

2018 Summary Funding Statement

This Summary Funding Statement tells you about the level of funding in the Royal Bank of Scotland Group Pension Fund in both the 'Main Fund Section' and 'RBS AA Section'.

Funding position

The Trustee works closely with the employer (the Bank) to ensure that your benefits are well funded, secured and governed. A formal actuarial valuation is usually carried out every three years by the Scheme Actuary. Although the last formal valuation was as at 31 December 2015 the Trustee and the Bank agreed to bring forward the next actuarial valuation to 31 December 2017 in order to anticipate the pension consequences of the Bank's ring fencing plans.

The agreement reached with the Bank at the 31 December 2017 valuation has resulted in extra funding being secured for the Main Fund Section and investment de-risking being achieved across both sections. The combined effect of these measures is to further improve the security of members' benefits. The Fund is in a stronger financial position than it has been for over a decade. The Bank has made clear progress in its turnaround plans which puts it in a better position to support the Scheme should such support be required in the future. The key aspects of the agreement are:

- Both sections will take lower investment risk, with a consequent expectation of lower returns.
- The valuation of the liabilities now reflects these lower future investment returns. This results in a lower "discount rate" than was used in the 2015 actuarial valuation and a funding target which places a higher value on the liabilities.
- To offset the effects of these higher liabilities, we have agreed a funding package for the Main Fund Section which includes a £2.0 billion deficit contribution and up to a further £1.5 billion of contributions payable from 2020 as a share of shareholder distributions, including dividends or share buybacks.

Another important part of the agreement is changes being made in order for the Bank to comply with ring-fencing legislation. Broadly speaking, ring-fencing is designed to separate the retail and commercial activity of the Bank from all the other business activity the Bank undertakes, such as investment banking. The changes mean that the retail bank which will sit inside the ring-fence can no longer support the pensions for current employees working for a part of the business which is outside the ring-fence, and vice versa. As a result, with agreement of the Trustee, the Bank has decided that going forward:

- The Main Fund Section will be fully aligned to the ring-fenced bank, with this section used to build up future benefits for members working for the ring-fenced bank and being supported by the ring-fenced bank only.
- Similarly, the RBS AA Section will be fully aligned to the NatWest Markets business outside of the ring-fence, with this section used to build up future benefits for members working for NatWest Markets and being supported by NatWest Markets only.
- In addition, new sections will be set up within the Group Fund to accommodate active members currently employed by NatWest Markets (who are not already in the RBS AA Section) and active members currently employed by RBS International.

This split takes into account the part of the business the majority of members within each Section worked for when building up benefits.

- ⊕ You can find more information about the actuarial valuation and the investment strategy in the valuation report and the annual report, in our online Library. If you're currently employed by RBS, log on to our pensions website via RBSselect at rbs.tbs.aon.com Otherwise, log on at rbspeople.com/dbp

The funding position based on the assets and liabilities is shown below.¹

	31 December 2016		31 December 2017		
Main Fund Section	Assets	Liabilities	Assets	Liabilities	*Before the agreed £2bn deficit contributions are paid into the Fund
	£43.8BN	£44.3BN	£44.8BN*	£46.5BN	
	Funding level	Shortfall	Funding level	Shortfall	
	99%	-£0.4BN	96%	-£1.8BN	
RBS AA Section	Assets	Liabilities	Assets	Liabilities	
	£1,149M	£1,084M	£1,161M	£1,063M	
	Funding level	Surplus	Funding level	Surplus	
	106%	+£65M	109%	+£98M	

(Note "£'BN" = £'billions and "£'M" = £'millions)

As described earlier, the increase in the value of the liabilities for both sections reflects the Trustee's decision to reduce the level of investment risk in the Fund (in particular with a decision to reduce the exposure to equities) which means the Scheme Actuary has taken a more conservative view of future investment returns when valuing the liabilities, pushing their value higher.

¹Note, the liability valuations shown are based on the 'technical provisions' basis. The technical provisions represent the funding target agreed as part of the actuarial valuation.

What is being done to address the shortfall following the 2017 valuation?

When there is a shortfall in the scheme at the point of a valuation, the Trustee must put in place a 'Recovery Plan' with the Bank to meet this.

Main Fund Section – The Bank will pay a £2.0 billion deficit contribution to the Fund before the end of 2018. Separately from the Recovery Plan, the Fund will in addition receive up to £1.5 billion of contributions, based on the Fund receiving an amount equal to any dividends or other shareholder distributions, such as dividends, the Bank pays from 2020 (subject to a cap of £0.5 billion in any one year).

RBS AA Section – There was no shortfall at the valuation date so a Recovery Plan was not needed.

Solvency position

There is also a requirement under law to calculate the funding position on a 'solvency basis'. The solvency basis is an estimate of the cost of winding up the scheme and securing the benefits with an insurer.

Main Fund Section – At the date of the 2017 valuation the solvency funding level was 70% with a shortfall of £19.5 billion (2015 valuation: 51% with a shortfall of £29.6 billion).

RBS AA Section – At the date of the 2017 valuation the solvency funding level was 83% with a shortfall of £246 million (2015 valuation: 66% with a shortfall of £462 million).

In addition, the Trustee also monitors the funding position on the Pension Protection Fund ('PPF') basis. The PPF was established to pay compensation

Solvency position (continued)

to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the pension scheme to cover PPF levels of compensation. At the date of the 2017 valuation the Main Fund Section had a PPF funding level of 112% and the RBS AA Section had a PPF funding level of 144%.

Please note that there are no plans to wind up the scheme and this information is provided to meet the requirements of the legislation only.

Refunds and the Pension Regulator's role

The law requires us to confirm that there have been no payments from the scheme to the Bank since the last Summary Funding Statement, which we confirm to be the case.

In certain circumstances the Pensions Regulator has powers to intervene by changing the future accrual of benefits, setting the level of the funding target, setting the terms of the recovery plan and/or imposing a schedule of contributions. The Pensions Regulator has not used any of these powers in relation to either Section.

If you have any questions or would like further information you can contact Willis Towers Watson by phone on **01737 227549**, or by email at GPFpensions@willistowerswatson.com