

**LV= EMPLOYEE PENSION SCHEME
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018
SCHEME REGISTRATION NUMBER: 10200449**

LV= EMPLOYEE PENSION SCHEME

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TRUSTEE AND ADVISERS

YEAR ENDED 31 MARCH 2018

Principal Employer	Liverpool Victoria Friendly Society 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 Huw Evans (Trustee Chair) Lisa Mundy Peter Sinden Judith Coole, nee Hibbert (appointed 28 December 2017)
	<u>Selected by active Members</u> Judith Coole, nee Hibbert (resigned 28 December 2017) Nigel Simons (resigned 31 December 2017) Elaine Carr (appointed 30 April 2018) Jason Mallen (appointed 30 April 2018)
	<u>Selected by pensioner Members</u> Michael Mercer
Secretary to the Trustee	Andrew Johnson (resigned 13 April 2018) Rachel Small (appointed 6 June 2018)
Scheme Actuary	Brian Nimmo of Hymans Robertson LLP (resigned on 10 July 2017: re-appointed 25 September 2017) Kenneth Taylor of Hymans Robertson LLP (appointed 10 July 2017: resigned on 25 September 2017)
Independent auditor	Crowe U.K. LLP (formerly known as Crowe Clark Whitehill LLP)
Legal advisers	Allen & Overy LLP
Investment custodians	HSBC Bank Plc McGrigor Donald 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)*

YEAR ENDED 31 MARCH 2018

Administrators	Defined Benefit Towers Watson Limited	Defined Contribution Aviva Life & Pensions UK Limited (formerly known as Friends Life Services Limited)
Investment advisers	Redington Limited	Lane Clark & Peacock
Investment managers	Columbia Threadneedle Investment Services Limited Equitix Investment Management Limited BlackRock Investment Management Limited	Aviva Life & Pensions UK Limited (formerly Friends Life Services Limited)
Covenant adviser	Ernst and Young LLP	

The following defined terms are used throughout the report:

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

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TRUSTEE'S REPORT

YEAR ENDED 31 MARCH 2018

Introduction

The Board presents its annual report for the Scheme together with the investment report, actuarial certificate and financial statements for the year ended 31 March 2018.

The Scheme is an occupational pension scheme for contract or permanent full and part-time staff and former staff of the Society and its subsidiary companies (excluding LVGIG) in the United Kingdom and contains both non-contributory and contributory Sections. There is a separate pension arrangement for current LVGIG staff.

The Scheme is registered 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. DB Section assets are managed by:

- 1) Columbia Threadneedle Investments (CTI), which was appointed on 1 November 2011 to manage corporate bonds, property and "alternative" investments. CTI 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 Aviva Life & Pensions UK Limited (Aviva).

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 2018

Scheme financial statements and summary of contributions

The financial statements of the Scheme for the year ended 31 March 2018 are set out on pages 26 to 53 and the Trustee's summary of contributions and the independent Auditor's statement about contributions are set out on pages 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 £41.5m over the year giving a Scheme value of £1,716.1m at 31 March 2018.

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 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.

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 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 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.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

The full Board met on six occasions. All Directors attended all Board meetings for the Scheme year ending 31 March 2018 (or, if applicable, the date when they left office), except Peter Sinden who did not attend five meetings and Lisa Mundy who did not attend one meeting. 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 alternated between being primarily DB focussed and DC focussed. It was decided at the 9 June 2017 meeting that a Defined Contribution Sub Committee would be established to meet three times a year, starting in 2018.

Committees of the Trustee Board

Investment Sub Committee ("ISC")

The ISC met four times during the year. Its role is to consider and advise the Board on investment strategy and risks associated with the DB 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 members of the ISC are Huw Evans, Peter Sinden and Nigel Simons (resigned on 31 December 2017) and all Directors are invited to attend.

Administration Sub Committee ("ASC")

The ASC met two times 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 members of the ASC are Huw Evans, Lisa Mundy, Judith Coole and Michael Mercer and all Directors are invited to attend.

Defined Contribution Sub Committee ("DCSC")

The DCSC met once during the year. Its main purpose is to ensure that effective governance and administration processes are in place for the DC Section. The DCSC will ensure that the DC Section is being operated in line with the Scheme's rules and guidance set out in the Pension Regulators DC code of practice 13 entitled "Governance and administration of occupational defined contribution trust-based pension schemes". The DCSC will report compliance to the full Board as appropriate.

When the DCSC was set up, monitoring performance of the DC Sections administrators was passed from ISC to DCSC.

The members of the DCSC are Lisa Mundy, Judith Coole 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 14 August 2017 and 31 October 2017. Training is also provided as and when required during Trustee meetings.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Other events

- The Scheme's triennial actuarial valuation is due on 31 March 2018. Work has commenced on this and should be concluded by the statutory deadline of 30 June 2019.
- LV= announced a strategic partnership with Allianz, one of the world's largest Property & Casualty insurers. Specifically, a joint venture has been established between their General Insurance businesses creating the third largest personal insurer in the UK. Following completion of the first stage of the transaction on 28 December 2017, LV= owned 51% of the joint venture and Allianz 49%. Allianz will acquire a further 20.9% stake in the joint venture at the end of 2019. This will lift Allianz's total ownership of the joint venture to 69.9%. Allianz has paid £500 m for its 49% stake and will pay a further £213 m in two years for its additional 20.9% stake.

The Trustee is working closely with LV= to ensure that it fully understands the impact of this transaction and that the Scheme is treated fairly now and in the future and the Trustee will take any action necessary to support the on-going objectives of the Scheme.

As a result of the establishment of the joint venture, 3,457 active members of the DC section ceased active membership and became deferred members in the Scheme. Active membership of the newly established joint venture pension scheme was offered instead. These 3,457 members have been given the choice of transferring their fund to their new DC scheme and 1,304 members have opted to transfer their funds.

- Aviva acquired Friends Life in June 2015. Since that date Aviva have been following a strict legal process to transfer and integrate the Friends Life business into its organisation. This process has now completed and, as a result, Aviva Life & Pensions UK Limited became the administration provider for the DC Section of the Scheme on 1 October 2017.
- The Trustee has continued to work with its advisers and the Society throughout the year on the Scheme's investment strategy. The Scheme's GBP credit only mandate was split 50/50 between GBP and USD credit. This was to improve the diversification of the investment grade credit allocation. The Scheme has also reduced the amount invested in volatility controlled equities, using the proceeds to increase its exposure in the Scheme's Diversified Growth Fund investment.
- 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 of the Pensions Act 1995 became due from LVIM to the Trustee. The Trustee was advised that the relevant liability was estimated to have been between £1 m and £2 m (excluding orphan liabilities and expenses) out of a total Scheme section 75 debt of around £400 m.

Rather than make the required payment into the Scheme, the Society requested that the Trustee 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.

- Ernst & Young LLP were appointed as the Scheme's covenant adviser in place of Deloitte.
 - The Trustee adopted a new business plan. This document set out the Trustee vision, strategic objectives and long term goals, along with details of how these will be achieved.
 - An exercise began in January 2018 to fill the Member Nominated Director positions on the Board created by the resignations of Nigel Simons and Judith Coole. The two successful candidates, Elaine Carr and Jason Mallen were formally appointed with effect from 30 April 2018.
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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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

There were no changes to the Scheme Rules during the year.

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

Changes of Actuary

Brian Nimmo of Hymans Robertson LLP resigned as the Actuary of the Scheme on 10 July 2017 to take a sabbatical. In his resignation statement he declared that he knew of no circumstances connected with his resignation which, in his opinion, significantly affected the interests of the Members, prospective Members, or beneficiaries of the Scheme.

Kenneth Taylor, also of Hymans Robertson LLP, was appointed to replace Mr Nimmo during his absence. Mr Taylor resigned as the Actuary of the Scheme on Mr Nimmo's return on 25 September 2017. In his resignation statement Mr Taylor declared that he knew of no circumstances connected with his resignation which, in his opinion, significantly affected the interests of the Members, prospective Members, or beneficiaries of the Scheme.

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TRUSTEE'S REPORT *(continued)*

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Statement of Trustee's responsibilities

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

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

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

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.

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TRUSTEE'S REPORT *(continued)*

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Membership

The changes in membership during the year are as follows:

DB Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2017	–	6,157	3,699	816	10,672
Adjustments to prior year	–	(7)	2	11	6
New spouses and dependents	–	–	–	49	49
Retirements	–	(141)	141	–	–
Deaths	–	(10)	(110)	(55)	(175)
Entitlements ceasing	–	–	–	(3)	(3)
Transfers out	–	(101)	–	–	(101)
Commutations	–	(13)	(5)	–	(18)
At 31 March 2018	–	5,885	3,727	818	10,430

DC Section

	Active	Deferred	Pensioners	Beneficiaries	Total
At 1 April 2017	5,802	1,994	–	–	7,796
New members	700	–	–	–	700
Retirements	(25)	(12)	–	–	(37)
Members leaving with deferred benefits	(4,586)	4,586	–	–	–
Members leaving with refunds	(45)	(60)	–	–	(105)
Deaths	(3)	–	–	–	(3)
Transfers out	(54)	(78)	–	–	(132)
Combined records	–	(1)	–	–	(1)
At 31 March 2018	1,789	6,429	–	–	8,218
Total membership	1,789	12,314	3,727	818	18,648

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

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TRUSTEE'S REPORT *(continued)*

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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 2017. These are based on September 2016 RPI of 2.0% except the post 5 April 1988 GMP element. This is subject to statutory increases based on CPI; which was 1%. The pre 6 April 1997 excess element is subject to a minimum increase of 3%.

The Frizzell increases were applied from 6 July 2017. These are based on the April 2017 RPI of 3.5% 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%. The post 30 November 2007 element is subject to a maximum increase of 2.5%.

<u>Pension element</u>	<u>Increase applied</u>	
	<u>Liverpool Victoria</u> <u>01-04-2017</u>	<u>Frizzell</u> <u>06-07-2017</u>
Pre 06/04/1988 GMP	No increase	3.0%
Post 05/04/1988 GMP	1.0%	3.0%
Pre 6/04/1997 excess over GMP	3.0%	3.5%
06/04/1997 to 30/11/2007 pension	2.0%	3.5%
Post 30/11/2007 benefits	2.0%	2.5%
Pre 06/04/1995 AVCs	No increase	No increase
06/04/1995 to 05/04/2000 AVCs	2.0%	3.5%
Post 05/04/2000 AVCs	2.0%	3.5%

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 2018

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 2017.

Valuation date: 31 March	2016	2017
Value of technical provisions	£1,365.4m	£1,522.1m
Value of assets available to meet technical provisions	£1,311.6m	£1,553.9m
As a percentage of technical provisions	96%	102%

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)*

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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 20 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 actuarial valuation is as at 31 March 2018. The Trustee has received 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 2018

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 19.

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 2018 is calculated as being 0.14% 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 62% of total assets, with Threadneedle Pensions Limited holding approximately 36% of assets and Equitix Investment Management Limited holding 2% 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 2018

The allocation of the Scheme's investments, in terms of underlying investments at 31 March 2018 and 31 March 2017 were as follows:

	2018 %	2018 %	2017 %	2017 %
Total assets		100		100
Return seeking		9		9
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		-		-
Liability matching		91		91
Annuity		-		-
LDI portfolio		57		58
UK gilts	54		62	
Index linked securities	21		13	
Repurchase agreements	(20)		(18)	
Liquidity, cash and commitments	-		-	
Derivatives	-		(1)	
Collateral posted for Volatility Controlled equities	2		2	
Corporate bonds		29		29
Cash		1		-
Collateral posted for longevity swap		4		4

* Both 2017 and 2018 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)*

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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
2018	5.7	1.7

* 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.

Overall the Scheme has outperformed the benchmark. The Trustee continues to monitor performance on a regular basis.

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TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

DC Section (provided by Aviva)

The table below shows the performance against benchmark of each of the DC Section funds for one three and five years ended 31 March 2018.

Annual percentage returns	1 year %	3 years %	5 years %
Global Shares Fund	1.8	11.6	11.0
<i>Benchmark</i>	2.3	11.5	11.0
UK Shares Fund	1.9	5.7	6.6
<i>Benchmark</i>	1.8	6.0	6.7
Pre-retirement Fund	0.9	3.9	6.6
<i>Benchmark</i>	1.2	4.8	6.6
Diversified Growth Fund	1.5	6.7	7.9
<i>Benchmark</i>	3.9	4.0	4.0
Property Fund	2.6	6.0	9.4
<i>Benchmark</i>	10.0	8.1	10.5
Diversified Growth Fund (Active)	4.0	2.6	4.7
<i>Benchmark</i>	7.6	6.8	6.3
Cash Fund	0.2	0.2	0.3
<i>Benchmark</i>	0.2	0.3	0.3

The performance figures for the funds are net of fees.

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

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 DB 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 and 2 of this report and also with the Employer. The changes to the Scheme advisers are shown on pages 1 and 2 of this report.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

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;
- if they have general requests for information or guidance concerning pension arrangements contact The Pensions Advisory Service (TPAS):
 - Address: 11 Belgrave Road, London, SW1V 1RB
 - Telephone: 0800 011 3797
 - Website: www.pensionsadvisoryservice.org.uk
 - Email: enquiries@pensionsadvisoryservice.org.uk
- if they have a complaint or dispute concerning a workplace or personal pension arrangement they have the right to contact The Pensions Ombudsman free of charge:
 - Address: 10 South Colonnade, Canary Wharf, E14 4PU
 - Telephone: 0800 917 4487
 - Website: www.pensions-ombudsman.org.uk
 - Email: enquiries@pensions-ombudsman.org.uk

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.

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.

LV= EMPLOYEE PENSION SCHEME

TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 MARCH 2018

Contact for further information

Further information about the Scheme is available on its website at www.lvpensionsvillage.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 Huw Evans

Director Peter Sinden

Date 27/9/18

Date 27/9/18

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 2018

Statement of Trustee's responsibilities in respect of contributions (forming part of the Trustee's Report)

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active Members of the Scheme and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active Member of the Scheme and for adopting risk-based processes to monitor whether contributions 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 Schedule of Contributions certified by the Actuary on 6 September 2016 in respect of the Scheme year ended 31 March 2018. The Scheme auditor reports on contributions payable under the Schedule in their auditor's statement about contributions.

Contributions payable under the Schedule in respect of the Scheme year		2018
		£000
Employer		
	Normal	24,492
	Deficit	5,000
	For expenses	2,032
Contributions payable under the Schedule (as reported on by the Scheme auditor)		<u>31,524</u>

Reconciliation of contributions

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

Contributions payable under the Schedule (as above in the Trustee's summary)	31,524
Contributions payable in addition to those payable under the Schedule (and not reported on by the Scheme auditor) Members' AVCs	213
Total contributions reported in the financial statements	<u>31,737</u>

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

Director Huw Evans

Director Peter Sinden

Date 27/9/18

Date 27/9/18

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE YEAR ENDED 31 MARCH 2018

Statement about contributions payable under the Schedule of Contributions

We have examined the summary of contributions payable to the LV= Employee Pension Scheme, for the Scheme year ended 31 March 2018 which is set out on page 21.

In our opinion contributions for the Scheme year ended 31 March 2018 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 6 September 2016.

Basis of opinion

Our objective is to obtain sufficient evidence to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule 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 Schedule of Contributions.

Responsibilities of the Trustee

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.

Auditor's responsibilities for the statement about contributions

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

Use of our report

This statement 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 statement, or for the opinion we have formed.

Crowe U.K. LLP
Statutory Auditor
Reading

Date 27 September 2018

LV= EMPLOYEE PENSION SCHEME

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE

YEAR ENDED 31 MARCH 2018

Opinion

We have audited the financial statements of the LV= Employee Pension Scheme for the year ended 31 March 2018 which comprise the Fund Account, the Statement of Net Assets and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2018, 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

LV= EMPLOYEE PENSION SCHEME

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

YEAR ENDED 31 MARCH 2018

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 8, the Trustee is responsible for the preparation of the financial statements, for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

LV= EMPLOYEE PENSION SCHEME

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

YEAR ENDED 31 MARCH 2018

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of 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 Scheme's 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's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Crowe U.K. LLP
Statutory Auditor
Reading

Date 27 September 2018

LV= EMPLOYEE PENSION SCHEME

FUND ACCOUNT

YEAR ENDED 31 MARCH 2018

	Note	DB Section 2018 £000	DC Section 2018 £000	Total 2018 £000	Total 2017 £000
Contributions and benefits					
Employer contributions		7,032	24,492	31,524	40,125
Employee contributions		–	213	213	809
Total contributions	3	7,032	24,705	31,737	40,934
Transfers in	4	–	490	490	522
Other income	5	1,904	–	1,904	263
		<u>8,936</u>	<u>25,195</u>	<u>34,131</u>	<u>41,719</u>
Benefits	6	(41,131)	(1,173)	(42,304)	(39,483)
Transfers out	7	(22,657)	(7,008)	(29,665)	(19,682)
Administrative expenses	8	(2,464)	–	(2,464)	(2,358)
		<u>(66,252)</u>	<u>(8,181)</u>	<u>(74,433)</u>	<u>(61,523)</u>
Net (withdrawals)/additions from dealings with members		(57,316)	17,014	(40,302)	(19,804)
Returns on investments					
Investment income	9	39,245	–	39,245	39,081
Change in market value of investments	10	42,787	1,999	44,786	270,813
Investment management expenses	11	(1,642)	(569)	(2,211)	(2,271)
Net returns on investments		80,390	1,430	81,820	307,623
Net increase in the fund during the year		23,074	18,444	41,518	287,819
Transfers between sections	13	180	(180)	–	–
Net assets of the Scheme					
At 1 April		1,497,334	177,246	1,674,580	1,386,761
At 31 March		1,520,588	195,510	1,716,098	1,674,580

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AS AT 31 MARCH 2018

	Note	2018 £000	2017 £000
DB Section			
Investment assets	10		
Bonds		1,668,153	1,612,155
Pooled investment vehicles	14	136,186	160,780
Derivatives	15	24,810	31,273
Insurance policies	16	3,832	3,998
AVC investments	17	113	125
Cash and cash equivalent	18	96,088	82,959
Other investment balances	19	10,948	11,858
		<u>1,940,130</u>	<u>1,903,148</u>
Investment liabilities	10		
Derivatives	15	(99,180)	(91,210)
Cash	18	–	(25,968)
Other investment balances	19	(324,956)	(292,585)
		<u>(424,136)</u>	<u>(409,763)</u>
Total net investments		<u>1,515,994</u>	<u>1,493,385</u>
Current assets	25	7,174	5,343
Current liabilities	26	(2,580)	(1,394)
Net assets at 31 March		<u>1,520,588</u>	<u>1,497,334</u>
DC Section			
Investment assets	10		
Pooled investment vehicles	14	194,520	175,656
Current assets	25	990	2,007
Current liabilities	26	–	(417)
Net assets at 31 March		<u>195,510</u>	<u>177,246</u>
Net assets of the Scheme at 31 March		<u>1,716,098</u>	<u>1,674,580</u>

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

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

AS AT 31 MARCH 2018

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 11 to 12 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 Huw Evans

Director Peter Sinden

Date 27/9/18

Date 27/9/18

The notes on pages 29 to 53 form part of these financial statements.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

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").

The Financial Statements have been prepared on a going concern basis and 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.

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.

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 2018

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

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 2018

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 (2017: 76 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 2018

3. Contributions

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Employer contributions			
Normal	–	24,492	24,492
Deficit funding	5,000	–	5,000
For expenses	2,032	–	2,032
	<u>7,032</u>	<u>24,492</u>	<u>31,524</u>
Employee contributions			
AVCs	–	213	213
	<u>7,032</u>	<u>24,705</u>	<u>31,737</u>
	2017		
	DB Section	DC Section	Total
	£000	£000	£000
Employer contributions			
Normal	–	29,419	29,419
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>

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

In the year to 31 March 2018, the Employer has paid the above contributions to the DB Section towards the deficit and costs of administration. There were no further DB Section Employer contributions paid to the Scheme.

In the previous year ended 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.

4. Transfers in

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Individual transfers in from other schemes	–	490	490

LV= EMPLOYEE PENSION SCHEME
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2018

4. Transfers in (continued)

	<i>2017</i>		
	DB Section	DC Section	<i>Total</i>
	£000	£000	£000
Individual transfers in from other schemes	<u>–</u>	<u>522</u>	<u>522</u>

5. Other income

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Claims on insurance policies	<u>1,904</u>	<u>–</u>	<u>1,904</u>

	<i>2017</i>		
	DB Section	DC Section	<i>Total</i>
	£000	£000	£000
Claims on insurance policies	<u>263</u>	<u>–</u>	<u>263</u>

6. Benefits

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Pensions	34,895	–	34,895
Commutations and retirement lump sums	3,976	893	4,869
Purchase of annuities	19	105	124
Lump sum death benefits	2,190	175	2,365
Taxation where lifetime or annual allowance exceeded	51	–	51
	<u>41,131</u>	<u>1,173</u>	<u>42,304</u>

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

7. Transfers out

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Individual transfers out	<u>22,657</u>	<u>7,008</u>	<u>29,665</u>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

7. Transfers out (continued)

	2017		
	DB Section	DC Section	Total
	£000	£000	£000
Individual transfers out	17,043	2,639	19,682

8. Administrative expenses

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Administration fees	396	-	396
Legal and other fees	575	-	575
Actuarial and consultancy fees	1,398	-	1,398
Audit fee	54	-	54
TPR administration fees	41	-	41
	<u>2,464</u>	<u>-</u>	<u>2,464</u>

	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>

9. Investment income

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Net rents from properties	70	-	70
Income from bonds	39,629	-	39,629
Income from pooled investment vehicles	401	-	401
Interest paid on repurchase transactions	(1,622)	-	(1,622)
Annuity income	600	-	600
Loans	3	-	3
Interest on cash deposits	164	-	164
	<u>39,245</u>	<u>-</u>	<u>39,245</u>

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9. Investment income (continued)

	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>

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

10. Investments

DB Section

	Value at 1 April 2017 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2018 £000
Bonds	1,612,155	664,289	(586,375)	(21,916)	1,668,153
Pooled investment vehicles	160,780	227,276	(257,107)	5,237	136,186
Derivatives	(59,937)	886,858	(964,212)	62,921	(74,370)
Insurance policies	3,998	–	–	(166)	3,832
AVC investments	125	–	(15)	3	113
	<u>1,717,121</u>	<u>1,778,423</u>	<u>(1,807,709)</u>	46,079	<u>1,733,914</u>
Cash and cash equivalents	56,991			(3,292)	96,088
Other investment balances	(280,727)			–	(314,008)
	<u>1,493,385</u>			<u>42,787</u>	<u>1,515,994</u>

Included within the table above are £189m of purchases and sales of bonds that relate to a Trustee investment decision to increase the holding of USD credit. £189m was transferred from GBP credit to USD credit. Additionally, to reduce the Scheme's exposure to protected equity by 12% one Total Return SWAP and put option contract were not rolled forward, as well as two Total Return SWAP and put option contracts were terminated.

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10. Investments *(continued)*

DC Section

	Value at 1 April 2017 £000	Purchases at cost £000	Sales proceeds £000	Change in market value £000	Value at 31 March 2018 £000
Pooled investment vehicles	<u>175,656</u>	<u>26,357</u>	<u>(9,492)</u>	<u>1,999</u>	<u>194,520</u>

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.

The property fund £4,448,000 (2017: £4,825,000) has been reclassified to pooled investment vehicles during the current year.

11. Investment management expenses

	2018		Total £000
	DB Section £000	DC Section £000	
Administration, management and custody fees	<u>1,642</u>	<u>569</u>	<u>2,211</u>

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

The DB Section fees for the year ended 31 March 2018 include investment manager and custodian fees of £1,771,000 (2017: £2,037,000) less OEIC fee rebates of £276,000 (2017: £224,000).

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

	2018		Total £000
	DB Section £000	DC Section £000	
Transfers between sections	<u>180</u>	<u>(180)</u>	<u>—</u>

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13. Transfers between sections (continued)

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

The transfers between sections for the year ended 31 March 2018 include £180,000 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.

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.

14. Pooled investment vehicles

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

	2018		Total £000
	DB Section £000	DC Section £000	
Equity	-	153,998	153,998
Bond	-	2,386	2,386
Diversified growth	-	33,979	33,979
Property	4,448	915	5,363
Cash	1,875	3,242	5,117
Venture capital trusts	6,541	-	6,541
Infrastructure fund	32,642	-	32,642
Multi asset	90,680	-	90,680
	<u>136,186</u>	<u>194,520</u>	<u>330,706</u>

	2017		<i>Total</i> £000
	DB Section £000	DC Section £000	
Equity	-	140,189	140,189
Bond	-	2,290	2,290
Diversified growth	-	28,973	28,973
Property	4,825	842	5,667
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>160,780</u>	<u>175,656</u>	<u>336,436</u>

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NOTES TO THE FINANCIAL STATEMENTS

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14. Pooled investment vehicles *(continued)*

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

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

15. 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:

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Derivative assets			
Futures	225	–	225
Options	597	–	597
Swaps	17,362	–	17,362
Forward FX contracts	6,626	–	6,626
	<u>24,810</u>	<u>–</u>	<u>24,810</u>
Derivative liabilities			
Futures	(208)	–	(208)
Options	–	–	–
Swaps	(98,444)	–	(98,444)
Forward FX contracts	(528)	–	(528)
	<u>(99,180)</u>	<u>–</u>	<u>(99,180)</u>
	<u>(74,370)</u>	<u>–</u>	<u>(74,370)</u>

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15. Derivatives (continued)

	DB Section £000	2017 DC Section £000	Total £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>

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	126	June 2018	225	–
CBT US 10Yr Note Future	1	5	June 2018	–	(3)
CBT US 10Yr Ultra Future	1	24	June 2018	–	(29)
CBT US Long Bond Future	1	36	June 2018	–	(88)
CBT US Ultra Long Term Bond Future	1	19	June 2018	–	(71)
EUX Euro Bond Future	1	7	June 2018	–	(17)
Total 2018		<u>217</u>		<u>225</u>	<u>(208)</u>
Total 2017		<u>445</u>		<u>459</u>	<u>(28)</u>

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NOTES TO THE FINANCIAL STATEMENTS

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15. Derivatives (continued)

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	Jul 2018	1	-
European volatility index	1	674	Mar 2019	438	-
European volatility index	1	674	Nov 2018	158	-
Total 2018		<u>2,022</u>		<u>597</u>	<u>-</u>
Total 2017		<u>4,044</u>		<u>682</u>	<u>-</u>

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	44	515,284	2022-2067	7,147	(3,556)
Inflation swaps	137	538,382	2018-2060	2,297	(28,588)
Total return swaps	3	2,022	To Mar 2019	7,918	-
Longevity swap	1	-		-	(66,300)
Total 2018		<u>1,055,688</u>		<u>17,362</u>	<u>(98,444)</u>
Total 2017		<u>770,099</u>		<u>29,516</u>	<u>(91,140)</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 (2017: £66,300,000). The Scheme pledged £67,090,000 of collateral in cash to ReAssure at the 31 March 2018 (2017: £56,400,000) in respect of the longevity insurance agreement.

Under the OTC interest, inflation rate and total return swaps, the Scheme held collateral of £33,073,000 and pledged collateral of £32,062,000 in the form of UK gilts, UK index-linked gilts and cash at the 31 March 2018 (2017: held £36,847,000 and pledged £28,531,000). This collateral is not reported within the Scheme's net assets.

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15. Derivatives (continued)

Forward foreign exchange

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

DB Section					
Contract	No. of contracts	Currency		Asset value	Liability value
		bought	Currency sold		
		'000	'000	£000	£000
May 2018	3	EUR 1,151	GBP 1,013	–	(2)
May 2018	1	GBP 4,236	EUR 4,763	56	–
May 2018	3	GBP 23,019	USD 19,360	124	–
May 2018	7	USD 14,256	GBP 10,231	1	(84)
April 2018	12	GBP 253,226	USD 326,979	6,445	(442)
Total 2018				<u>6,626</u>	<u>(528)</u>
Total 2017				616	(42)

16. Insurance policies

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
Annuities	<u>3,832</u>	–	<u>3,832</u>
	2017		
	DB Section	DC Section	Total
	£000	£000	£000
Annuities	<u>3,998</u>	–	<u>3,998</u>

17. AVC investments

	2018		
	DB Section	DC Section	Total
	£000	£000	£000
The Equitable Life Assurance Society	64	–	64
Standard Life Assurance Limited	46	–	46
The Prudential Assurance Company Limited	3	–	3
	<u>113</u>	–	<u>113</u>
	2017		
	DB Section	DC Section	Total
	£000	£000	£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>125</u>

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17. AVC investments (continued)

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 £2,612,684 (2017: £3,077,786) held within the core DB Section investments, and 49 DB Section Members (2017: 53 Members) have AVC investments in the DC Section investments managed by Aviva.

18. Cash and cash equivalents

	2018		
	DB Section £000	DC Section £000	Total £000
Cash assets			
Sterling	75,604	–	75,604
Foreign currency	20,484	–	20,484
	<u>96,088</u>	<u>–</u>	<u>96,088</u>
Cash liabilities			
Sterling	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
	<u>96,088</u>	<u>–</u>	<u>96,088</u>
	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>–</u>	<u>–</u>	<u>–</u>
	<u>56,991</u>	<u>–</u>	<u>56,991</u>

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19. Other investment balances

	2018		Total £000
	DB Section £000	DC Section £000	
Other investment balances assets			
Tax recoverable	146	-	146
Accrued income	10,795	-	10,795
Loans	7	-	7
	<u>10,948</u>	<u>-</u>	<u>10,948</u>
Other investment balances liabilities			
Securities under repurchase agreements	(321,495)	-	(321,495)
Outstanding trade purchases	(3,461)	-	(3,461)
	<u>(324,956)</u>	<u>-</u>	<u>(324,956)</u>
	<u>(314,008)</u>	<u>-</u>	<u>(314,008)</u>
	2017		Total £000
	DB Section £000	DC Section £000	
Other investment balances assets			
Tax recoverable	41	-	41
Accrued income	11,810	-	11,810
Loans	7	-	7
	<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>

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19. 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 2018 the market value of securities sold under repurchase agreements was £328.3m (31 March 2017: £323.0m).

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 2018 this amounted to £321.5m (31 March 2017: £289.3m).

20. 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:

	2018	2017
	£000	£000
Allocated to Members	193,809	174,718
Trustee's unallocated account	711	938
	<u>194,520</u>	<u>175,656</u>

21. 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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21. 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 2018			Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
DB Section				
Bonds	1,243,663	424,490	–	1,668,153
Pooled investment vehicles	–	99,096	37,090	136,186
Derivatives	17	(8,087)	(66,300)	(74,370)
Insurance policies	–	–	3,832	3,832
AVC investments	–	–	113	113
Cash and cash equivalents	96,088	–	–	96,088
Other investment balances	7,480	(321,488)	–	(314,008)
	<u>1,347,248</u>	<u>194,011</u>	<u>(25,265)</u>	<u>1,515,994</u>
 DC Section				
Pooled investment vehicles	–	194,520	–	194,520
	<u>1,347,248</u>	<u>388,531</u>	<u>(25,265)</u>	<u>1,710,514</u>
		At 31 March 2017		
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
DB Section				
Bonds	1,190,455	421,700	–	1,612,155
Pooled investment vehicles	–	129,034	31,746	160,780
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>

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YEAR ENDED 31 MARCH 2018

22. 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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NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

22. 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 on 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		2018 £'000	2017 £'000
			Interest rate risk	Other price risk		
Bonds	●	●	●	○	1,668,153	1,612,155
Pooled investment vehicles						
Property	○	○	○	●	4,448	4,825
Cash funds	●	○	●	○	1,875	32,443
Venture capital trusts	●	●	○	●	6,541	8,335
Infrastructure funds	○	○	●	●	32,642	26,920
Multi asset funds	●	●	●	●	90,680	88,257
Derivatives						
Futures	●	●	●	●	17	431
OTC Options	●	●	○	●	597	682
OTC Swaps	●	●	●	●	(81,082)	(61,624)
OTC Forward FX contracts	●	●	○	○	6,098	574
Cash deposits	○	○	○	○	96,088	56,991
Other investment balances	●	○	●	○	(314,008)	(280,727)
Total					1,512,049	1,489,262

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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22. Investment risk disclosures *(continued)*

(i) Credit risk

The DB Section is subject to credit risk as there is direct investments in bonds, derivatives (over the counter options, swaps and forward FX contracts) and 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 15.

Credit risk on other investment balances (repurchase agreements) is mitigated through the use of a range of collateral arrangements as disclosed in Note 19.

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 advisers 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:

	2018	2017
	£000	£000
Open-Ended Investment Company (OEIC)	90,680	88,257
UCITS Mutual Fund	1,875	32,443
Limited Partnerships	43,631	40,080

The Scheme is also subject to indirect credit risk in relation to underlying investments held in the OEIC (Multi Asset Fund), UCITS Mutual Fund (Cash Fund) and Limited Partnerships (which includes the Venture Capital Trust, Property Fund and the Infrastructure Fund) 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 Bonds, Futures and OTC options as shown in the table on page 47. The Scheme is also subject to currency risk indirectly because a proportion of the multi asset funds underlying investments are held in overseas markets although the proportion is dependent on the investments held at the time. The currency risk arising from the Scheme's USD Corporate Bonds with Columbia Threadneedle whose exposure has increased during the year due to the investment transition are fully hedged by the currency hedging mandate with BlackRock (the currency hedging mandate is held with a different manager to improve collateral efficiency as BlackRock holds majority of the Scheme's other derivatives). Columbia Threadneedle are responsible for managing currency risk in the multi asset fund through the Scheme's pooled fund arrangement.

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NOTES TO THE FINANCIAL STATEMENTS

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22. 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 investments 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.

The Scheme's cash and bonds 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.

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 46 and a total return swap as detailed in Note 15 which provides downside protection against a sudden fall in equity markets. During the year, the Scheme reduced their exposure to this strategy by half by deciding not to roll one of the contracts and terminate two other contracts.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

22. 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 in order to 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		2018 £'000	2017 £'000
			Interest rate risk	Other price risk		
Pooled investment vehicles						
Global Shares Fund	○	●	○	●	153,020	139,110
UK Shares Fund	○	○	○	●	978	1,079
Diversified Growth Fund	●	●	●	●	33,336	28,391
Diversified Growth (Active) Fund	●	●	●	●	643	582
Property Fund	○	○	○	●	915	842
Bond fund	●	○	●	○	2,386	2,290
Cash fund	●	○	○	○	3,242	3,362
Total					194,520	175,656

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.

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

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22. Investment risk disclosures *(continued)*

Direct credit risk

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

Aviva is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustee monitors the creditworthiness of Aviva on a regular basis. Aviva 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 Aviva 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.

23. Concentration of investments

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

	2018		2017	
	£000	%	£000	%
UK Conventional Gilt 3.50 22/07/2068	169,482	9.9	153,460	9.2
Friends Life My LV= Pension Plan				
Global Shares Fund XE	153,020	8.9	139,110	8.3
UK Conventional Gilt 2.50 22/07/2065	121,838	7.1	n/a	n/a
UK Conventional Gilt 3.75 22/07/2052	107,341	6.3	107,913	6.4
Threadneedle Oppor Invest Dynamic Real Fund Acc	90,680	5.3	88,258	5.3
UK Conventional Gilt 4.00 22/01/2060	n/a	n/a	113,497	6.8
UK Conventional Gilt 4.25 07/03/2036	n/a	n/a	90,599	5.4

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

24. Employer related investments

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

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25. Current assets

	2018		Total £000
	DB Section £000	DC Section £000	
Contributions due in respect of:			
Employers	586	973	1,559
Other debtors and prepayments	2,219	17	2,236
Due between sections	-	-	-
Cash balances	4,369	-	4,369
	<u>7,174</u>	<u>990</u>	<u>8,164</u>
	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>

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 current assets at 31 March 2017 and 31 March 2018 were allocated to members.

During the previous year 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.

26. Current liabilities

	2018		Total £000
	DB Section £000	DC Section £000	
Unpaid benefits	912	-	912
Other creditors and accruals	1,668	-	1,668
Due between sections	-	-	-
	<u>2,580</u>	<u>-</u>	<u>2,580</u>
	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>

LV= EMPLOYEE PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

26. Current liabilities *(continued)*

During the previous year 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. 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 2018 of £195,000 (2017: £196,000) were charged by the Society, the Principal Employer.

As at 31 March 2018 the Scheme owed £63,000 (2017: £28,000) to the Society in respect of its administrative expenses.

The Society paid the PPF levy of £24,315 (2017: £22,071) and the group life assurance premium of £837,917 (2017: £1,015,720) for the year ended 31 March 2018.

BESTrustees plc, the independent Director represented by H Evans was paid £41,300 for its services during the year (2017: £29,900). As at 31 March 2018 the Scheme owed £7,896 (2017: £7,200) in respect of these fees. 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.

28. Contingent liabilities and contractual commitments

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

	2018 £000	2017 £000
Venture capital trusts commitments	1,847	2,073
Equitix infrastructure fund commitment	1,326	3,548
	<u>3,173</u>	<u>5,621</u>

In the opinion of the Trustee the Scheme had no other contingent liabilities or contractual commitments as at 31 March 2018 (31 March 2017 - Nil).

1. Introduction

Governance requirements apply to defined contribution ("DC") pension arrangements like the LV Employee Pension Scheme DC Section (the "Scheme"), to help members achieve a good outcome from their pension savings. The Trustee is required to produce a yearly statement to describe how the governance requirements have been met in relation to:

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

This Chair's Statement covers the period from 1 April 2017 to 31 March 2018 (the "Scheme year").

2. Default investment arrangement

The default investment arrangement is designed for members who join the Scheme and do not actively choose an investment option for the investment of their contributions – our default investment arrangement is the Annuity Focused Lifetime Strategy. The Trustee is responsible for investment governance, and this includes setting and monitoring the investment strategy for the default arrangement.

When deciding on the investment strategy, the Trustee recognises that the majority of members do not take active investment decisions and instead invest in the default arrangement. After taking advice, the Trustee decided to make the default arrangement a lifestyle strategy, whereby members' assets are automatically moved between different investment funds as they approach their retirement date.

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 Scheme's investment strategy, including a specific statement in regards to the default arrangement. The Scheme's SIP is attached to this Chair's Statement.

The aims and objectives of the default arrangement, as stated in the SIP, are as follows: the Annuity Focussed Strategy is a passive strategy that initially invests in equities and progressively switches into a multi-asset fund, and then into bonds and cash as retirement approaches.

The Trustee reviews the on-going performance and suitability of the Scheme's investment options and lifestyles, including the default arrangement, at least three times a year with an in-depth review occurring at least every three years. This was last completed in 2015. During the period covered by this Statement, the Trustee began a review of the Scheme's investment offering, including a review of the suitability of the default arrangement. This review analysed member demographics, member retirement choices and DC best practice. The review was completed in September 2018 and the changes agreed as a result are scheduled to be implemented in mid-2019. As well as reviewing the suitability of the default and other lifetime strategies, the changes will also expand the self-select investment range.

3. Requirements for processing core financial transactions

Trustees are required by law to ensure that core financial transactions are processed promptly and accurately. Processing of core financial transactions (e.g. investment of contributions, transfers of assets into/out of the Scheme, transfers of assets between different investments within the Scheme and payments to members/beneficiaries) is carried out by the administrators of the Scheme, Aviva.

The Trustee is satisfied that these standards of promptness and accuracy have been met.

The administrators have confirmed to the Trustee that there are adequate internal controls to ensure that core financial transactions relating to the Scheme are processed promptly and accurately.

The Trustee receives quarterly reports about the administrators' performance, and based on information provided by the administrators, are satisfied that over the period covered by this Chair's Statement:

- there have been no material administration errors in relation to processing core financial transactions; and
- all core financial transactions have been processed within a reasonable timeframe.

The Trustee has agreed service levels ("ASLs") with each service provider which processes core financial transactions. The ASL sets out the Trustee's expectations for the promptness and accuracy of processing core financial transactions and commits each provider to regularly report on their performance against the ASLs. Any mistakes or delays are investigated and corrected as quickly as possible. Since June 2017, the Trustee has continued to work with its Pensions Team, DC advisors and Aviva in an effort to improve the Schemes' ASLs and the overall quality of servicing.

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The Trustee has monitored performance by:

Appendix (cont)

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- reviewing Aviva's quarterly performance reports; and
- instructing the Pensions Team and LCP to monitor performance on a monthly basis and to report performance and any concerns back to the Trustee. This has been achieved by running monthly calls with Aviva and making changes as required.

As a result, Aviva has reported service levels of 96% and above for the year to 31 March 2018. This is above its agreed target of 95%.

Charges and transaction costs

For the purpose of this section "charges" are defined as the on-going charges figures (also known as total expense ratios), which are the annual fund management charges plus additional fund expenses (e.g. for custody, but excluding transaction costs). The stated charges also include administration costs since members incur these costs.

Transaction costs are those incurred as a result of trading by the investment managers within each fund (e.g. buying and selling of securities). The transaction costs quoted do not include the costs to members of investing into and switching between funds.

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). Whilst there are now regulations in place for the investment managers to provide consistent transaction cost data, the information was not available at the time of preparing this Chair's Statement. However, the Trustee will continue to work with its advisers and investment managers with the aim of providing transaction cost figures in the next annual Chair's Statement and is taking the following steps to obtain this information in the future – The Trustee's investment advisers have advised the Trustee that this is an industry wide issue and they will continue to make best endeavours and persist to chase for this information on behalf of the Trustee.

3.1. Default arrangement

The default arrangement is the Annuity Targeting Lifestyle. The default arrangement has been set up as a lifestyle approach, whereby members' assets are automatically moved between different investment funds as they approach their retirement date. Therefore, the level of charges vary according to each member's proximity to retirement and the underlying funds they are invested in. For the default arrangement, the annual charges ranged from 0.26% to 0.49%. The level of charges for each fund used in the default arrangement is set out in the table below. As explained above, the information on the transaction costs applicable to the default arrangement was not available at the time of preparing this Chair's Statement.

In addition to the default lifestyle, members also have the option to invest in two other lifestyles, targeting drawdown and cash withdrawal. The total charges for these lifestyles ranged between 0.26% to 0.38% for the lifestyle targeting drawdown and 0.26% to 0.49% for the lifestyle targeting cash withdrawal.

The level of charges for each self-select fund (including those used in the default arrangement) over the period covered by this Chair's Statement are set out in the following table. For the purpose of this Chair's Statement, "charges" are defined as the annual management charges ("AMC") plus additional fund expenses (e.g. 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 2017/18 Scheme year are set out below. The underlying funds used within the default arrangement are shown in bold.

As explained above, the information on the transaction costs applicable to each self-select fund was not available at the time of preparing this Chair's Statement.

Self-select fund charges and transaction costs

White labelled fund name	Underlying Fund name	AMC	TER
My LV= Pension Plan Global Shares Fund	Aviva Pension BlackRock World	0.25%	0.26%
My LV= Pension Plan Diversified Growth Fund	Aviva Pension LGIM Diversified	0.47%	0.49%
My LV= Pension Plan Cash Fund	Aviva Pension BlackRock Cash	0.26%	0.26%
My LV= Pension Plan Pre-Retirement Fund (Annuity focused)	Aviva Pension L&G Pre-Retirement	0.30%	0.30%
My LV= Pension Plan UK Shares Fund	Aviva Pension BlackRock UK Equity Index	0.26%	0.26%
My LV= Pension Plan Property Fund	Aviva Pension Threadneedle Pensions Property	0.86%	0.90%

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White labelled fund name	Underlying Fund name	AMC	TER	Appendix (cont)
My LV= Pension Plan Diversified Growth Fund (Active)	Aviva Pension Schroder Life Intermediated Diversified Growth	0.71%	0.76%	

3.3. Value for members assessment

The Trustee is committed to ensuring that the Scheme provides good value for members – that is, that charges and transaction costs provide good value in relation to the benefits and services provided, and are at least as good as other options available in the market. The Trustee reviews value for members at least annually, having calculated the charges and, so far as possible, the transaction costs borne by members.

The Trustee has assessed the benefit to Scheme members of each of the following key areas of the Scheme:

- (a) scheme management and governance;
- (b) administration;
- (c) investment governance; and
- (d) communications.

There is no legal definition of "good value" and so the process of determining good value for members is a subjective one. The general policy of the Trustee in relation to value for member considerations is set out below.

It is the Trustee's policy to review all member borne charges (including transactions costs where these are available) on a regular basis, with the aim of ensuring that members are obtaining value for money given the circumstances of the Scheme. 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 members' assessment.

The Trustee has concluded that the Scheme represents good value for members for the following reasons:

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Appendix (cont)

- The Trustee's investment advisers have confirmed that the fund charges are competitive for the types of fund available to members, when compared to other options available in the market.
- 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 sized Scheme's.
- The charges compare favourably to similar schemes.
- the DC Section offers a wide range of services to help ensure Members receive a quality service.
- The Trustee carries out regular strategic reviews on an annual basis to monitor whether the Scheme provides good value for members on an on-going basis.
- The Trustee's assessment included a review of the performance of the Scheme's investment funds (after all charges) in the context of their investment objectives. The returns on the investment funds members can select during the period covered by this Chair's Statement have been consistent with their stated investment objectives.
- The Trustee also considers the other benefits members receive from the Scheme, which include: the design of the default arrangement and how this reflects the interests of members; the range of investment options and strategies; the efficiency of administration processes and the extent to which the administrator met and exceeded its service level standards for the Scheme year; the quality of communications delivered to members; and the quality of support services and Scheme Governance. As detailed in the previous section covering processing of financial transactions, the Trustee is comfortable with the quality and efficiency of the administration processes.
- The Trustees include assessing value for members on the Scheme's risk register.

Last year, the assessment did highlight a number of improvements that could be made, particularly in respect of Scheme administration. The Trustee are now pleased to report that there have been significant improvements in the services provided by the administrator that have resulted in improving the value that members receive in this area.

4. Trustee knowledge and understanding (TKU)

The Scheme's Trustee Directors are required to maintain appropriate levels of knowledge and understanding.

The Trustee have measures in place to secure compliance with the legal and regulatory requirements regarding its knowledge and understanding including investment matters, pension and trust law. This, together with the advice that is available from its advisers, enables the Trustee to properly exercise its functions and run the Scheme effectively. A Trustee training log is maintained in line with best practice. The Trustee's approach to meeting the TKU requirements includes:

- providing an induction process for new Trustee Directors and 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 and to help identify knowledge gaps;
- 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; and
- carrying out an effectiveness self-assessment from time to time.

An independent assessment of the Trustee's TKU process has been undertaken by the Scheme's investment advisors and they have 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 Scheme year ending 31 March 2018, the TKU requirements were met through a combination of the above methods. In particular, members of the Trustee Board undertook an aggregate of over 60 hours training. The training undertaken excludes the training completed by the Scheme's independent Trustee, who, as a professional Trustee, brings advanced technical knowledge and understanding to the Board. The Trustee Directors carry out regular self-assessment to identify any knowledge gaps.

Taking into account the knowledge and experience of the Trustee Directors as described below, with the specialist advice received from the appointed professional advisors (e.g. investment consultants and legal advisors), the Trustee believes it is well placed to properly exercise its functions as Trustee of the Scheme.

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- Appendix (cont)**
- a) The chairman of the Trustee Board is a professional Trustee who has 4 years' experience of acting as a pension scheme trustee. He is currently a trustee for seven defined benefit schemes. He is chair to six of these trustee bodies, three of which include Defined Contribution Sections. He also acts as sole trustee to two.
 - b) Our specialist legal, actuarial and investment advisers attend all or part of most trustee meetings to advise on specific matters on the agenda but also more generally on the issues being discussed.
 - c) The Trustee Directors all undertake the training described above.
 - d) The combined experience of the Trustee Board includes expertise on financial matters, risk management, employee communications, treasury and investment matters.
 - e) The Trustee Board is conversant with the Scheme's trust deed and rules, statement of investment principles and other key administrative documents and has appropriate knowledge of pensions and trust law and matters relating to scheme funding and investment.

Huw Evans

27/9/18

Signed by the Chair of Trustee of the LV= Pension Scheme Trustee

Statement of Investment Principles

This is the Statement of Investment Principles made by The LV= Pension Trustee Ltd, the Trustee of the LV= Employee Pension Scheme (the "Scheme"), in accordance with the requirements of Section 35 of the Pensions Act 1995 (as amended). It is subject to periodic review by the Trustee at least every three years and without delay after any significant change in investment policy. The Trustee has consulted with the Principal Employer (Liverpool Victoria Friendly Society Limited) regarding the investment policy set out in this document, but with the stipulation that the Principal Employer may not limit the Trustee's powers of investment.

In establishing the Scheme's investment arrangements, the Trustee has had regard to the requirements of the Pensions Act, in particular those concerning diversification and suitability of investments and the frequency by which these matters are reviewed. This includes AVC and Defined Contribution arrangements, which are assets of the Scheme. The Trustee has had regard to the Principles set out in the Myners Review of Institutional Investment (the "Myners Review"). In preparing this Statement, the Trustee has complied with the requirements of the Pensions Act 1995 regarding the content of Statements of Investment Principles. The Trustee incorporated where applicable the recommendations in the Myners Review regarding the content of Statements of Investment Principles and has received written advice from the investment consultant.

The Scheme operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries. The Scheme provides both a Defined Benefit and a Defined Contribution pension arrangement. These two arrangements are considered separately in this Statement.

A. Defined Benefit Section

Scheme Objectives

The Trustee's primary responsibility is to manage this section of the Scheme so that members receive their benefits as and when they fall due. The benefits payable are defined by the Scheme's Trust Deed and Rules.

The Trustee recognises the need to take some risk in order to generate a sufficient investment return over the long term to make the Scheme affordable, as measured by the contributions payable. In assessing this, the Trustee takes into account factors such as the employer's attitude to funding the Scheme and the employer's financial strength relative to the Scheme, thus its understanding of the contributions likely to be received from the employer and the Scheme members. The Trustee also considers its own willingness to accept underperformance due to market conditions.

Investment 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 is reviewed and monitored by the Trustee on at least a quarterly basis.

The Trustee's primary funding objective is to reach full funding on the Technical Provisions basis, with a long term target of achieving full funding on a Gilts +0.25% liability valuation basis by 2033.

In setting the investment strategy, the Trustee aims to:

- Target an expected return on assets close to that required to meet the funding objectives within the PRMF
- 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

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

Strategic Asset Allocation

The overall benchmark allocation of the Scheme's investable assets between the major asset classes is detailed in the table below:

Asset Class	Target Benchmark (%)	Target Range (%)
LDI	60%	55%-65%
Liquid Market Assets	25%	20%-30%
<i>Volatility Controlled Equities¹</i>	<i>20%</i>	<i>15%-25%</i>
Diversified Growth Funds	5%	0%-10%
Liquid Credit Assets	30%	25%-35%
Corporate Bonds	30%	25%-35%
Illiquid Market Assets	5%	0%-10%
Private Equity	2%	0%-5%
Property	0%	0%-5%
Infrastructure Equity	3%	0%-5%
Total¹	120%	110%-130%

¹Please note that the Volatility Controlled Equities is achieved synthetically using leverage, therefore the total allocation is above 100%.

To achieve the Scheme's objectives the Trustee has agreed the following:

Balance between different kinds of investments

The Scheme will hold a mix of investments within major markets to ensure that the overall portfolio is well diversified. This includes avoiding excessive reliance on any particular asset, issuer or group of undertakings and avoiding accumulations of risk in the portfolio as a whole.

Kinds of investment to be held

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including (but not limited to) equities and fixed interest and index-linked bonds, property, insurance contracts, cash and pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management or to hedge specific risks. The Scheme may not invest in securities directly issued by the Principal Employer, which would imply "self-investment". The Scheme's assets must consist predominantly of investments admitted to trading on regulated markets and investment in assets which are not admitted to trading on such markets must in any event be kept to a prudent level.

Choosing Investments

All day-to-day investment duties have been delegated to the Scheme's investment managers.

Risks

The Trustee recognises a number of risks involved in the investment of the Scheme's assets and keeps them under regular review:

- *Sponsor risk* is measured by the level of ability and willingness of the sponsor to support the continuation of the Scheme and to make good any current or future deficit. It is managed by assessing the interaction between the Scheme and the sponsor's business, as measured by a number of factors, including the creditworthiness of the sponsor and the size of the pension liability relative to a number of metrics reflecting the financial strength of the sponsor.
- *Solvency risk and mismatching risk* are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment strategies. They are managed through assessing the progress of the actual growth of the liabilities relative to the selected investment strategies.
- *Credit risk* is the risk that one party to a financial instrument will cause a loss to the Scheme by failing to repay an obligation, amongst other things. This risk is managed at the discretion of the relevant investment manager acting within defined limits set by the Trustee regarding credit quality and size of exposure.
- *Market risk/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. This risk is managed at a strategic and manager level through diversification. Outright loss protection is also used where appropriate.

- *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. This risk is either mitigated through currency hedging, where appropriate.
- *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. Exposure to interest rate risk is gained intentionally to hedge and offset liability interest rate risk. This is managed by the investment manager within defined limits set by the Trustee.
- *Liquidity risk* is measured by the level of cashflow required by the Scheme over a specified period. It is managed by the Scheme's administrators assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment policy.
- *Manager risk* is measured by the expected deviation of the prospective risk and return, as set out in the managers' objectives, relative to the investment policy. It is managed by monitoring the actual deviation of returns relative to the objective and factors supporting the managers' investment process.
- *Counterparty risk* is measured through the level of concentration with any one counterparty, leading to the risk of an influence on investment values, arising from a default on obligations. It is managed through the investment manager guidelines, counterparty diversification and collateralisation, where appropriate.
- *Political risk* is measured by the level of concentration of any one market leading to the risk of an adverse influence on investment values arising from political intervention. It is managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

Custody

The Trustee may arrange for the appointment of a custodian in relation to all or any part of the portfolio.

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.

Monitoring

The appointment of the investment managers will be reviewed by the Trustee from time to time. The review will be based on a consideration of both the investment performance and the investment management processes.

To assist in assessing performance the Trustee has delegated the detailed monitoring of the Scheme's investment managers to its Investment Consultant. The Investment Consultant will provide relevant reporting to the Trustee on a quarterly basis.

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.

B. Defined Contribution Section – "DC Section"

Investment Objectives

The Trustee's objective is to make available to members of the DC Section of the Scheme an appropriate range of investment options which will enable members to accumulate a fund to provide suitable benefits at retirement.

Investment Policy

The Trustee's policy to achieve this objective is to provide a range of funds which offer a suitable mixture of real and other assets. It recognises that the returns on return-seeking assets, while expected to be greater over the long-term than those on other assets, are likely to be more volatile. The range of funds utilised to meet the DC Section's objectives are set out in Appendix A.

Risks

The Trustee has considered the investment risk in the DC Section, including:

- *Inflation risk* – the risk that investments do not provide a return at least in line with inflation, so that the "purchasing power" of the ultimate fund available to provide benefits is not maintained at retirement.
- *Opportunity cost risk* – the cost of investing too conservatively for long-term growth.
- *Capital risk* – the risk that the monetary value of a member's account falls.
- *Pension conversion risk* – the risk that the value of a member's account does not reflect the change in the cost of purchasing an annuity at retirement.
- *Manager risk* – the risk that the chosen investment manager underperforms its benchmark.

The funds and lifetime options offered through the DC Section have been chosen to help members mitigate these risks through appropriate fund selection and, in addition, to allow members to achieve an adequate level of diversification. As the DC Section invests via insured pooled funds the Trustee is not in a position to ensure the assets are diversified within asset classes. However, the issue will feature in the selection criteria for new managers and monitoring process for ongoing managers.

Suitability

The Trustee has taken advice from its investment consultant to ensure the funds offered accommodate a broad range of asset classes covering the needs of members' in terms of their attitude to investment risk.

Liquidity

The funds are offered through a life insurance policy and as such are readily realisable to provide pension benefits on retirement, or earlier on death or transfer to another pension arrangement.

Investment arrangements

Access to these funds is provided by the DC Section's provider, Friends Life Services plc ("Friends Life"). Responsibility for the day-to-day management is effectively delegated to individual investment managers. The current managers are shown in Appendix A.

Charges, transaction costs and value for money

The Trustee is committed to ensuring that DC Section members get value for money (i.e. that the costs and charges deducted from DC Section members' pension accounts 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 Scheme's risk register. The Trustee undertakes an annual value for money assessment with support from its advisers. The Trustee is mindful of providing value for money to members. The DC Section offers a wide range of services to help ensure members receive a quality service.

The charges for all three lifetime strategies are below the charge cap (0.75%). The current annual management charges (AMC) and total expense ratios (TER) for the funds available for selection by members of the DC Section are shown in Appendix A. The TER is the fund AMC plus any additional expenses such as trading fees, legal fees, auditor fees and other operational expenses.

Default investment strategy

The DC Section has adopted a default investment strategy. The lifetime strategy "Annuity Focused" was selected as the default strategy as it was considered by the Trustee to have the objectives, expected returns, risks and other characteristics most likely to be suitable to meet the Trustee's view of the needs and circumstances of the majority of the membership. The Annuity Focused strategy is a passive strategy that initially invests in equities and progressively switches into a multi-asset fund, and then into bonds and cash as retirement approaches. While the Trustee recognises the need for a default investment strategy, it believes that members should be encouraged to regularly review their personal circumstances and to make positive selections rather than to rely on the default strategy. This will help the member better understand their individual position and ensure corrective action is taken if required. Details of the Annuity Focused lifetime strategy are set out in Appendix A.

Other investment options

The Trustee also wishes to give those members (who feel comfortable doing so) a reasonable degree of freedom to make their own investment choices. Consequently a restricted range of individual funds is made available for those members who elect to choose their own customised fund mix in preference to one of the three prescribed lifetime strategies. These funds are managed with either a passive or active investment management style. The use of 'white labelled' funds which are not specifically branded by reference to the manager makes it easier for the Trustee to change the underlying managers when

appropriate without first having to communicate the change to the members. Appendix A provides further details of the white labelled funds.

In addition to the Annuity Focused lifetime strategy, two other lifetime strategy options are available to members:

- *The "Cash Focused" lifetime strategy* – a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected retirement age. Further switching into the cash fund follows, with members' pension accounts being invested 30% in a multi-asset fund and 70% in cash by selected retirement age.
- *The "Drawdown Focused" lifetime strategy* – a passive strategy that initially invests in equities in the accumulation phase and then starts to move into a multi-asset fund 15 years before the member's selected retirement age. Further switching into bonds and cash occurs as retirement approaches, with members pension accounts being invested 45% in a multi-asset fund, 30% in bonds and 25% in cash by selected retirement age.

Monitoring

The Trustee is not involved in the investment manager's day-to-day operation and therefore cannot directly influence the performance target. However, it will assess the performance and review the continued use of each fund and will obtain and consider advice on retained investments where appropriate. A set of objectives have been provided by the underlying fund manager and are consistent with their benchmark and investment approach (these are, of course, simply objectives and the rate of return can obviously not be guaranteed).

The benchmark for each fund is set by the underlying fund manager, however it should be noted that as Friends Life provides 'wrapped' versions of the underlying funds in which it invests the wrapped version will not exactly match the performance of the underlying fund.

The Trustee accepts that the discrepancy between the performance achieved by a wrapped fund and that of the underlying fund in which it invests is unavoidable. However, Friends Life should take steps to reduce this to an absolute minimum and the Trustee will monitor accordingly.

Signed For and on Behalf of the Trustee of the LV= Employee Pension Scheme.

Huw Evans

Trustee

Nigel Simons

Trustee

Date agreed by Trustee 9/6/2017

Appendix A - Defined Contribution Section

A list of funds that are currently provided in the Defined Contribution Section, along with the broad return expectation for each fund, is shown below.

White label fund name	Underlying fund name	Current AMC and TER	Benchmark	Objective
Cash fund	BlackRock Cash Fund	AMC 0.29% TER 0.42%	7-Day Sterling LIBID	This fund invests in cash and money market instruments. It aims for returns in line with short-term interest rates on the financial markets. The fund is invested in the BlackRock Cash (Aquila C) Fund which aims to achieve an investment return that is in line with wholesale money market short-term interest rates. The underlying investments of the fund are a diversified portfolio of money market instruments which are of high quality and have a minimum credit rating of A1 or equivalent. The fund is actively managed.
Property fund	Threadneedle Pensions Property Fund	AMC 0.89% TER 0.91%	CAPS Pooled Pension Fund Median - Property	This fund aims to obtain a total return based on income generation and capital gains through investment in UK real estate, although other assets such as gilts, bonds and investment funds may be held as well. The fund is invested in the Threadneedle Pensions Property Fund and aims to maximise total returns by investing primarily in UK property, including retail and office buildings and industrial property. The fund is actively managed.
Pre-retirement fund	LGIM Pre-Retirement Fund	AMC 0.43% TER 0.43%	ABI Sterling Long Bonds	Legal & General state that the fund aims to invest in assets that reflect the investments underlying a typical non inflation-linked pension annuity product. The fund invests in the Legal & General Over 15 Year Gilts Index fund and the Legal & General AAA-AA-A Corporate Bond Over 15 Year Index fund and the mix between the funds is regularly reviewed by the manager.
Diversified Growth Fund	LGIM Diversified Growth Fund	AMC 0.50% TER 0.52%	Composite	Legal & General state that the fund aims to provide long-term investment growth through exposure to a diversified range of asset classes. The fund will hold between 20% and 50% in bonds, the remaining 50% to 80% will be held in a range of assets which may include equities, property, commodities and the shares of infrastructure companies. Exposure to each asset class will primarily be through investing in passively managed funds, although active management may be used for some asset classes.
Diversified Growth Fund (active)	Schroder Diversified Growth Fund	AMC 0.84% TER 0.89%	UK Inflation RPI +5%	The fund aims for a higher rate of return over inflation and invests in a wide range of assets alongside shares (global including emerging markets). This will include fixed income securities of varying degrees of quality from governments through to high yield corporates, derivatives and alternative investments. The fund is invested in the Schroder Life Intermediated Diversified Growth Fund and aims to achieve a targeted return of RPI +5% pa over a five to seven year period. The fund supports goals where there is a desire to grow assets to a similar extent as long-term investments, but with reduced volatility. The fund is actively managed.
UK Shares Fund	BlackRock UK Equity Index Fund	AMC 0.29% TER 0.29%	FTSE All-Share Index	This fund invests in UK shares only. It aims for returns in line with the market average. The fund is invested in the BlackRock UK Equity Index (Aquila C) Fund and aims to achieve a return consistent with the FTSE All-Share Index by investing in the shares of UK companies. The fund is passively managed.
Global Shares fund	BlackRock Aquila World Index Fund (inc UK)	AMC 0.28% TER 0.29%	FTSE All World Developed Index	BlackRock state that the fund invests in the shares of UK and developed overseas companies, according to market capitalisation weightings. Within each of those markets, the fund aims to generate returns consistent with those of each country's primary share market. This fund aims to achieve a return in line with the FTSE All World Developed Index.

LV= Employee Pension Scheme

As described previously, while no single option will be sufficient to manage the various risks associated with defined contribution investment, the range is expected to be wide enough to enable individual members to manage the risks identified as they become relevant.

The Trustee also makes available three lifetime strategies where members' investments are initially allocated to equities and are progressively switched into a multi-asset fund, bonds and cash as retirement approaches. These strategies, which include the default "Annuity Focused" strategy, are set out below:

Lifetime strategy name	Switching period	Growth fund	Intermediate fund	Consolidation funds and target holding
Cash Focused	15 years	BlackRock Aquila World Index Fund (inc UK)	LGIM Diversified Growth Fund	BlackRock Cash Fund (70%) LGIM Diversified Growth Fund (30%)
Annuity Focused	15 years	BlackRock Aquila World Index Fund (inc UK)	LGIM Diversified Growth Fund	BlackRock Cash Fund (25%) LGIM Pre-Retirement Fund (60%) LGIM Diversified Growth Fund (15%)
Drawdown Focused	15 years	BlackRock Aquila World Index Fund (inc UK)	LGIM Diversified Growth Fund	BlackRock Cash Fund (25%) LGIM Pre-Retirement Fund (30%) LGIM Diversified Growth Fund (45%)

