioner Members</u> Michael Mercer |
| Secretary to the Trustee | Andrew Johnson |
| Scheme actuary | Brian Nimmo of Hymans Robertson LLP |
| Independent auditor | Crowe Clark Whitehill LLP |
| Legal advisers | Allen & Overy LLP |
| Investment custodians | HSBC Bank Plc Pinsent Masons LLP Lawrence Graham LLP |
| AVC providers (Defined benefit section) | The Equitable Life Assurance Society Standard Life Assurance Limited The Prudential Assurance Company Limited |
| Bankers | Barclays Bank plc |

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TRUSTEE AND ADVISERS *(continued)*

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| | Defined Benefit | Defined Contribution |
|----------------------------|-------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|
| Administrators | Towers Watson Limited | Friends Life Services Limited |
| Investment advisers | Redington Limited | Towers Watson Limited (to December 2016) Lane Clark & Peacock (from 16 February 2017) |
| Investment managers | Threadneedle Pensions Limited Equitix Investment Management Limited BlackRock Investment Management Limited | Friends Life Services Limited |

The following defined terms are used throughout the report:

| | |
|---------------|---------------------------------------------------------------------------|
| Society | Liverpool Victoria Friendly Society Limited |
| Scheme | The LV= Employee Pension Scheme |
| DB | Defined benefit |
| DC | Defined contribution |
| Section | A section of the Scheme |
| Member | A member of the Scheme |
| Trustee | The LV= Pension Trustee Limited |
| Trustee Chair | Chair of the Trustee Board |
| Director | A Director of the Trustee |
| MND | A Director nominated by the Members |
| Board | The Directors collectively |
| Employer | The principal employer of the Scheme |
| Trust Deed | The trust deed between the Society and the Trustee relating to the Scheme |
| Rules | The rules of the Scheme |
| GMP | Guaranteed minimum pension |
| PPF | Pensioner Protection Fund |
| AVC | Additional voluntary contribution |
| RPI | Retail price index |
| CPI | Consumer price index |
| OTC | Over the counter (in relation to derivative contracts) |
| LDI | Liability Driven Investment |

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TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2017

Introduction

The Board presents its annual report for the Scheme together with the actuarial certificate and financial statements for the year ended 31 March 2017.

The Scheme is an occupational pension scheme for contract or permanent full and part-time staff of the Society and its subsidiary companies in the United Kingdom and contains both non-contributory and contributory sections. It is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004. It is established under and governed by the Trust Deed and Rules which have been approved by the Pensions Schemes Office of HM Revenue and Customs

The Scheme comprises two sections:

- a DB Section which provides benefits based on a Member's salary and length of service; and
- a DC Section which provides benefits based on a Member's accumulated fund value at retirement.

Before the DB Section closed to future accrual on 30 June 2013, its active Members were contracted-out of the State Second Pension. The DC Section is, and has always been, contracted-in.

Members of the DC Section are able to make AVCs to secure additional benefits; this option was also available to Members of the DB section until it closed to future accrual.

The Scheme has a corporate trustee, The LV= Pension Trustee Limited, rather than individual trustees.

The assets of the Scheme are held separately from the assets of the Society and are owned by the Trustee and, in the case of any DB Section property assets, jointly by the Trustee and The LV= General Trustee Limited - a company whose sole purpose is to act as co-trustee where land is owned. DB Section assets are managed by:

- 1) Threadneedle Pensions Limited, which was appointed on 1 November 2011 to manage corporate bonds, property and "alternative" investments. Threadneedle Pensions Limited was given a further mandate in July 2015 to manage a diversified growth fund;
- 2) Equitix Investment Management Limited, which was appointed on 29 May 2012 to manage infrastructure investments; and
- 3) BlackRock Investment Management (UK) Limited, which was appointed on 13 March 2015 to manage the liability hedging portfolio. BlackRock was given a further mandate in May 2015 to manage a protected equity portfolio.

DC Section assets are held in the form of an insurance policy in the name of the Trustee issued by Friends Life Services Limited.

The investment managers are appropriately authorised under the Financial Services and Markets Act 2000.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Scheme financial statements and summary of contributions

The financial statements of the Scheme for the year ended 31 March 2017 are set out on pages 25 to 53 and the Trustee's summary of contributions and the independent auditor's statement about contributions are set out on pages 20 to 21 and 22 respectively.

The financial statements have been prepared and audited in compliance with the regulations made under section 41(1) and 41(6) of the Pensions Act 1995.

The net assets of the Scheme increased by £287.8m over the year giving a Scheme value of £1,674.6m at 31 March 2017.

Management of the Scheme

The Scheme is governed by the Trustee which is required to act in accordance with the Trust Deed and Rules, within the framework of pension and trust law.

The Trustee may be removed at the discretion of the Society, in its capacity as principal employer, provided that the board of any new trustee company comprises three directors representing the Members, including one director who must be a pensioner and up to a further four directors selected by the Society.

Trustee

The names of the current Directors, and others who served as Directors during the year, are included on page 1 of this report.

The Rules and the Articles of Association of the Trustee contain provisions for the appointment and removal of the Directors. The Board must consist of at least two active MNDs, at least one pensioner MND, and up to four persons selected by the Society. If the number of active or pensioner MNDs drops below these minima, any vacancy must be filled in accordance with the procedures outlined in the Rules. Additionally, the Board may co-opt an additional Director, provided that the Society consents.

When a vacancy arises for a Director selected by the Society, the vacancy will be filled by the Society. There is currently one such vacancy which the Society is looking to fill. Directors selected and appointed by the Society have no fixed term of office.

When a vacancy arises for either an active or pensioner MND, the secretary of the Board will arrange for vacancies to be filled through an election process.

The Pensions Act 2004 and subsequent regulations have put in place requirements for Member-nominated directors. The Trustee has in place a process to appoint at least one third of the Board as MNDs. MNDs serve for a fixed term of 5 years, but are not precluded from serving further terms of office if re-elected.

The Trustee is responsible for the administration and investment policy of the Scheme. The Trustee has delegated the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on pages 1 and 2 of this report.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

The full Board met on six occasions. All Directors attended all Board meetings for the Scheme year ending 31 March 2017 (or, if applicable, the date when they left office), except Michael White and Peter Sinden who did not attend one meeting each, and Stephen Dunn who did not attend two meetings. All Directors can pass on their views on agenda items to the Trustee Chair if they are unable to attend any meeting. Trustee Board meetings alternate between being primarily DB focussed and DC focussed.

Committees of the Trustee Board

Investment Sub Committee ("ISC")

The ISC met six times during the year. Its role is to consider and advise the Board on investment strategy and risks associated with the defined benefits section of the Scheme. The ISC also monitors investment performance, along with the full Board, and is responsible for reviewing investment items on the Scheme risk register and reporting its findings to the Board.

The current members of the ISC are Huw Evans, Peter Sinden and Nigel Simons and all Directors are invited to attend.

Administration Sub Committee ("ASC")

The ASC met once during the year. Its main purpose is to monitor the performance of the DB Section and DC Section administrators and to provide a summary to the Trustee Board. The ASC is also responsible for reviewing the administration items on the Scheme risk register and reporting its findings to the Board.

The current members of the ASC are Huw Evans, Lisa Mundy, Judith Hibbert and Michael Mercer and all Directors are invited to attend.

Directors' training

The Board believes that all Directors should receive appropriate training to enable them to undertake their duties. The Board held regular training sessions during the year. Training sessions took place on the 31 October 2016, 26 January 2017 and 1 March 2017. Training is also provided as and when required during Trustee meetings.

Other events

- The Scheme's triennial actuarial valuation, due on 31 March 2015, was concluded in September 2016. This was outside of the deadline for completion of 30 June 2016 and the Pension Regulator was made aware of this. The valuation showed that the Scheme had a small funding surplus relative to its statutory funding objective. The funding position worsened after the valuation date and the Society and Trustee agreed that contributions were required to meet the shortfall that had developed. See the Report on Actuarial Liabilities section for more information on the valuation approach and outcome.
- The Trustee has continued to work with its advisers and the Society throughout the year on the Scheme's investment strategy. The Scheme's direct property portfolio was sold in the year with the proceeds from the sale being used to increase the collateral within the LDI portfolio. This portfolio aims to remove some of the Scheme's exposure to interest and inflation rates changing in the future

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

- Liverpool Victoria Insurance Management (LVIM) was a participating employer in the Scheme but stopped employing any active members on or around 31 March 2014. As a result, a debt under section 75 Pensions Act 1995 has become due from LVIM to the Trustee. The Trustee has been advised that the relevant liability is estimated to have been between £1.0 million and £2.0 million (excluding orphan liabilities and expenses) out of a total Scheme section 75 Debt of around £400.0 million.
- On 4 August 2017 the Employer announced that Liverpool Victoria Friendly Society and Allianz Group have agreed to launch a long-term joint venture under the LV= brand name in the UK personal insurance market. The transaction will see Allianz initially acquire a 49% stake in LV='s General Insurance businesses and LV= a 51% percent stake. At a later date the transaction will see Allianz increase its stake to 69.9%. The Trustee is in discussion with the Employer to ensure the Scheme is treated fairly.
- Rather than make the required payment into the Scheme, the Society has asked the Trustee to enter into a flexible apportionment arrangement (FAA), which apportions the liabilities of LVIM in the Scheme to the Society - the principal employer of and a participating employer in the Scheme. Having received appropriate professional advice on this proposal the Trustee agreed to enter into the FAA on 17 April 2017.
- Following a formal procurement process, Willis Towers Watson were replaced by Lane Clark & Peacock as DC Section consultant and DC Section investment adviser to the Scheme. Lane Clark & Peacock were appointed from the 16 February 2017 Trustee meeting.

Compliance with institutional investment recommendations

The Trustee's investment approach is set out in their Statement of Investment Principles in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended). In that document the Trustee incorporates, where applicable, the Myners Principles, which is the accepted code of best practice throughout the industry in investment decision-making and governance, along with the advice it has received from the investment adviser.

Changes to the Scheme Rules

A deed of alteration of Trust Deed and Rules was executed on 19 December 2016. This deed amended the Rules to:

- prohibit members of the DC section accruing benefits from age 75 without consent of the Trustee and Principal Employer;
- reflect a change in the level of life cover offered to new Society employees who join the Scheme on and after 1 January 2017.

A copy of the Trust Deed and Rules is available on the Pensions Village, www.lvpensionsvillage.co.uk.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Members, beneficiaries and certain other parties, audited financial statements for each accounting year which:

- show a true and fair view of the financial transactions of the Scheme during the year and of the amount and disposition at the end of the year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year; and
- " contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes" (SORP).

The Board has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis. The financial statements have been prepared in accordance with the most recent version of the SORP.

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 certain responsibilities in respect of contributions which are set out in the statement of Trustee's Responsibilities accompanying the Trustee's Summary of Contributions.

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.

LV= EMPLOYEE PENSION SCHEME**TRUSTEE'S REPORT** *(continued)***YEAR ENDED 31 MARCH 2017****Membership**

The changes in membership during the year are as follows:

DB Section

| | Active | Deferred | Pensioners | Beneficiaries | Total |
|----------------------------|---------------|-----------------|-------------------|----------------------|---------------|
| At 1 April 2016 | – | 6,456 | 3,644 | 801 | 10,901 |
| Adjustments to prior year | – | (17) | 7 | 15 | 5 |
| Retirements | – | (144) | 144 | – | – |
| Deaths | – | (8) | (93) | (42) | (143) |
| New spouses and dependents | – | – | – | 44 | 44 |
| Entitlement ceasing | – | – | – | (1) | (1) |
| Transfers out | – | (112) | – | – | (112) |
| Commutation | – | (18) | (3) | (1) | (22) |
| At 31 March 2017 | – | 6,157 | 3,699 | 816 | 10,672 |

DC Section

| | Active | Deferred | Pensioners | Beneficiaries | Total |
|----------------------------------------|---------------|-----------------|-------------------|----------------------|---------------|
| At 1 April 2016 | 5,915 | 1,296 | – | – | 7,211 |
| Reinstated member | – | 1 | – | – | 1 |
| New members | 976 | – | – | – | 976 |
| Retirements | (16) | (8) | – | – | (24) |
| Members leaving with deferred benefits | (902) | 902 | – | – | – |
| Members leaving with refunds | (131) | (148) | – | – | (279) |
| Deaths | – | (1) | – | – | (1) |
| Transfers out | (39) | (48) | – | – | (87) |
| Combined records | (1) | – | – | – | (1) |
| At 31 March 2017 | 5,802 | 1,994 | – | – | 7,796 |
| Total membership | 5,802 | 8,151 | 3,699 | 816 | 18,468 |

Adjustments to prior year opening figures are due to late notification of Member movements.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Pension increases

The pension increases that were applied to the Liverpool Victoria and the ex-Frizzell pensioners are as shown below. The Liverpool Victoria increases were applied from 1 April 2016. These are based on September 2015 RPI of 0.8% except the post 5 April 1988 GMP element. This is subject to statutory increases based on CPI; however this was -0.1%. This means there was no increase this year. The pre 6 April 1997 excess element is subject to a minimum increase of 3%.

The Frizzell increases were applied from 6 July 2016. These are based on the April 2016 RPI of 1.3% except for the pre 6 April 1998 and post 5 April 1988 GMP elements. These are subject to fixed increases of 3%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%.

| <u>Pension element</u> | <u>Increase applied</u> | |
|----------------------------------|------------------------------------------------|--------------------------------------|
| | <u>Liverpool Victoria</u> <u>01-04-2016</u> | <u>Frizzell</u> <u>06-07-2016</u> |
| Pre 06/04/1988 GMP | No increase | 3.0% |
| Post 05/04/1988 GMP | No increase | 3.0% |
| Pre 6/04/1997 excess over GMP | 3.0% | 3.0% |
| 06/04/1997 to 30/11/2007 pension | 0.8% | 1.3% |
| Post 30/11/2007 benefits | 0.8% | 1.3% |
| Pre 06/04/1995 AVCs | No increase | 1.3% |
| 06/04/1995 to 05/04/2000 AVCs | 0.8% | 1.3% |
| Post 05/04/2000 AVCs | 0.8% | 1.3% |

These were implemented correctly and on time.

Deferred pensions are increased as required by legislation and in line with the Rules.

No discretionary payments were made.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Report on Actuarial Liabilities

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

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The most recent scheme funding valuation under section 224 of the Pensions Act 2004 of the Scheme was carried out as at 31 March 2015. An annual funding update was performed on 31 March 2016.

| Valuation date: 31 March | 2015 | 2016 |
|--------------------------------------------------------|-------------|-------------|
| Value of technical provisions | £1,345.8m | £1,365.4m |
| Value of assets available to meet technical provisions | £1,345.9m | £1,311.6m |
| As a percentage of technical provisions | 100% | 96% |

Although there are no current plans to discontinue the Scheme and buy-out liabilities with an insurance company, the Trustee also considers the level of funding relative to the estimated costs of such a buy-out (known as "solvency liabilities") and equivalent information on this basis is provided below:

| Valuation date: 31 March | 2015 |
|--------------------------------------------------------|-------------|
| Value of solvency liabilities | £1,977.0m |
| Value of assets available to meet solvency liabilities | £1,303.7m |
| As a percentage of solvency liabilities | 66% |

The value of technical provisions 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 and pension increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 1% per annum.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Future Retail Price inflation: term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

Future Consumer Price inflation: term dependent rates derived from the assumption for future Retail Price Inflation less an adjustment equal to 0.9% per annum.

Pension increases: where pension increases are linked to inflation these are derived from the term dependent rates for future Retail Price Inflation or Consumer Price Inflation as appropriate, allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Mortality: for the period in retirement, Club Vita base tables based on pooled experience in Club Vita during the period 2011 to 2013 (individual member base tables used). Future improvements are assumed to be in line with the CMI 2014 model with a long term annual rate of improvement of 1.5% p.a. (assuming non-peaked short term improvements and declining longevity improvements for the oldest old).

Recovery plan

A recovery plan was agreed between the Trustee and the Society in September 2016. Under the recovery plan, it was agreed that the Society will pay a lump sum of £7,500,000 by 30 September 2016 and deficit reduction contributions of £416,667 per month with effect from 1 October 2016 to 31 March 2025. Additionally, the Society shall pay contributions of £416,667 per month with effect from 1 April 2025 to support the aspiration of being fully funded on a longer-term target basis, until the target is reached, subject to both the amount and end date of such contributions being jointly reviewed and agreed, and amended as required by the Society and the Trustee at each triennial valuation.

These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 6 September 2016. A copy of his certificate is included on page 19 of this annual report.

In addition to the Statutory Funding Objective, the Trustee has a longer term objective in which it aspires to achieve full funding on a "self-sufficiency" basis by or around 2033. The Trustee plans to achieve this through a combination of the Scheme's funding and investment strategies, and it is on this self-sufficiency target that the Trustee has focused its objectives in relation to both the funding and investment strategy of the Scheme.

Next actuarial valuation

The next triennial valuation is as at 31 March 2018. The Trustee will receive preliminary results of the valuation in the months following this date and expect to finalise the valuation and agree a revised recovery plan within the statutory timescale by 30 June 2019.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Investment report section

Investment managers

The Scheme's investments are managed by the investment managers appointed by the Trustee who are listed on page 2.

The Trustee delegates the day-to-day management to professional external investment managers. The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's investment adviser. The Trustee has put in place investment mandates with its investment managers in order to implement this strategy.

Investment managers are remunerated by fees based on a percentage of funds under management. There are no performance related fee arrangements.

The investment adviser and investment managers are all appropriately authorised under the Financial Services and Markets Act 2000.

Investment principles

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles (SIP) has been prepared by the Trustee which incorporates the investment strategy. A copy of the SIP is available on request from the contact address set out on page 18.

Employer related investments

There were no employer related investments held during the year or at the year end.

Social, environmental and ethical considerations

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the investment managers. The Trustee expects the investment managers to take into account social, environmental and ethical considerations except when these considerations have a bearing on financial return.

Rights attaching to investments

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee expects the investment managers to seek to protect and/or enhance the value of the Scheme's investments when it is exercising the voting rights or in deciding whether to exercise the voting rights.

Custodial arrangements

Custodian services are provided by HSBC Bank Plc, Pinsent Masons LLP and Lawrence Graham LLP. In accordance with normal practice, the Scheme's investments (other than property) are registered in the name of each of the custodian's own nominee companies with designation for the Scheme.

Derivatives

The Scheme holds derivatives in order to better match the interest rate, inflation and longevity risks of the Scheme's long term liabilities for efficient portfolio management.

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TRUSTEE'S REPORT *(continued)*

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DB Section

Investment objectives and strategy

In determining and reviewing the Scheme's investment strategy the Trustee adopts a Pensions Risk Management Framework (PRMF). This framework translates the principal goal of paying member benefits into measurable funding objectives and risk constraints, agreed by the Trustee. The PRMF objectives are reviewed and monitored by the Trustee on a quarterly basis.

The Trustee's statutory funding objective is to be fully funded on the Technical Provision basis. The Trustee also has a longer term objective in which it aspires to achieve full funding on a "self-sufficiency" basis (defined as gilts + 0.25% p.a.) by or around 2033.

The principal objectives are stated below:

1. Target an expected return on assets close to that required to meet the funding objectives within the PRMF;
2. Manage the investment risk including that arising due to mismatch between assets and liabilities and limit the total risk on the Scheme below the risk budget set in the PRMF;
3. Maintain suitable liquidity of assets such that the Scheme is not forced to buy and sell investments at particular times to pay member benefits or meet potential collateral calls.

In respect of the three external investment managers, investment management costs are based upon the size of the portfolio under management with the basis being detailed in the formal agreement between the Trustee and the principal investment manager. The estimated aggregate management fee as at 31 March 2017 is calculated as being 0.15% of the total assets.

Review of investment performance

BlackRock Investment Management Limited is the principal investment manager of the Scheme's defined benefit section assets, holding approximately 63% of total assets, with Threadneedle Pensions Limited holding approximately 36% of assets and Equitix Investment Management Limited holding 1% of assets. The assets are invested by the managers for the benefit of the Members to enable pensions to be paid as they fall due. It is the aim of the investment managers to generate the maximum returns whilst staying within the risk and return objectives set by the Trustee.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

The allocation of the Scheme's investments, in terms of underlying investments at 31 March 2017 and 31 March 2016 were as follows:

| | 2017 % | 2017 % | 2016 % | 2016 % |
|---------------------------------------------------------|-----------|------------|-----------|------------|
| Total assets | | 100 | | 100 |
| Return seeking | | 9 | | 12 |
| Passive equity funds | | - | | - |
| Developed Market equity (including UK) | - | | - | |
| Emerging Market equity | - | | - | |
| Diversified Growth fund | | 6 | | 6 |
| Private Equity fund | | 1 | | 1 |
| Infrastructure equity fund | | 2 | | 2 |
| Property | | - | | 3 |
| Liability matching | | 91 | | 88 |
| Annuity | | - | | - |
| LDI portfolio | | 58 | | 53 |
| UK gilts | 62 | | 57 | |
| Index linked securities | 13 | | 21 | |
| Repurchase agreements | (18) | | (21) | |
| Liquidity, cash and commitments | - | | - | |
| Derivatives | (1) | | (3) | |
| Collateral posted for Volatility Controlled equities | 2 | | (1) | |
| Corporate bonds | | 29 | | 30 |
| Cash | | 0 | | 2 |
| Collateral posted for longevity swap | | 4 | | 3 |

* Both 2016 and 2017 Asset Values include AVC assets

** The Volatility Controlled Equity ("VCE") allocation has 2.5-8x leveraged exposure (target 4x). In other words, the Scheme's exposure to equity markets through VCE is 4x greater than the cash position. The synthetic equity exposure gives a weighting >100%.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Review of investment performance

Relative performance

The performance of the Scheme is measured on a monthly basis against its funding and risk objectives set as part of a PRMF.

The following table shows the performance of the Scheme against its historical benchmark. Performance data is sourced from the corresponding asset manager.

| Years ending 31st March | LV= Scheme % | Benchmark % |
|--------------------------------|---------------------|--------------------|
| 2003 | 15.0 | 14.2 |
| 2004 | 10.9 | 11.1 |
| 2005 | 20.7 | 19.0 |
| 2006 | 9.7 | 9.5 |
| 2007 | 4.4 | 5.2 |
| 2008 | 1.0 | 0.4 |
| 2009 | -4.9 | -5.6 |
| 2010 | 24.1 | 20.8 |
| 2011 | 6.9 | 6.1 |
| 2012* | 10.7 | 13.1 |
| 2013 | 11.0 | 10.0 |
| 2014 | 2.3 | 2.2 |
| 2015 | 26.7 | 19.9 |
| 2016** | 1.5 | 3.0 |
| 2017 | 23.3 | 10.7 |

* The year ended 2012 includes estimated performance for October 2011 due to lack of data availability.

** Benchmark changed from a composite based on the benchmark indices of the underlying asset managers to a Scheme liability benchmark. This is consistent with the strategic objectives set for the Scheme's assets.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

DC Section (provided by Friends Life)

The table below shows the performance against benchmark of each of the DC Section funds for one three and five years ended 31 March 2017.

| Annual percentage returns | 1 year % | 3 years % | 5 years % |
|----------------------------------|---------------------|----------------------|----------------------|
| Global Shares Fund | 32.4 | 15.1 | 14.2 |
| <i>Benchmark</i> | <i>32.9</i> | <i>16.8</i> | <i>15.4</i> |
| UK Shares Fund | 20.9 | 7.2 | 9.5 |
| <i>Benchmark</i> | <i>22.0</i> | <i>7.7</i> | <i>9.7</i> |
| Pre-retirement Fund | 12.7 | n/a | n/a |
| <i>Benchmark</i> | <i>13.1</i> | <i>n/a</i> | <i>n/a</i> |
| Diversified Growth Fund | 19.5 | n/a | n/a |
| <i>Benchmark</i> | <i>3.9</i> | <i>n/a</i> | <i>n/a</i> |
| Property Fund | 3.3 | 11.0 | 9.1 |
| <i>Benchmark</i> | <i>3.7</i> | <i>10.2</i> | <i>8.5</i> |
| Diversified Growth Fund (Active) | 10.2 | 4.7 | 5.8 |
| <i>Benchmark</i> | <i>7.7</i> | <i>6.0</i> | <i>6.5</i> |
| Cash Fund | 0.2 | 0.2 | 0.3 |
| <i>Benchmark</i> | <i>0.2</i> | <i>0.3</i> | <i>0.4</i> |

The performance figures for the funds are net of fees.

There are no performance v benchmark figures for 3 and 5 years ended 31 March 2017 for the pre-retirement fund and the diversified growth fund as these funds have not been available to members for these periods.

The Trustee continues to monitor the performance of the funds on a regular basis.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Tax and contracting-out status of the Scheme

The Scheme is a "registered pension scheme" for tax purposes. To the Trustee's knowledge there is no reason why this registration should be prejudiced or withdrawn.

Calculation of transfer values

All transfer values paid during the year were calculated and verified in accordance with regulations made under the Pension Schemes Act 1993. In accordance with the direction of the Trustee no allowance for discretionary benefits has been made in the calculation of transfer values. No transfers were made at less than their cash equivalent.

The Trustee, after taking actuarial advice, has decided not to accept individual transfers in to the defined benefit section from other pension arrangements.

Scheme advisers

There are written agreements in place between the Trustee and each of the Scheme advisers listed on pages 1 to 2 of this report and also with the Employer. The changes to the Scheme advisers are shown on pages 1 to 2 of this report.

The Pension Tracing Service, TPAS, the Pensions Ombudsman and The Pensions Regulator

In accordance with the Occupational Pension Schemes (Disclosure of Information) Regulations 2013, Members are advised that:

- information regarding the Scheme has been registered with the Pension Tracing Service;
- The Pensions Advisory Service (TPAS) of 11 Belgrave Road, London, SW1V 1RB is available 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 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.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2017

Internal disputes resolution procedure

The Scheme operates an internal dispute procedure to enable any disputes to be settled fairly and quickly. A dispute may be raised by Members, spouses, or dependants of deceased Members or prospective Members.

In the first instance complaints should be in writing and addressed to Peter Strudwick, Pensions and Benefits Partner, County Gates, Bournemouth BH1 2NF. If the complainant is dissatisfied with the reply the complainant may refer the case to the Trustee Chair.

In the event that the problem is still not rectified a Member can refer the complaint to The Pensions Advisory Service and/or the Pensions Ombudsman whose address is shown above.

The Ombudsman will normally expect TPAS to have been contacted first. TPAS will not act unless the point of difficulty has already been taken up with the Trustee.

Contact for further information

Further information about the Scheme is available on its website at www.lv pensionsvillage.co.uk

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:

LV= Employee Pension Scheme
Willis Towers Watson
PO Box 545
Redhill
RH1 1YX

Email address: lv@willistowerswatson.com

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 17/10/17

Date 12/10/17

LV= EMPLOYEE PENSION SCHEME

ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

LV= Employee Pension Scheme

Schedule of Contributions - Actuarial Certificate

Adequacy of contributions

In my opinion, the contributions shown in this schedule are such that the statutory funding objective can be expected to continue to be met by the end of the period specified in the recovery plan dated September 2016.

I also certify that any rates of contributions forming part of this schedule which the scheme requires me to determine are not lower than I would have provided for had I had responsibility for setting the schedule, the statement of funding principles and any recovery plan.

Consistency with statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated September 2016.

Please note that the adequacy of contributions statement in this certificate relates to the Scheme's statutory funding objective. For avoidance of doubt this certificate does not mean that the contributions shown in this schedule would be enough to secure the Scheme's full liabilities with annuities if the Scheme were to wind up.

| | |
|------------------|--------------------------------------------------|
| Signature | Brian Nimmo |
| Date | 6 September 2016 |
| Name | Brian Nimmo |
| Qualification | Fellow of the Institute and Faculty of Actuaries |
| Name of Employer | Hymans Robertson LLP |
| Address | One London Wall, London, EC2Y 5EA |

This certificate is provided to meet the requirements of regulation 10(6) of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S STATEMENT ABOUT CONTRIBUTIONS

YEAR ENDED 31 MARCH 2017

Statement of Trustee's responsibilities in respect of contributions

(forming part of the Trustee's Report)

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised 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 monitoring whether contributions are made to the Scheme by the Employer 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 the Members.

Trustee's summary of contributions

This summary of contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the Employer and Member contributions payable to the Scheme under the schedules of contributions certified by the actuary on 30 June 2013 and 6 September 2016 in respect of the Scheme year ended 31 March 2017. The Scheme auditor reports on contributions payable under the schedules in their auditor's statement about contributions.

| Contributions payable under the schedules in respect of the Scheme year | | 2016 |
|----------------------------------------------------------------------------------|--------------|---------------|
| | | £000 |
| Employer | | |
| | Normal | 29,419 |
| | Deficit | 10,000 |
| | For expenses | 1,956 |
| Contributions payable under the schedules (as reported on by the Scheme auditor) | | <u>41,375</u> |

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S STATEMENT ABOUT CONTRIBUTIONS *(continued)*

YEAR ENDED 31 MARCH 2017

Reconciliation of contributions

Reconciliation of contributions payable under the schedules to the total contributions payable to the Scheme in respect of the Scheme year:

| | 2016 £000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Contributions payable under the schedules (as above in the Trustee's summary) | 41,375 |
| Contributions payable in addition to those payable under the schedules (and not reported on by the Scheme auditor) Members' AVCs | 809 |
| Total contributions reported in the financial statements | <u>42,184</u> |
| Deficit contributions for January to March 2017 transferred from the DC Section unallocated investments to the DB Section as disclosed in note 13 | (1,250) |
| Total contributions as reported in note 3 | <u>40,934</u> |

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 17/10/17

Date 12/10/17

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE

YEAR ENDED 31 MARCH 2017

We have examined the summary of contributions payable to the LV= Employee Pension Scheme, for the year ended 31 March 2017 which is set out on pages 20 to 21.

This report is made solely to the Scheme's Trustee as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee as a body, for our work, for this report, or for the opinion we have formed.

Respective responsibilities of the Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active Members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active Members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the schedule of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedules of contributions and to report our opinion to you.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on pages 20 to 21 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedules of contributions.

Statement about Contributions payable under the schedules of contributions

In our opinion contributions for the Scheme year ended 31 March 2017 as reported in the summary of contributions and payable under the schedules of contributions have in all material respects been paid at least in accordance with the schedules of contribution certified by the Scheme actuary on 30 June 2013 and 6 September 2016.

Crowe Clark Whitehill LLP
Statutory Auditor
Reading

Date 25 October 2017

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2017

We have audited the financial statements of the LV= Employee Pension Scheme for the year ended 31 March 2017 which comprise the Fund Account, the Net Assets Statement and the related Notes set out on pages 25 to 53.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and auditor

As explained more fully in the Trustee's Responsibilities Statement, the Trustee is responsible for the preparation of financial statements which give 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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.

In addition, we read all the financial and non-financial information in the annual report, which comprises the Trustee's Report, the Actuarial Certificate and the Chair and Governance Statement 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.

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE *(continued)*

YEAR ENDED 31 MARCH 2017

Opinion

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 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; 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.

Crowe Clark Whitehill LLP
Statutory Auditor
Reading

Date 25 October 2017

LV= EMPLOYEE PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2017

| | Note | DB Section 2017 £000 | DC Section 2017 £000 | Total 2017 £000 | Total 2016 £000 |
|---------------------------------------------------------------|-----------|----------------------------|----------------------------|--------------------------------|-------------------------|
| Contributions and benefits | | | | | |
| Employer contributions | | 10,706 | 29,419 | 40,125 | 30,509 |
| Employee contributions | | – | 809 | 809 | 5 |
| Total contributions | 3 | 10,706 | 30,228 | 40,934 | 30,514 |
| Transfers in | 4 | – | 522 | 522 | 489 |
| Other income | 5 | 263 | – | 263 | 1,108 |
| | | <u>10,969</u> | <u>30,750</u> | <u>41,719</u> | <u>32,111</u> |
| Benefits | 6 | (39,226) | (257) | (39,483) | (39,118) |
| Transfers out | 7 | (17,043) | (2,639) | (19,682) | (8,851) |
| Administrative expenses | 8 | (2,358) | – | (2,358) | (2,683) |
| | | <u>(58,627)</u> | <u>(2,896)</u> | <u>(61,523)</u> | <u>(50,652)</u> |
| Net (withdrawals)/additions from dealings with members | | (47,658) | 27,854 | (19,804) | (18,541) |
| Returns on investments | | | | | |
| Investment income | 9 | 39,081 | – | 39,081 | 39,318 |
| Change in market value of investments | 10 | 233,629 | 37,184 | 270,813 | (33,129) |
| Investment management expenses | 11 | (1,813) | (458) | (2,271) | (609) |
| Net return on investments | | <u>270,897</u> | <u>36,726</u> | <u>307,623</u> | <u>5,580</u> |
| Net increase/(decrease) in the fund during the year | | 223,239 | 64,580 | 287,819 | (12,961) |
| Transfers between sections | 13 | 1,722 | (1,722) | – | – |
| Net assets of the Scheme | | | | | |
| At 1 April | | <u>1,272,373</u> | <u>114,388</u> | <u>1,386,761</u> | <u>1,399,722</u> |
| At 31 March | | <u><u>1,497,334</u></u> | <u><u>177,246</u></u> | <u><u>1,674,580</u></u> | <u><u>1,386,761</u></u> |

The notes on pages 28 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2017

| | Note | 2017 £000 | 2016 £000 |
|---------------------------------------------|-----------|------------------|------------------|
| DB Section | | | |
| Investment assets | 10 | | |
| Bonds | | 1,612,155 | 1,415,650 |
| Property | 14 | 4,825 | 35,436 |
| Pooled investment vehicles | 15 | 155,955 | 125,024 |
| Derivatives | 16 | 31,273 | 3,067 |
| Insurance policies | 17 | 3,998 | 5,085 |
| AVC investments | 18 | 125 | 121 |
| Cash and cash equivalent | 19 | 82,959 | 50,091 |
| Other investment balances | 20 | 11,858 | 12,694 |
| | | <u>1,903,148</u> | <u>1,647,168</u> |
| Investment liabilities | 10 | | |
| Derivatives | 16 | (91,210) | (103,187) |
| Cash | 19 | (25,968) | – |
| Other investment balances | 20 | (292,585) | (279,203) |
| | | <u>(409,763)</u> | <u>(382,390)</u> |
| Total net investments | | <u>1,493,385</u> | <u>1,264,778</u> |
| Current assets | 26 | 5,343 | 10,110 |
| Current liabilities | 27 | (1,394) | (2,515) |
| Net assets at 31 March | | <u>1,497,334</u> | <u>1,272,373</u> |
| DC Section | | | |
| Investment assets | 10 | | |
| Pooled investment vehicles | 15 | 175,656 | 112,241 |
| Current assets | 26 | 2,007 | 2,147 |
| Current liabilities | 27 | (417) | – |
| Net assets at 31 March | | <u>177,246</u> | <u>114,388</u> |
| Net assets of the Scheme at 31 March | | <u>1,674,580</u> | <u>1,386,761</u> |

The notes on pages 28 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) *(continued)*

AS AT 31 MARCH 2017

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 benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes account of such obligations, is dealt with in the Report on Actuarial Liabilities in the Trustee's report on pages 10 to 11 and these financial statements should be read in conjunction with this report.

Signed for and on behalf of the Trustee of the LV= Employee Pension Scheme by:

Director Peter Sinden

Director Huw Evans

Date 17/10/17

Date 12/10/17

The notes on pages 28 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

1. Basis of preparation

The individual financial statements of the LV= Employee 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, 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 guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP"). In adopting FRS 102 the Trustee has adopted 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) early.

2. Accounting policies

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Contributions

Member contributions including AVCs are accounted for as they are deducted from pay. Employer's normal, expenses and PPF levy contributions are accounted for as they fall due in accordance with the Schedule of Contributions. Employer's augmentations are accounted for either in accordance with the agreement under which they are being paid or, in the absence of an agreement, on a cash basis.

Transfers to and from other schemes

Individual transfers in or out are accounted for when paid or received which is normally when Member liability is accepted/discharged

Benefits

Pensions payable in respect of the Scheme year are accounted for by reference to the year to which they relate. Other benefits are accounted for in the year in which the Member notifies the Trustee of his 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.

Expenses

Expenses are accounted for by reference to the year to which they relate.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

2. Accounting policies *(continued)*

Investment income

Pooled investment vehicle income, other investment income, rental income and interest on cash deposits and bonds is accounted for by reference to the year to which it relates. Investment income is shown net of any tax withheld whilst any tax recoverable is included with the appropriate income.

Investment income arising from the underlying investments of the pooled investment vehicles which is reinvested within the pooled investment vehicles and reflected in the unit price is reported within 'Change in Market Value'.

Investments

Properties

Freehold and leasehold properties were valued at the 31 March 2016 at open market value in accordance with the 'Appraisal and Valuation Manual' of the Royal Institute of Chartered Surveyors, by Savills, independent property valuers, and adopted by the Trustee.

Securities

Bonds are stated at their clean prices and accrued income is accounted for within investment income. Pooled investment vehicles are valued at the bid price or single price where there are no bid/offer spreads as provided by the investment manager. The fees and costs of acquiring and disposing of investments are included in their purchase and sale price. Infrastructure and private equity funds are valued by the fund managers or their third party agents, where the underlying investments held within those funds are valued at their fair value. Where valuations from third parties are not available at the year end, the Trustee has established fair value by reference to recent arm's length transactions or other investments that are substantially the same.

Change in market value of investments includes realised gains, unrealised gains and changes in the sterling value of assets (including cash) caused by exchange rates.

Repurchase agreements

Securities sold subject to repurchase agreements are included in the financial statements as assets of the Scheme at their year end market value. Amounts payable under repurchase agreements are included under other investment liabilities.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

2. Accounting policies *(continued)*

Derivatives

Derivatives are stated at fair value.

Exchange traded derivatives are stated at fair value determined using market quoted prices. For exchange traded derivative contracts which are assets, fair value is based on quoted bid prices. For exchange traded derivative contracts which are liabilities, fair value is based on quoted offer prices.

OTC derivatives are stated at fair value using pricing models and relevant market data as at the year end date.

The longevity swap (see page 40) has been valued by the actuary based on the expected net present value of future cash flows.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

Investments are included at fair value, however because of the inherent uncertainty associated with the valuation of some of these investments due to the absence of a liquid market, these fair values may differ from their realisable value.

Annuity insurance policies

Annuity insurance policies with Standard Life Assurance Limited for 76 members (2016: 88 members) are valued by the actuary at the year end using the same actuarial assumptions adopted for ongoing purposes in the triennial valuation of the Scheme. The annuity income is used to pay pensions of these members.

AVCs

AVC investments are included at the values provided by the AVC providers.

Foreign currency conversion

Balances denominated in foreign currencies are translated at the rate ruling at the net assets statement date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

3. Contributions

| | 2017 | | Total £000 |
|-------------------------------|--------------------|--------------------|----------------------|
| | DB Section £000 | DC Section £000 | |
| Employer contributions | | | |
| Normal | – | 29,419 | 29,419 |
| Augmentations | – | – | – |
| For PPF levies | – | – | – |
| Deficit funding | 8,750 | – | 8,750 |
| For expenses | 1,956 | – | 1,956 |
| | <u>10,706</u> | <u>29,419</u> | <u>40,125</u> |
| | | | |
| Employee contributions | | | |
| AVCs | – | 809 | 809 |
| | <u>10,706</u> | <u>30,228</u> | <u>40,934</u> |
| | | | |
| | 2016 | | Total £000 |
| | DB Section £000 | DC Section £000 | |
| Employer contributions | | | |
| Normal | – | 28,586 | <i>28,586</i> |
| Augmentations | – | 44 | <i>44</i> |
| For PPF levies | (26) | – | <i>(26)</i> |
| Deficit funding | – | – | – |
| For expenses | 1,905 | – | <i>1,905</i> |
| | <u>1,879</u> | <u>28,630</u> | <u><i>30,509</i></u> |
| | | | |
| Employee contributions | | | |
| AVCs | – | 5 | <i>5</i> |
| | <u>1,879</u> | <u>28,635</u> | <u><i>30,514</i></u> |

With effect from 1 February 2008 employee contributions are included with Employers contributions via a salary sacrifice scheme.

A Member can receive an augmented pension in lieu of a severance payment. In such circumstances the Society agrees to pay the cost of the augmentation as a special cash contribution.

In the year to 31 March 2017, the Employer has paid the above contributions to the DB Section towards the deficit and costs of administration. In addition £1,250,000 of DB Section deficit contributions for January to March 2017 were transferred from the DC Section unallocated investments to the DB Section. There were no further DB Section Employer contributions paid to the Scheme.

The Employer contributions for PPF levies were minus £26,000 in the year ending 31 March 2016 due to being overaccrued in the prior year.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

4. Transfers in

| | 2017 | | Total |
|--------------------------------------------|--------------------|--------------------|--------------|
| | DB Section £000 | DC Section £000 | £000 |
| Individual transfers in from other schemes | — | 522 | <u>522</u> |

| | 2016 | | Total |
|--------------------------------------------|--------------------|--------------------|--------------|
| | DB Section £000 | DC Section £000 | £000 |
| Individual transfers in from other schemes | — | 489 | <u>489</u> |

5. Other income

| | 2017 | | Total |
|------------------------------|--------------------|--------------------|--------------|
| | DB Section £000 | DC Section £000 | £000 |
| Claims on insurance policies | 263 | — | <u>263</u> |
| Other income | — | — | — |
| | <u>263</u> | — | <u>263</u> |

| | 2016 | | Total |
|------------------------------|--------------------|--------------------|--------------|
| | DB Section £000 | DC Section £000 | £000 |
| Claims on insurance policies | 1,107 | — | <u>1,107</u> |
| Other income | 1 | — | <u>1</u> |
| | <u>1,108</u> | — | <u>1,108</u> |

6. Benefits

| | 2017 | | Total |
|------------------------------------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | £000 |
| Pensions | 34,305 | — | <u>34,305</u> |
| Commutations and retirement lump sums | 4,557 | 242 | <u>4,799</u> |
| Purchase of annuities | 12 | — | <u>12</u> |
| Lump sum death benefits | 344 | 15 | <u>359</u> |
| Taxation where lifetime or annual allowance exceeded | 8 | — | <u>8</u> |
| | <u>39,226</u> | <u>257</u> | <u>39,483</u> |

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

6. Benefits (continued)

| | <i>2016</i> | | |
|------------------------------------------------------|---------------|------------|---------------|
| | DB Section | DC Section | <i>Total</i> |
| | £000 | £000 | £000 |
| Pensions | 33,456 | – | 33,456 |
| Commutations and retirement lump sums | 3,870 | 441 | 4,311 |
| Purchase of annuities | 6 | – | 6 |
| Lump sum death benefits | 1,242 | 103 | 1,345 |
| Taxation where lifetime or annual allowance exceeded | – | – | – |
| | <u>38,574</u> | <u>544</u> | <u>39,118</u> |

7. Transfers out

| | 2017 | | |
|--------------------------|---------------|--------------|---------------|
| | DB Section | DC Section | Total |
| | £000 | £000 | £000 |
| Individual transfers out | <u>17,043</u> | <u>2,639</u> | <u>19,682</u> |

| | <i>2016</i> | | |
|--------------------------|--------------|--------------|--------------|
| | DB Section | DC Section | <i>Total</i> |
| | £000 | £000 | £000 |
| Individual transfers out | <u>7,783</u> | <u>1,068</u> | <u>8,851</u> |

8. Administrative expenses

| | 2017 | | |
|--------------------------------|--------------|------------|--------------|
| | DB Section | DC Section | Total |
| | £000 | £000 | £000 |
| Administration fees | 434 | – | 434 |
| Legal and other fees | 563 | – | 563 |
| Actuarial and consultancy fees | 1,271 | – | 1,271 |
| Audit fee | 57 | – | 57 |
| TPR administration fees | 33 | – | 33 |
| | <u>2,358</u> | <u>–</u> | <u>2,358</u> |

| | <i>2016</i> | | |
|--------------------------------|--------------|------------|--------------|
| | DB Section | DC Section | <i>Total</i> |
| | £000 | £000 | £000 |
| Administration fees | 392 | – | 392 |
| Legal and other fees | 848 | – | 848 |
| Actuarial and consultancy fees | 1,360 | – | 1,360 |
| Audit fee | 52 | – | 52 |
| TPR administration fees | 31 | – | 31 |
| | <u>2,683</u> | <u>–</u> | <u>2,683</u> |

LV= EMPLOYEE PENSION SCHEME**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED 31 MARCH 2017****9. Investment income**

| | 2017 | | Total £000 |
|------------------------------------------|----------------------------|----------------------------|-----------------------|
| | DB Section £000 | DC Section £000 | |
| Net rents from properties | 298 | – | 298 |
| Income from bonds | 40,086 | – | 40,086 |
| Income from pooled investment vehicles | 86 | – | 86 |
| Interest paid on repurchase transactions | (2,076) | – | (2,076) |
| Annuity income | 491 | – | 491 |
| Loans | 6 | – | 6 |
| Interest on cash deposits | 190 | – | 190 |
| | <u>39,081</u> | <u>–</u> | <u>39,081</u> |

| | 2016 | | Total £000 |
|------------------------------------------|----------------------------|----------------------------|-----------------------|
| | DB Section £000 | DC Section £000 | |
| Net rents from properties | 1,839 | – | 1,839 |
| Income from bonds | 28,604 | – | 28,604 |
| Income from pooled investment vehicles | 9,597 | – | 9,597 |
| Interest paid on repurchase transactions | (1,955) | – | (1,955) |
| Annuity income | 714 | – | 714 |
| Loans | 7 | – | 7 |
| Interest on cash deposits | 512 | – | 512 |
| | <u>39,318</u> | <u>–</u> | <u>39,318</u> |

Swap income is included in change in market value in note 10.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

10. Investments

DB Section

| | Value at 1 April 2016 | Purchases at cost and derivative payments | Sales proceeds and derivative receipts | Change in market value | Value at 31 March 2017 |
|-------------------------------|----------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|-----------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Bonds | 1,415,650 | 269,948 | (269,858) | 196,415 | 1,612,155 |
| Property | 35,436 | – | (34,806) | 4,195 | 4,825 |
| Pooled investment vehicles | 125,024 | 102,606 | (81,453) | 9,778 | 155,955 |
| Derivatives | (100,120) | 154,151 | (137,682) | 23,714 | (59,937) |
| Insurance policies | 5,085 | – | – | (1,087) | 3,998 |
| AVC investments | 121 | – | – | 4 | 125 |
| | <u>1,481,196</u> | <u>526,705</u> | <u>(523,799)</u> | <u>233,019</u> | <u>1,717,121</u> |
| Cash and cash equivalents | 50,091 | | | 615 | 56,991 |
| Other investment balances | (266,509) | | | (5) | (280,727) |
| | <u>1,264,778</u> | | | <u>233,629</u> | <u>1,493,385</u> |

DC Section

| | Value at 1 April 2016 | Purchases at cost | Sales proceeds | Change in market value | Value at 31 March 2017 |
|-------------------------------|----------------------------------|------------------------------|---------------------------|-----------------------------------|-----------------------------------|
| | £000 | £000 | £000 | £000 | £000 |
| Pooled investment vehicles | <u>112,241</u> | <u>55,774</u> | <u>(29,543)</u> | <u>37,184</u> | <u>175,656</u> |

The property sales included above are the sales of all the directly held freehold and leasehold properties during the year.

Transaction costs

Costs are borne by the Scheme in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

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 during the year.

11. Investment management expenses

| | 2017 | | Total |
|---------------------------------------------|-------------------|-------------------|---------------------|
| | DB Section | DC Section | £000 |
| | £000 | £000 | £000 |
| Administration, management and custody fees | <u>1,813</u> | <u>458</u> | <u>2,271</u> |

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NOTES TO THE FINANCIAL STATEMENTS

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11. Investment management expenses (continued)

| | 2016 | | Total £000 |
|---------------------------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Administration, management and custody fees | <u>310</u> | <u>299</u> | <u>609</u> |

The DB Section fees for the year ended 31 March 2017 include investment manager and custodian fees of £2,037,000 (2016: £1,778,000) less OEIC fee rebates of £224,000 (2016: £1,468,000).

12. Taxation

The Scheme is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

13. Transfers between sections

| | 2017 | | Total £000 |
|----------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Transfers between sections | <u>1,722</u> | <u>(1,722)</u> | <u>-</u> |

| | 2016 | | Total £000 |
|----------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Transfers between sections | <u>142</u> | <u>(142)</u> | <u>-</u> |

The transfers between sections for the year ended 31 March 2017 include £472,000 which relate to DB Section members who have investments in the DC Section which are being used to pay lump sums on retirement or transfers out from the DB Section, and £1,250,000 of DB Section deficit contributions for January to March 2017 being paid from the DC Section unallocated investments to the DB Section.

The transfers between sections for the year ended 31 March 2016 relate to DB Section members who have investments in the DC Section which are being used to pay lump sums on retirement or transfers out from the DB Section,

14. Property

| | 2017 | | Total £000 |
|--------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Freehold | - | - | - |
| Leasehold | - | - | - |
| Development partnerships | <u>4,825</u> | - | <u>4,825</u> |
| | <u>4,825</u> | - | <u>4,825</u> |

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NOTES TO THE FINANCIAL STATEMENTS

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14. Property (continued)

| | <i>2016</i> | | <i>Total</i> £000 |
|--------------------------|--------------------|--------------------|----------------------|
| | DB Section £000 | DC Section £000 | |
| Freehold | 28,145 | – | 28,145 |
| Leasehold | 2,250 | – | 2,250 |
| Development partnerships | 5,041 | – | 5,041 |
| | <u>35,436</u> | <u>–</u> | <u>35,436</u> |

15. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

| | 2017 | | Total £000 |
|------------------------|--------------------|--------------------|-----------------------|
| | DB Section £000 | DC Section £000 | |
| Equity | – | 140,189 | 140,189 |
| Bond | – | 2,290 | 2,290 |
| Diversified growth | – | 28,973 | 28,973 |
| Property | – | 842 | 842 |
| Cash | 32,443 | 3,362 | 35,805 |
| Venture capital trusts | 8,335 | – | 8,335 |
| Infrastructure fund | 26,920 | – | 26,920 |
| Multi asset | 88,257 | – | 88,257 |
| | <u>155,955</u> | <u>175,656</u> | <u>331,611</u> |

| | <i>2016</i> | | <i>Total</i> £000 |
|------------------------|--------------------|--------------------|----------------------|
| | DB Section £000 | DC Section £000 | |
| Equity | – | 88,995 | 88,995 |
| Bond | – | 1,442 | 1,442 |
| Diversified growth | – | 18,571 | 18,571 |
| Property | – | 674 | 674 |
| Cash | 9,231 | 2,559 | 11,790 |
| Venture capital trusts | 10,379 | – | 10,379 |
| Infrastructure fund | 24,787 | – | 24,787 |
| Multi asset | 80,627 | – | 80,627 |
| | <u>125,024</u> | <u>112,241</u> | <u>237,265</u> |

The multi asset fund invests in bonds, equities, property, commodity funds, derivatives and cash.

The Friends Life My LV= Diversified Growth XE Fund invests in bonds, equities, property, commodities and the shares of infrastructure companies. The Friends Life My LV= Diversified Growth (Active) XE Fund invests in bonds, equities, transferable securities, derivatives, cash, deposits, collective investment schemes, warrants and money market instruments.

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16. Derivatives

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as explained in the Trustee's report. At the year-end the Scheme had the following derivatives:

| | 2017 | | |
|-------------------------------|------------------|------------|-------------------------|
| | DB Section | DC Section | Total |
| | £000 | £000 | £000 |
| Derivative assets | | | |
| Futures | 459 | – | 459 |
| Options | 682 | – | 682 |
| Swaps | 29,516 | – | 29,516 |
| Forward FX contracts | 616 | – | 616 |
| | <u>31,273</u> | <u>–</u> | <u>31,273</u> |
| Derivative liabilities | | | |
| Futures | (28) | – | (28) |
| Options | – | – | – |
| Swaps | (91,140) | – | (91,140) |
| Forward FX contracts | (42) | – | (42) |
| | <u>(91,210)</u> | <u>–</u> | <u>(91,210)</u> |
| | <u>(59,937)</u> | <u>–</u> | <u>(59,937)</u> |
| | | | |
| | DB Section | DC Section | <i>Total</i> |
| | £000 | £000 | <i>£000</i> |
| Derivative assets | | | |
| Futures | 63 | – | 63 |
| Options | 2,481 | – | 2,481 |
| Swaps | – | – | – |
| Forward FX contracts | 523 | – | 523 |
| | <u>3,067</u> | <u>–</u> | <u>3,067</u> |
| Derivative liabilities | | | |
| Futures | (31) | – | (31) |
| Options | – | – | – |
| Swaps | (102,990) | – | (102,990) |
| Forward FX contracts | (166) | – | (166) |
| | <u>(103,187)</u> | <u>–</u> | <u>(103,187)</u> |
| | <u>(100,120)</u> | <u>–</u> | <u>(100,120)</u> |

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

16. Derivatives (continued)

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme. The main objectives for the use of derivatives are to facilitate efficient portfolio management and/or for risk management purposes. Futures, options, swaps and forward contracts are all permitted for these purposes. The investment guidelines for each manager has appropriate restrictions regarding the use of derivatives.

Futures

The Scheme had outstanding exchange traded futures at the year end as follows:

DB Section

| Nature | No. of contracts | Economic exposure £000 | Expires | Asset value £000 | Liability value £000 |
|------------------------------------|------------------|---------------------------|-----------|---------------------|-------------------------|
| ICF ICE Long Gilt Future | 1 | 232 | June 2017 | 392 | – |
| CBT US 10Yr Note Future | 1 | 73 | June 2017 | 19 | – |
| CBT US 10Yr Ultra Future | 1 | 20 | June 2017 | – | (28) |
| CBT US Long Bond Future | 1 | 83 | June 2017 | 37 | – |
| CBT US Ultra Long Term Bond Future | 1 | 19 | June 2017 | 11 | – |
| EUX Euro Bond Future | 1 | 18 | June 2017 | – | – |
| Total 2017 | | <u>445</u> | | <u>459</u> | <u>(28)</u> |
| Total 2016 | | <u>409</u> | | <u>63</u> | <u>(31)</u> |

Options

The Scheme had outstanding options at the year end as follows:

DB Section

| Nature | No. of contracts | Notional principal £000 | Expires | Asset value £000 | Liability value £000 |
|---------------------------|------------------|----------------------------|----------|---------------------|-------------------------|
| European volatility index | 1 | 674 | Jan 2018 | 134 | – |
| European volatility index | 1 | 674 | Mar 2018 | 481 | – |
| European volatility index | 1 | 674 | May 2017 | 4 | – |
| European volatility index | 1 | 674 | Jul 2017 | 9 | – |
| European volatility index | 1 | 674 | Sep 2017 | 21 | – |
| European volatility index | 1 | 674 | Nov 2017 | 33 | – |
| Total 2017 | | <u>4,044</u> | | <u>682</u> | <u>–</u> |
| Total 2016 | | <u>4,044</u> | | <u>2,481</u> | <u>–</u> |

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NOTES TO THE FINANCIAL STATEMENTS

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16. Derivatives (continued)

Swaps

The Scheme had derivative swap contracts outstanding at the year end relating to its fixed interest investment portfolio. These contracts are traded over the counter (OTC). The details are:

DB Section

| Nature | No. of contracts | Notional amounts £000 | Expires | Asset value £000 | Liability value £000 |
|---------------------|------------------|--------------------------|-------------------------|---------------------|-------------------------|
| Interest rate swaps | 2 | 40,200 | 2022-2025 | – | (2,450) |
| Inflation swaps | 136 | 473,511 | 2017-2060 | 3,700 | (22,390) |
| Total return swaps | | | May 2017-Mar 2018 | | |
| | 6 | 256,388 | | 25,816 | – |
| Longevity swap | 1 | – | | – | (66,300) |
| Total 2017 | | <u>770,099</u> | | <u>29,516</u> | <u>(91,140)</u> |
| Total 2016 | | <u>936,170</u> | | <u>–</u> | <u>(102,990)</u> |

The Scheme entered into a longevity insurance agreement in December 2012. The insurance contract will provide benefit payments to the Scheme in respect of all deferred pensioners age 55 and over at 31 December 2011 together with benefit payments in respect of all covered pensioners at the same date together with contingent benefits (but excluding children). The contract will terminate once claims reach a de minimis level at which point a lump sum is payable representing future remaining payments. The longevity swap has been valued by the actuary based on the expected net present value of future cash flows at £66,300,000 (2016: £48,500,000). The Scheme pledged £56,400,000 of collateral in cash to ReAssure at the 31 March 2017 (2016: £41,090,000) in respect of the longevity insurance agreement.

Under the OTC interest, inflation rate and total return swaps, the Scheme held collateral of £36,847,000 and pledged collateral of £28,531,000 in the form of UK gilts, UK index-linked gilts and cash at the 31 March 2017 (2016: pledged £55,976,000). This collateral is not reported within the Scheme's net assets.

Forward foreign exchange

The Scheme had open forward foreign exchange contracts at the year end as follows:

DB Section

| Contract | No. of contracts | Currency bought | Currency sold | Asset value £000 | Liability value £000 |
|-------------------|------------------|-----------------|---------------|---------------------|-------------------------|
| May 2017 | 2 | EUR 150 | GBP 130 | – | (1) |
| May 2017 | 4 | GBP 6,715 | EUR 7,830 | 9 | – |
| May 2017 | 4 | GBP 28,685 | USD 35,345 | 456 | – |
| May 2017 | 3 | USD 840 | GBP 682 | – | (11) |
| April 2017 | 14 | GBP 28,841 | USD 35,918 | 151 | (30) |
| Total 2017 | | | | <u>616</u> | <u>(42)</u> |
| Total 2016 | | | | <u>523</u> | <u>(166)</u> |

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17. Insurance policies

| | 2017 | | Total £000 |
|-----------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Annuities | <u>3,998</u> | <u>-</u> | <u>3,998</u> |

| | 2016 | | Total £000 |
|-----------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| Annuities | <u>5,085</u> | <u>-</u> | <u>5,085</u> |

18. AVC investments

| | 2017 | | Total £000 |
|------------------------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| The Equitable Life Assurance Society | 79 | - | 79 |
| Standard Life Assurance Limited | 43 | - | 43 |
| The Prudential Assurance Company Limited | 3 | - | 3 |
| | <u>125</u> | <u>-</u> | <u>125</u> |

| | 2016 | | Total £000 |
|------------------------------------------|--------------------|--------------------|---------------|
| | DB Section £000 | DC Section £000 | |
| The Equitable Life Assurance Society | 75 | - | 75 |
| Standard Life Assurance Limited | 43 | - | 43 |
| The Prudential Assurance Company Limited | 3 | - | 3 |
| | <u>121</u> | <u>-</u> | <u>121</u> |

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 AVCs. 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 above.

In addition there are AVCs of £3,077,786 (2016: £4,068,497) held within the core DB Section investments, and 53 DB Section Members (2016: 55 Members) have AVC investments in the DC Section investments managed by Friends Life Services Limited.

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NOTES TO THE FINANCIAL STATEMENTS

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19. Cash and cash equivalents

| | 2017 | | |
|-----------------------------|--------------------|--------------------|-----------------------|
| | DB Section £000 | DC Section £000 | Total £000 |
| Cash assets | | | |
| Sterling | 76,371 | – | 76,371 |
| Foreign currency | 6,588 | – | 6,588 |
| | <u>82,959</u> | <u>–</u> | <u>82,959</u> |
| Cash liabilities | | | |
| Sterling | (25,968) | – | (25,968) |
| | <u>56,991</u> | <u>–</u> | <u>56,991</u> |
| | | | |
| | 2016 | | |
| | DB Section £000 | DC Section £000 | Total £000 |
| Cash assets | | | |
| Sterling | 45,753 | – | 45,753 |
| Foreign currency | 4,338 | – | 4,338 |
| | <u>50,091</u> | <u>–</u> | <u>50,091</u> |
| Cash liabilities | | | |
| Sterling | – | – | – |
| | <u>50,091</u> | <u>–</u> | <u>50,091</u> |

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

20. Other investment balances

| | 2017 | | |
|----------------------------------------------|------------------|------------|------------------|
| | DB Section | DC Section | Total |
| | £000 | £000 | £000 |
| Other investment balances assets | | | |
| Tax recoverable | 41 | – | 41 |
| Accrued income | 11,810 | – | 11,810 |
| Loans | 7 | – | 7 |
| Outstanding trade sales | – | – | – |
| | <u>11,858</u> | <u>–</u> | <u>11,858</u> |
| Other investment balances liabilities | | | |
| Securities under repurchase agreements | (289,396) | – | (289,396) |
| Outstanding trade purchases | (3,189) | – | (3,189) |
| | <u>(292,585)</u> | <u>–</u> | <u>(292,585)</u> |
| | <u>(280,727)</u> | <u>–</u> | <u>(280,727)</u> |
| | | | |
| | 2016 | | |
| | DB Section | DC Section | Total |
| | £000 | £000 | £000 |
| Other investment balances assets | | | |
| Tax recoverable | 458 | – | 458 |
| Accrued income | 11,614 | – | 11,614 |
| Loans | 12 | – | 12 |
| Outstanding trade sales | 610 | – | 610 |
| | <u>12,694</u> | <u>–</u> | <u>12,694</u> |
| Other investment balances liabilities | | | |
| Securities under repurchase agreements | (277,151) | – | (277,151) |
| Outstanding trade purchases | (2,052) | – | (2,052) |
| | <u>(279,203)</u> | <u>–</u> | <u>(279,203)</u> |
| | <u>(266,509)</u> | <u>–</u> | <u>(266,509)</u> |

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

20. Other investment balances *(continued)*

Securities under repurchase agreements

Since March 2015 as part of its change in investment portfolio and the introduction of an LDI portfolio the Scheme has entered into repurchase agreements using its UK government conventional and index linked gilts as the underlying security. The Scheme retains the entitlement to receive income accruing on these securities and has a contractual agreement to repurchase the securities at a specified future date.

The securities are included in the financial statements as assets of the Scheme at their market value. At 31 March 2017 the market value of securities sold under repurchase agreements was £323.0m (31 March 2016: £314.7m).

Cash received from counterparties in respect of the securities that have been sold has been used by the Scheme to increase its bond portfolio. Amounts payable to counterparties under repurchase agreements are disclosed as liabilities in the Fund's financial statements under investment liabilities. At 31 March 2017 this amounted to £289.3m (31 March 2016: £277.1m).

21. Defined contribution assets

Defined contribution section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf the contributions are paid.

Defined contribution investment assets are allocated as follows:

| | 2017 £000 | 2016 £000 |
|-------------------------------|----------------|----------------|
| Allocated to Members | 174,718 | 111,010 |
| Trustee's unallocated account | 938 | 1,231 |
| | <u>175,656</u> | <u>112,241</u> |

22. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1 – the unadjusted quoted price in an active market for an identical asset or liability that the entity can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;
- Level 3 – inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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NOTES TO THE FINANCIAL STATEMENTS

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22. Fair value determination (continued)

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

| | At 31 March 2017 | | | Total £000 |
|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Level 1 £000 | Level 2 £000 | Level 3 £000 | |
| DB Section | | | | |
| Bonds | 1,190,455 | 421,700 | – | 1,612,155 |
| Property | – | – | 4,825 | 4,825 |
| Pooled investment vehicles | – | 129,034 | 26,921 | 155,955 |
| Derivatives | 431 | 5,932 | (66,300) | (59,937) |
| Insurance policies | – | – | 3,998 | 3,998 |
| AVC investments | – | – | 125 | 125 |
| Cash and cash equivalents | 56,991 | – | – | 56,991 |
| Other investment balances | 8,662 | (289,389) | – | (280,727) |
| | <u>1,256,539</u> | <u>267,277</u> | <u>(30,431)</u> | <u>1,493,385</u> |
| DC Section | | | | |
| Pooled investment vehicles | – | 175,656 | – | 175,656 |
| | <u>1,256,539</u> | <u>442,933</u> | <u>(30,431)</u> | <u>1,669,041</u> |
| | | | | |
| | At 31 March 2016 | | | Total £000 |
| | Level 1 £000 | Level 2 £000 | Level 3 £000 | |
| DB Section | | | | |
| Bonds | 1,033,580 | 382,070 | – | 1,415,650 |
| Property | – | – | 35,436 | 35,436 |
| Pooled investment vehicles | – | 100,236 | 24,788 | 125,024 |
| Derivatives | 32 | (51,652) | (48,500) | (100,120) |
| Insurance policies | – | – | 5,085 | 5,085 |
| AVC investments | – | – | 121 | 121 |
| Cash and cash equivalents | 50,091 | – | – | 50,091 |
| Other investment balances | 11,614 | (278,123) | – | (266,509) |
| | <u>1,095,317</u> | <u>152,531</u> | <u>16,930</u> | <u>1,264,778</u> |
| DC Section | | | | |
| Pooled investment vehicles | – | 112,241 | – | 112,241 |
| | <u>1,095,317</u> | <u>264,772</u> | <u>16,930</u> | <u>1,377,019</u> |

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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23. Investment risk disclosures

Investment risks

FRS 102 requires disclosure of information on certain investment risks to which the Scheme is exposed. These are:

Credit risk: 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 comprises currency risk, interest rate risk and other price risk as follows:

- **Currency risk** 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** is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk** 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 determines their investment strategy after taking advice from the investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

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

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23. Investment risk disclosures (continued)

DB Section

Investment strategy

The investment objective of the Defined Benefit Section ("DB Section") is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB section payable under the trust deed and rules as they fall due. This is combined with an objective of achieving returns in excess of the growth of liabilities.

The Trustee sets the investment strategy for the DB Section taking into account considerations such as the strength of the employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

Further information of the DB Section investment strategy can be found in the Trustee's Report under 'Investment Objectives and Strategy'.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

| Type | Credit risk | Currency risk | Market risk | | 2017 | 2016 |
|----------------------------|-------------|---------------|--------------------|------------------|------------------|------------------|
| | | | Interest rate risk | Other price risk | | |
| | | | | | £ | £ |
| Bonds | ● | ○ | ● | ○ | 1,612,155 | 1,415,650 |
| Property | ○ | ○ | ○ | ● | 4,825 | 35,436 |
| Pooled investment vehicles | | | | | | |
| Cash funds | ○ | ○ | ○ | ○ | 32,443 | 9,231 |
| Venture capital trusts | ● | ● | ○ | ● | 8,335 | 10,379 |
| Infrastructure funds | ○ | ○ | ● | ● | 26,920 | 24,787 |
| Multi asset funds | ● | ● | ● | ● | 88,257 | 80,627 |
| Derivatives | | | | | | |
| Futures | ● | ● | ● | ● | 431 | 32 |
| OTC Options | ● | ● | ○ | ● | 682 | 2,481 |
| OTC Swaps | ● | ● | ● | ● | (61,624) | (102,990) |
| OTC Forward FX contracts | ● | ● | ○ | ○ | 574 | 357 |
| Cash deposits | ○ | ○ | ○ | ○ | 56,991 | 50,091 |
| Other investment balances | ○ | ○ | ● | ○ | (280,727) | (266,509) |
| Total | | | | | <u>1,489,262</u> | <u>1,259,572</u> |

In the above table, the risk noted affects the asset class (●) significantly, (●) partially or (○) hardly/ not at all and relate to both the current and preceding year end.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

23. Investment risk disclosures *(continued)*

(i) Credit risk

The DB Section is subject to credit risk as there is direct investments in gilts, derivatives (over the counter options, swaps and forward FX contracts), cash deposits and other investment balances as detailed in the table above.

Over the counter derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. This is mitigated by daily collateralisation, by diversifying exposure across a number of counterparties and by the manager's ongoing assessment of the creditworthiness of each counterparty. Further details are provided in Note 16.

Credit risk on other investment balances (repurchase agreements) is mitigated through the use of a range of collateral arrangements as disclosed in Note 20.

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

Pooled funds are generally unrated due to the nature of the investment. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager and the regulatory environments in which the pooled managers operate. The Trustee or their advisors carry out due diligence checks prior to the appointment of new pooled investment managers and monitor any changes to the operating environment of the pooled manager. A summary of pooled investment vehicles by type of arrangement is as follows:

| | 2017 | 2016 |
|--------------------------------------|--------|--------|
| | £000 | £000 |
| Open-Ended Investment Company (OEIC) | 88,257 | 80,627 |

The Scheme is also subject to indirect credit risk in relation to underlying investments held in the bond and cash funds and a proportion of the multi asset funds as shown in the table above, although the proportion subject to credit risk will depend on the investment held at the time. The investment managers will consider the risk and expected reward when determining which investments to invest in. This was the case at the current and preceding year end.

(ii) Currency risk

The Scheme is subject to direct currency risk on the Futures and OTC options as shown in the table above. The Scheme is also subject to currency risk indirectly because a proportion of the equity funds, bond funds and multi asset funds underlying investments are held in overseas markets although the proportion is dependent on the investments held at the time. The Scheme's investment managers are responsible for managing currency risk in the pooled and segregated arrangements through currency hedging, where appropriate. This was the case at the current and preceding year end.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

23. Investment risk disclosures *(continued)*

(iii) Interest rate risk

The Scheme is subject to interest rate risk because some of its investments are held in bonds, OTC swaps and other investment balances which consists of repurchase agreements. These investment are used to hedge interest rate risk arising from the Scheme's liabilities. Under this strategy, if interest rates fall, the value of liability driven investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability driven investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. Over the year the Scheme disinvested from the equity fund and bond fund to increase their holdings in the investment used in the above strategy,

The Scheme's cash and bond funds and a proportion of the multi asset funds as detailed in the table above are also subject to interest rate risk although this will vary depending on the investments held at the time. The interest rate exposure is taken by the investment manager as part of their investment strategies to add value and manage risk. This was the case at the current and preceding year end apart from the bond fund which was fully disinvested during the current year.

Longevity risk

The Scheme currently holds longevity swaps to manage a proportion of the Scheme's longevity risk.

(iv) Other price risk

Other price risk arises from the Scheme's property, equity and infrastructure funds, as well as a proportion of the diversified growth fund as detailed in the table on page 47, although this will vary depending on the investments held at the time. The managers manage this exposure to overall price movements by constructing a diverse portfolio of investments across various markets and this was the case at the current and preceding year end.

The Scheme obtains equity exposure via a volatility controlled approach. The strategy has a 10% volatility target and the amount of equity exposure is adjusted to achieve this target. In less volatile markets, the equity holding is increased and in more volatile markets, the equity exposure is reduced. This strategy is implemented with OTC options as shown in the table on page 47 and a total return swap as detailed in Note 16 which provides downside protection against a sudden fall in equity markets.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

23. Investment risk disclosures (continued)

DC Section

Investment strategy

The Trustee's objective is to make available to members of the Defined Contribution Section ("DC Section") an appropriate range of investment options designed to generate income and capital growth, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). Further details are provided in the Trustee's Report under 'Investment Objectives and Strategy'.

The day to day management of the underlying investments of the funds is the responsibility of the investment managers, including the direct management of credit and market risks.

The Trustee monitors the underlying risks by quarterly investment reviews of performance.

The risks disclosed relate to the DC Section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the Trustee, and therefore, may face a different profile of risks from their individual choices compared with the DC Section as a whole.

The following table summarises the extent to which various classes of investments are affected by financial risks:

| Type | Credit risk | Currency risk | Market risk | | 2017 £'000 | 2016 £'000 |
|-----------------------------------|-------------|---------------|--------------------|------------------|----------------|----------------|
| | | | Interest rate risk | Other price risk | | |
| Pooled investment vehicles | | | | | | |
| Global Shares Fund | ● | ● | ○ | ● | 139,110 | 88,305 |
| UK Shares Fund | ● | ○ | ○ | ● | 1,079 | 690 |
| Diversified Growth (Active) Fund | ● | ● | ● | ● | 28,391 | 18,090 |
| Diversified Growth Fund | ● | ● | ● | ● | 582 | 481 |
| Property Fund | ● | ○ | ○ | ● | 842 | 674 |
| Bond fund | ● | ○ | ● | ○ | 2,290 | 1,442 |
| Cash fund | ● | ○ | ● | ○ | 3,362 | 2,559 |
| Total | | | | | 175,656 | 112,241 |

In the above table, the risk noted affects the asset class (●) significantly, (●) partially or (○) hardly/ not at all and relate to both the current and preceding year end.

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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

23. Investment risk disclosures *(continued)*

Direct credit risk

All DC Section investments held in Friends Life's insured funds are subject to a direct credit risk in relation to Friends Life.

Friend's Life is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustee monitors the creditworthiness of Friend's Life on a regular basis. Friend's Life invests all the Scheme's funds in its own investment unit linked funds and it does not use other investment funds or reinsurance arrangements. In the event of default by Friend's Life the members may be entitled to limited compensation from the Financial Services Compensation Scheme.

Indirect credit and market risk

The DC Section is also subject to indirect credit and market risk arising from the underlying investments held in the unit linked funds as detailed in the table above. Member level risk exposures will be dependent on the funds invested by members. The Scheme manages these exposures by regularly monitoring the performance of the funds and allowing individual a diverse choice of investments across various markets.

24. Concentration of investments

The following investments amounted to more than 5% of the total net assets of the Scheme:

| | 2017 | | 2016 | |
|---------------------------------------|---------|-----|---------|------|
| | £000 | % | £000 | % |
| UK Conventional Gilt 3.500 22/07/2068 | 153,460 | 9.2 | 148,902 | 10.8 |
| Friends Life My LV= Pension Plan | | | | |
| Global Shares Fund XE | 139,110 | 8.3 | 88,305 | 6.4 |
| UK Conventional Gilt 4.000 22/01/2060 | 113,497 | 6.8 | 117,603 | 8.5 |
| UK Conventional Gilt 3.750 22/07/2052 | 107,913 | 6.4 | 96,153 | 6.9 |
| UK Conventional Gilt 4.250 07/03/2036 | 90,599 | 5.4 | 85,766 | 6.2 |
| Threadneedle Oppor Invest Dynamic | | | | |
| Real Fund Acc | 88,258 | 5.3 | 80,628 | 5.8 |
| UK Conventional Gilt 4.250 07/12/2040 | n/a | n/a | 74,788 | 5.4 |

Items marked with n/a had holdings of less than 5%.

25. Employer related investments

There were no employer related investments held during the year or at the year end.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

26. Current assets

| | 2017 | | Total £000 |
|----------------------------------|--------------------|--------------------|-----------------------|
| | DB Section £000 | DC Section £000 | |
| Contributions due in respect of: | | | |
| Employers | 163 | – | 163 |
| Other debtors and prepayments | 2,216 | 2,007 | 4,223 |
| Due between sections | 417 | – | 417 |
| Cash balances | 2,547 | – | 2,547 |
| | <u>5,343</u> | <u>2,007</u> | <u>7,350</u> |
| | | | |
| | <i>2016</i> | | |
| | DB Section £000 | DC Section £000 | <i>Total £000</i> |
| Contributions due in respect of: | | | |
| Employers | 159 | – | <i>159</i> |
| Other debtors and prepayments | 872 | 2,147 | <i>3,019</i> |
| Due between sections | – | – | <i>–</i> |
| Cash balances | 9,079 | – | <i>9,079</i> |
| | <u>10,110</u> | <u>2,147</u> | <u><i>12,257</i></u> |

The contributions due at the year end have been paid to the Scheme subsequent to the year end in accordance with the Schedule of Contributions.

The DC Section other debtors and prepayments at 31 March 2016 and 31 March 2017 were allocated to members.

The £417,000 due between sections was to cover the DB Section deficit contributions for March 2017 and was transferred from the DC Section unallocated investments to the DB Section on 12 April 2017.

27. Current liabilities

| | 2017 | | Total £000 |
|------------------------------|--------------------|--------------------|-----------------------|
| | DB Section £000 | DC Section £000 | |
| Unpaid benefits | 140 | – | 140 |
| Other creditors and accruals | 1,254 | – | 1,254 |
| Due between sections | – | 417 | 417 |
| | <u>1,394</u> | <u>417</u> | <u>1,811</u> |
| | | | |
| | <i>2016</i> | | |
| | DB Section £000 | DC Section £000 | <i>Total £000</i> |
| Unpaid benefits | 203 | – | <i>203</i> |
| Other creditors and accruals | 2,312 | – | <i>2,312</i> |
| Due between sections | – | – | <i>–</i> |
| | <u>2,515</u> | <u>–</u> | <u><i>2,515</i></u> |

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

27. Current liabilities *(continued)*

The £417,000 due between sections was to cover the DB Section deficit contributions for March 2017 and was transferred from the DC Section unallocated investments to the DB Section on 12 April 2017.

28. Related party transactions

The Scheme has paid benefits in respect of certain Directors who are Members of the Scheme.

Administrative expenses for the year ended 31 March 2017 of £196,000 (2016: £261,000) were charged by the Society, the Principal Employer.

As at 31 March 2017 the Scheme owed £28,000 (2016: £54,000) to the Society in respect of its administrative expenses.

The Society paid the PPF levy of £22,071 and the group life assurance premium of £1,015,720 for the year ended 31 March 2017.

BESTrustees plc, the independent Director represented by P Thompson to 31 December 2016 and H Evans from 1 January 2017, was paid £29,900 for its services during the year (2016: £28,500). The other Directors nominated by the employer, Members and pensioners do not receive any remuneration for performing their duties.

All of the above transactions were made in accordance with the Scheme Rules.

29. Contingent liabilities and contractual commitments

Approved future capital expenditure and commitments for which no provision has been made in the accounts are as follows:

| | 2017 | <i>2016</i> |
|----------------------------------------|---------------------|---------------------|
| | £000 | <i>£000</i> |
| Venture capital trusts commitments | 2,073 | <i>2,433</i> |
| Equitix infrastructure fund commitment | 3,548 | <i>5,029</i> |
| | <u>5,621</u> | <i><u>7,462</u></i> |

In the opinion of the Trustee the Scheme had no other contingent liabilities or contractual commitments as at 31 March 2017 (31 March 2016 - Nil).

LV= Employee Pension Plan – DC Section

Chair statement 2017

This statement has been prepared by the Trustee of the LV= Employee Pension Plan (“the Plan”), it confirms adherence to the DWP governance standards and describes how the Trustee has met these standards in relation to:

- the default arrangement;
- the requirements for processing financial transactions;
- charges and transaction costs borne by members; and
- Trustee knowledge and understanding.

This statement covers the period from 6 April 2016 to 5 April 2017.

Investment strategy

The Trustee has in place a Statement of Investment Principles (SIP) which governs decisions about investments and sets out the aims and objectives of the Plan’s investment strategy, including information about the DC Section’s default investment strategy. In particular it covers:

- How the default investment strategy is intended to ensure that assets are invested in the best interests of DC Members and beneficiaries. A copy of the Plan’s current SIP is appended to this statement.

The performance of the funds underlying the default investment strategy is provided quarterly and reviewed by the Trustee as part of their regular meeting agendas. A full review is undertaken annually, with support from the Trustee’s DC investment consultant. No changes have been made to the default as a result of this monitoring during the period covered by this statement.

The next review of the DC Section’s default investment strategy will take place no later than February 2018. This will be undertaken sooner if there are any significant changes in investment policy or DC Member demographics.

Financial transactions

The Trustee regularly monitors the core financial transactions of the Plan. This is achieved through the review of quarterly reporting from the Plan’s administrator Friends Life, and the monthly contribution payment monitoring undertaken by the LV= Pension Team. The Plan’s accounts are also audited annually by a third party.

In addition, the Trustee’s advisers LCP confirmed that all of the required processes and controls are in place to ensure that the DC Section is compliant with the Pensions Regulator’s DC code in this area (paragraphs 70-78). The Plan is also compliant with the Code of Practice 6 (Reporting late payment of contributions to occupational pension Plans) and with the Regulations.

Based on this regular monitoring and the LCP’s assessment, the Trustee is satisfied that the requirement to process core financial transactions promptly and accurately has been met during the Plan year in relation to the money purchase benefits provided by the Plan.

Charges and transaction costs

The costs of running the Plan and providing member services are split as follows:

- Each investment fund has charges that cover the costs of investment services, communications and administration provided by Friends Life and the underlying fund manager costs. These are paid by individual members.
- Trustee services including adviser fees and additional member communications costs are currently paid by LV=.

For the purpose of this Statement, “charges” are defined as the annual management charges (“AMC”) plus additional fund expenses (eg for custody, but excluding transaction costs). The total expense ratio (TER) is the fund AMC plus any additional expenses such as trading fees, legal fees, auditor fees and other operational expenses, but does not include transaction costs.

The AMCs and TERs for the funds available for selection by Members of the DC Section during the 2016/17 Plan year are set out below:

| White label fund name | Underlying fund name | AMC | TER |
|----------------------------------|-------------------------------------|-------|-------|
| Global Shares Fund | BlackRock World Index Fund | 0.26% | 0.27% |
| Diversified Growth | LGIM Diversified Fund | 0.48% | 0.50% |
| Pre-Retirement | LGIM Pre-Retirement | 0.41% | 0.41% |
| Cash Fund | BlackRock Cash Fund | 0.27% | 0.41% |
| UK Shares Fund | Blackrock UK Equity Index Fund | 0.27% | 0.27% |
| Property Fund | Threadneedle Pensions Property Fund | 0.87% | 0.87% |
| Diversified Growth Fund (Active) | Schroder Diversified Growth Fund | 0.72% | 0.77% |

The default investment strategy is constructed using the global shares, diversified growth, pre-retirement and cash funds. The AMC for the default investment strategy is therefore below the charge cap of 0.75% set out in the Regulations.

The Trustee’s investment advisers, on behalf of the Trustee, have sought to obtain a breakdown of the underlying transaction costs over the period covered by this Chair’s Statement from all of the investment managers (both in the default and self-select funds). The information received from the investment managers was either incomplete or inconsistent, and therefore transaction costs are not able to be included in this Chair’s Statement.

However, the Trustee will continue to work with its advisers and investment managers with the aim of providing transaction costs figures in the next annual Chairman’s Statement.

Value for members

The Trustee is committed to ensuring that DC Members get value for money (i.e. that the costs and charges deducted from DC Members’ pots or contributions provide good value in relation to the benefits and services provided) and keeps value for money in mind on an on-going basis, including it as an item on the Plan’s risk register. The Trustee undertakes a regular value for money assessment with support from its advisers.

The Trustee notes that value for money does not necessarily mean the lowest fee, and the overall quality of the service received has been taken into account in the value for money assessment.

An assessment was carried out where the Trustee looked at whether overall, the charges and fees paid represent value for members. In accordance with the Pensions Regulator's DC code in this area (paragraphs 113 - 133) and with the Regulations, it was concluded that, overall, the DC Section represents value for money for its Members, as:

- The charges are both below the charge cap (0.75%) and for most of the funds offered lower than the average charges for other similar Plans.
- The DC Section offers a wide range of services to help ensure Members receive a quality service.

However, the assessment did highlight a number of improvements that could be made, particularly in respect of Plan administration. Having recognised some recent problems with Plan servicing, the Trustee, with the support of its advisers, is currently working with the current administrators Friends Life, with a view to improving the value that members receive in this area.

Trustee knowledge and understanding (TKU)

The Trustee has a strong TKU process in place which enables it, along with the advice that is available from its advisers, to properly exercise its function as Trustee of the Plan. The Trustee's approach to meeting the TKU requirements includes:

- Maintaining a rolling programme of bespoke Trustee training which is delivered during two designated training days and within Trustee meetings where appropriate.
- Recording all training and attendance at appropriate seminars in the Trustee training log in order to support the Chair's statement.
- Circulating to each Trustee "hot topics" and general updates from its advisers about DC matters.
- Reviewing the training programme annually following an assessment of Trustee knowledge, understanding and skills.
- Carrying out an effectiveness self-assessment from time to time.

An independent assessment by LCP of the Trustee's TKU process has confirmed that the Trustee exceeds the regulatory standards and is therefore compliant with the Pensions Regulator's DC code in this area (paragraphs 41-50) and the Code of Practice 7 (Guidance on TKU). The Trustee is also satisfied that the requirements under the Regulations are met.

In the Plan year ending 31 March 2017, the TKU requirements were met through a combination of the above methods. In particular, members of the Trustee body undertook an aggregate of 49 hours training. The training undertaken excludes the training completed by the Plan's independent Trustee, who, as a professional Trustee, brings advanced technical knowledge and understanding to the Board.

Huw Evans

Trustee Chair
LV= Employee Pension Plan

Date: 28 June 2017

Governance statement for LV= Employee Pension Plan (“the Plan”)

The Department for Work and Pensions (DWP) has set out in the Occupational Pension Plans (Charges and Governance) Regulations 2015 (‘the Regulations’) the minimum governance standards it expects defined contribution (DC) pension Plans to meet. The Pensions Regulator (tPR) has also set out standards of conduct and practice that it expects trustee boards to meet in complying with their duties in legislation.

As the Trustee of LV= Employee Pension Plan (“the Plan”), in conjunction with our advisers, we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in the Pension Regulator’s:

- Code of practice 13: Governance and administration of occupational trust-based Plans providing money purchase benefits
- Regulatory guidance for defined contribution Plans

Following this assessment, the Trustee believe that that the DC Section demonstrates all aspects of the quality features expected by the Regulator and in some areas exceeds these expectations.