

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2019**  
**SCHEME REGISTRATION NUMBER: 100140634**

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

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YEAR ENDED 31 DECEMBER 2019

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# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE AND ADVISERS

YEAR ENDED 31 DECEMBER 2019

**Principal Employer** National Westminster Bank plc ("the Bank")

**Corporate Trustee** RBS Pension Trustee Limited  
1 Princes Street  
London  
EC2R 8PB  
Company registration number 2726164

**Directors** Listed below are all the directors of RBS Pension Trustee Limited for part or all of the year covered by this Annual Report.

		Appointment type*	Committee membership					
			Trustee Board	Administration and Benefits Committee	Funding and Monitoring Committee	Investment Committee	Risk and Audit Committee	Treating Sections Fairly Committee
Ronnie Bowie (Chair)		B, P	✓ (Chair)		✓ (Chair)	✓		✓ (Chair)
Capital Cranfield Pension Trustees Limited represented by Nicki Mortimer		B, P	✓	✓ (Chair)			✓	
Stephen Boyle	Until 26/09/2019	B	✓	✓	✓			
David England		M	✓	✓				✓
Susan Fouquier	From 06/11/2019	B	✓					
George Graham		B	✓			✓ (Chair)	✓	
Victoria North		B	✓				✓ (Chair)	
Ian Purves	Until 26/03/2020	M	✓		✓	✓		✓
Nathalie Robertson-Nugent		B	✓			✓		✓
James Rowney	Until 26/03/2020	M	✓	✓				
Peter Walker		M	✓	✓			✓	
Claire Castell	From 27/03/2020	M	✓	✓				
Douglas Heron	From 27/03/2020	M	✓			✓		

\*B = Bank nominated trustee, M = member nominated trustee, P = professional trustee

More information on the Committee structure and changes since 31 December 2019 is set out in the Trustee's Report.

**Secretary to the Trustee** Wendy Tavendale

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE AND ADVISERS

YEAR ENDED 31 DECEMBER 2019

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<b>Administrator</b>	Towers Watson Limited (trading as Willis Towers Watson) who can be contacted at:  The RBS Group Pension Fund PO Box 545 Redhill RH1 1YX  email: <a href="mailto:gpfpensions@willistowerswatson.com">gpfpensions@willistowerswatson.com</a>
<b>Scheme Actuary</b>	David Eteen FIA
<b>Independent Auditor</b>	Deloitte LLP
<b>Legal Adviser</b>	CMS Cameron McKenna Nabarro Olswang LLP
<b>Consultants</b>	<b>Investment</b> RBS Investment Executive Limited ("RIEL") Aon Hewitt  <b>Tax</b> Deloitte LLP  <b>Employer Covenant</b> Penfida Limited  <b>Voting and Engagement</b> Hermes Equity Ownership Services Ltd

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 DECEMBER 2019

### Investment Managers

Listed below are all the organisations who acted as an investment manager for part or all of the year covered by this Annual Report. Further details regarding the investment strategy are included in the Investment Report.

	Main Section	RBS AA Section	NWM Section	RBSI Section
<b>Quoted equity</b>				
Coronation Investment Management International (Pty) Limited	✓			
Global Thematic Partners LLC	✓			
Pzena Investment Management LLC	✓			
Sustainable Growth Advisers LP	✓			
<b>Private equity</b>				
Brookfield Asset Management Inc.	✓			
Hermes GPE LLP	✓			
JP Morgan Chase and Co	✓			
Navis Capital Partners	✓			
Pathway Capital Management LLC	✓			
SL Capital Partners LLP	✓			
<b>Alternative equity</b>				
Foresight Group LLP	✓			
MFS International (UK) Limited	✓	✓		
New Forests Asset Management Pty Limited	✓	✓		
Tufton Oceanic Limited	✓			
Vantage Infrastructure (UK) Limited	✓			
<b>Credit</b>				
Aberdeen Standard Investment Life and Pensions Limited	✓			
AXA Real Estate Investment Managers SGP	✓			
Bain Capital, LP	✓			
Bybrook Capital LLP	✓			
Gramercy Funds Management LLC	✓	✓		
Leadenhall Capital Partners LLP	✓	✓		
Legal & General Assurance (Pensions Management) Limited	✓	✓	✓	✓
Man Global Private Markets (UK) Limited	✓	✓		
M&G Investment Management Limited	✓			
PGIM Fixed Income	✓			
PIMCO Europe Limited	✓			
Vantage Infrastructure (UK) Limited	✓	✓		

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE AND ADVISERS *(continued)*

YEAR ENDED 31 DECEMBER 2019

<b>Property</b>				
Brockton Capital Fund II LP	✓			
LaSalle Investment Management	✓	✓		
Lothbury Investment Management Limited	✓	✓	✓	✓
Man Global Private Markets (UK) Limited	✓			
Orion Capital Managers LP	✓			
Partners Group Management	✓			
Principal Real Estate Limited	✓			
Standard Life Investment Limited	✓			
<b>Insurance</b>				
Brickell Key Asset Management Limited	✓			
Leadenhall Capital Partners LLP	✓	✓		
Nephila Capital Limited	✓	✓		
<b>Cash &amp; Hedging Assets</b>				
Legal & General Assurance (Pensions Management) Limited	✓	✓	✓	✓

### Investment Custodian

Bank of New York Mellon

### AVC Providers

Listed below are all the organisations who acted as AVC providers during the year:

Aviva Insurance Limited  
 Clerical Medical Investment Group Limited  
 Fidelity Investments Life Assurance Limited  
 The Prudential Assurance Company Limited  
 Standard Life Assurance Limited  
 Scottish Widows' Fund and Life Assurance Society  
 The Equitable Life Assurance Society (Utmost Life and Pensions Limited from 1 January 2020)

### Derivatives Clearing Brokers

J.P. Morgan Securities plc  
 HSBC Bank plc

### Banker

National Westminster Bank plc

### The Pension Tracing Service

All the relevant details of the Fund and the Trustee Directors have been passed to the Pension Tracing Service, which may be able to help anyone trying to trace pension rights under a previous pension scheme. The Pension Tracing Service can be contacted by mail at:

The Pension Service 9  
 Mail Handling Site A  
 Wolverhampton, WV98 1LU  
 Website [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)  
 Phone at 0800 731 0193 or from outside the UK on  
 +44 (0) 191 215 4491

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT

YEAR ENDED 31 DECEMBER 2019

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### Introduction

The directors of RBS Pension Trustee Limited ("the Trustee") have pleasure in submitting their report which covers the year ended 31 December 2019. The purpose of the report is to describe how the Fund has been managed during the year and to advise members of any significant changes that have taken place during the year.

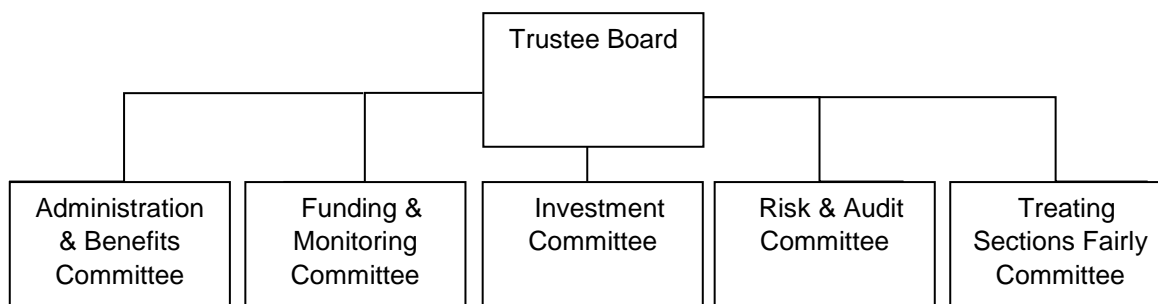
The four sections of the Fund are financially separate and referred to separately, where appropriate, throughout this report.

### Constitution and Management of the Fund

The principal employer, National Westminster Bank plc, has the power to appoint or remove the Trustee of the Fund. Directors of the Trustee are appointed in accordance with the Articles of Association of RBS Pension Trustee Limited which provide that ten directors are appointed; six directors by the bank and four directors by the Trustee from the membership of the Fund.

Stephen Boyle resigned as a bank-appointed Trustee Director in September 2019 having been a member of the Board since 2009. Replacing Stephen is Susan Fouquier who joined the Board in November 2019.

Throughout 2019, the Trustee Board had five sub-committees: the Administration and Benefits Committee, the Funding and Monitoring Committee, the Investment Committee, the Risk and Audit Committee and Treating Sections Fairly Committee. The Trustee Board agrees the terms of reference for each committee.



The Administration and Benefits Committee is responsible for monitoring the administration of the Fund and communication to members. Other responsibilities include exercising the Trustee's discretion in connection with the payment of benefits. The Committee is supported by its legal advisers, CMS Cameron McKenna Nabarro Olswang LLP. The Committee held four scheduled meetings during the year as well as ad hoc meetings and calls to consider member cases.

The Funding and Monitoring Committee is responsible for funding including the formal actuarial valuation. The Committee is supported by the Scheme Actuary from Aon Hewitt as advisers on actuarial matters. The Committee met three times during the year.

The Investment Committee recommends to the Board the Fund's strategic objective and oversees the management and performance of the assets. The Investment Committee is supported by RBS Investment Executive Limited ("RIEL") and Aon Hewitt. The Trustee Board has delegated certain responsibilities for the management of the Fund's investments to RBS Investment Executive Limited; more information on RIEL can be found later in this report. The Investment Committee met six times during the year.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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The Risk and Audit Committee is responsible for financial oversight and risk management of the Fund, as well as monitoring the employer covenant. The Committee oversees the budgetary process, the preparation of the financial statements, runs the covenant monitoring and review process, reviews the risk policies and associated controls and manages the internal and external audit relationship. Penfida Limited is the adviser on the employer covenant and Deloitte LLP is the external auditor. The Committee met five times during the year.

The Treating Sections Fairly Committee is responsible for ensuring that the members of all sections of the Fund are treated fairly as a result of certain Trustee decisions. The Committee is also responsible for the oversight of any mergers and bulk transfers. The Committee met four times during the year.

Subsequent to 31 December 2019 Administration & Benefits Committee was replaced with a 'Member Experience Committee'. The Funding and Monitoring Committee, Investment Committee and Treating Sections Fairly Committee were merged and the merged committee has been renamed as the 'Asset and Liability Committee' to reflect its broader remit. The Risk and Audit Committee remains unchanged.

#### **Tax Status**

Prior to 6 April 2006 the Fund was approved by the Commissioners of the Inland Revenue as a retirement benefits scheme for the purposes of Chapter I, Part XIV, of the Income and Corporation Taxes Act 1988 and was treated as an "exempt approved scheme" for the purposes of the Act. Since 6 April 2006 the Fund has been a registered pension scheme under the Finance Act 2004 (registered number 00411432RZ). The Fund also has tax authorisation in certain other tax jurisdictions.

The members of the Fund were contracted out of the State Second Pension (S2P) until its abolishment on 5 April 2016), and prior to April 1999 were contracted-out of the State Earnings Related Pension Scheme (SERPS). From 6 April 1997 this contracting out was on the "Reference Scheme Test" basis for most Fund members.

#### **Trustee training**

During the year, training sessions were held for Trustee Directors covering a number of areas including investment, cyber risk and the role of the Pensions Ombudsman. These training sessions were facilitated by the Trustee's external and internal advisers. The Trustee Board also held a day long session in September 2019 when it reviewed its governance arrangements, considered how uncertainty and risks could be better managed and looked at how the Trustee could use data and technology to support members in the future.

#### **Financial Review**

The Financial Statements for the year ended 31 December 2019 are set out on pages 44 to 81 and provide an overview of the income, expenditure and net assets of the Fund. The Financial Statements have been prepared and audited in accordance with the regulations made under sections 41(1) and (6) of the Pensions Act 1995.

During the year under review the net assets of the Fund increased from £45.4 billion to £48.4 billion. The Fund received contributions of £0.3 billion (2018: £2.2 billion), paid benefits to members and leavers of £1.9 billion (2018: £2.1 billion), incurred administrative expenses of £16.1 million (2018: £16.5 million) and achieved a net gain on investments of £4.5 billion (2018: loss of £0.9 billion).

#### **Ownership of The Royal Bank of Scotland Group plc**

The Principal Employer, National Westminster Bank plc, is a wholly-owned subsidiary of NatWest Holdings Limited, which is in turn wholly-owned by The Royal Bank of Scotland Group plc. As at 31 December 2019, HM Treasury owns 62.1% (2018: 62.3%) of the ordinary shares of The Royal Bank of Scotland Group plc.



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### **GMP equalisation**

A judgement was reached by the High Court on 26 October 2018 in the *Lloyds Banking Group Pensions Trustees Limited v Lloyds Bank Plc* Guaranteed Minimum Pension (GMP) equalisation case. The judgement concluded that trustees must equalise pension benefits for men and women for the effects of GMPs accrued between May 1990 and April 1997. The judgement applies on an industry-wide basis - it therefore affects the Fund and any other scheme that was contracted out between May 1990 and April 1997 and provides GMPs.

As a result of this judgement some members will be entitled to back-payments plus interest. For many members GMP is a small part of their overall pension entitlement and, accordingly, the back-payments are expected to be small for a majority of those who are affected.

The calculation of GMP equalisation at a member level is complex and involves detailed analysis of individual member records - this work is underway with input from the Scheme Actuary, the legal advisor and the Bank. The Trustee expects to be able to contact affected members in late 2020 or in 2021. From an initial review by the Trustee, it is not believed that the back-payment liability will be material to the Fund and therefore no provision has been made in these financial statements.

### **Additional Member Contributions**

Active members have the option to secure additional benefits on a money purchase basis by making additional member contributions, known as Additional Pension Contributions ('APeCs'), through the RBSelect benefits programme. The Trustee has direct responsibility for managing these investments which it delegates to the Investment Committee and the RBS Investment Executive Limited team.

### **Impact of Covid-19**

Subsequent to the Fund year-end, there has been the emergence and spread of the new coronavirus ("Covid-19") that is causing disruption and volatility on the financial markets. The Trustee, in conjunction with its advisors, has monitored the situation closely and taken such actions as it deemed necessary.

The Trustee and its suppliers have put in place working practices which allow the Fund to continue to function with minimal disruption. The Trustee is undertaking meetings using video conferencing tools.

The Trustee is monitoring the effect on the valuation of the Fund's investments, including the impact on any underlying unquoted assets. As at 30 April 2020 there had been no material change in the total value of the investments given the Fund is heavily invested in gilts and other hedging assets. Whilst the quantum of the effect on the unquoted investments in the portfolio is difficult to determine the Trustee continues to monitor them and is considering the impact this subsequent event may have on the future performance of the unquoted investments held by the Fund.

In response to a formal request from the Prudential Regulation Authority, the bank cancelled its plans to pay a shareholder dividend in 2020. This step does not affect the existing agreement whereby the bank is committed to pay additional contributions up to a total of £1.5 billion to the Main Section of the Group Fund in instalments when dividends resume.

The financial statements have been prepared on the going concern basis. In making this assessment, the Trustee has assessed the ability of the Fund to meet its future obligations to pay member benefits as they fall due and, with input from its covenant advisor, has assessed the ability of the sponsoring employers to continue to meet their obligations to the Fund. The Trustee believes that the Fund remains well positioned to manage its risks successfully and expects that the Fund will continue in operational existence for the foreseeable future. Accordingly, it continues to adopt the going concern basis in preparing the financial statements.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Statement of Trustee's responsibilities

The financial statements, which are prepared in accordance with United Kingdom 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 Fund during the Fund year and of the amount and disposition at the end of that year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the 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 judgements on a prudent and reasonable basis, and for the preparing of the financial statements on a going concern basis unless the Trustee decides that the Fund should not be treated as a going concern, for example due to circumstances which mean it is likely to be wound up in the foreseeable future (either voluntarily or involuntarily).

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

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

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Fund's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Trustee Responsibilities in Respect of Contributions

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 Fund by or on behalf of the employer and the active members of the Fund 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 Fund and for adopting risk-based processes to monitor whether contributions are made to the Fund by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

#### Membership statistics

As at 31 December 2019 the Fund had 202,668 members:

	Active members	Deferred members	Pensioners	Total
Main Section	12,374	111,809	75,662	199,845
RBS AA Section	3	1,553	903	2,459
NWM Section	208	35	6	249
RBSI Section	99	15	1	115
Total	12,684	113,412	76,572	202,668
	(6%)	(56%)	(38%)	(100%)

Active members are employees accruing benefits. Deferred pensioners are those who have left the Fund with preserved pensions. Pensioner members are all those (including dependants) in receipt of a pension.

#### Membership statistics

The changes in membership during the year are as follows:

##### Main Section

	Active members	Deferred members	Pensioners	Total
At 1 January 2019	14,250	115,317	73,510	203,077
Adjustments to prior period	3	20	1	24
New beneficiaries	–	–	751	751
Members retiring	(375)	(2,998)	3,373	–
Members leaving prior to pensionable age	(1,490)	1,490	–	–
Deaths	(11)	(108)	(1,744)	(1,863)
Cessation of dependent pensions	–	(2)	(42)	(44)
Transfers out	–	(1,857)	–	(1,857)
Trivial commutations	–	(53)	(187)	(240)
Transferred from NWM Section	1	–	–	1
Transferred to RBSI Section	(4)	–	–	(4)
<b>At 31 December 2019</b>	<b>12,374</b>	<b>111,809</b>	<b>75,662</b>	<b>199,845</b>

##### RBS AA Section

	Active members	Deferred members	Pensioners	Total
At 1 January 2019	3	1,665	868	2,536
New beneficiaries	–	–	6	6
Members retiring	–	(46)	46	–
Deaths	–	(5)	(15)	(20)
Cessation of dependent pensions	–	–	(1)	(1)
Transfers out	–	(59)	–	(59)
Trivial commutations	–	(2)	(1)	(3)
<b>At 31 December 2019</b>	<b>3</b>	<b>1,553</b>	<b>903</b>	<b>2,459</b>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

### NWM Section

	Active members	Deferred members	Pensioners	Total
At 1 January 2019	249	5	—	254
New members joining	1	—	—	1
Members retiring	(4)	(2)	6	—
Members leaving prior to pensionable age	(37)	37	—	—
Transfers out	—	(5)	—	(5)
Transferred to/from Main Section	(1)	—	—	(1)
<b>At 31 December 2019</b>	<u>208</u>	<u>35</u>	<u>6</u>	<u>249</u>

### RBSI Section

	Active members	Deferred members	Pensioners	Total
At 1 January 2019	109	1	—	110
New members joining	3	—	—	3
Members retiring	(1)	—	1	—
Members leaving prior to pensionable age	(16)	16	—	—
Transfers out	—	(2)	—	(2)
Transferred to/from Main Section	4	—	—	4
<b>At 31 December 2019</b>	<u>99</u>	<u>15</u>	<u>1</u>	<u>115</u>
 Total membership	 <u>12,684</u>	 <u>113,412</u>	 <u>76,572</u>	 <u>202,668</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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#### Pension increases

Pensions in payment in excess of the Guaranteed Minimum Pension (GMP) are subject to annual increases in line with the Rules of the Fund. RPI inflation was 2.5% for the twelve months to 31 January 2019 (2018: 4.0%). Increases to pensions in payment were awarded as follows:

Schedule	2019 pension increase	2018 pension increase
Group Schedule members who joined on or after 1 July 2005	2.5%	2.5%
Group Schedule members who joined prior to 1 July 2005	2.5%	4.0%
Former members of the National Westminster Bank Pension Fund	2.5%	4.0%
Former members of the Royal Bank of Scotland Staff Pension Scheme	2.5% for service prior to 6 April 1997	3.0% for service prior to 6 April 1997
	2.5% for service after 6 April 1997	4.0% for service after 6 April 1997
Members of the RBS AA Section	2.5%	4.0%

While the increases in the table above apply to the majority of members, there are other legacy schedules within the Fund where members may have different pension increase entitlements. Pension increases were applied in line with the Rules for these members.

There is also a legal requirement to increase GMPs earned as a consequence of being contracted out of the State Second Pension between 6 April 1988 and 5 April 1997. GMPs are increased by the lesser of 3% and the increase in the UK Consumer Prices Index (CPI) during the twelve months to the preceding September. CPI inflation was 2.4% for the twelve months to September 2018. In 2019 an increase of 2.4% was applied to GMPs in payment earned after 5 April 1988 (2018: 3.0%).

There were no discretionary increases to pensions awarded during 2019. There were no discretionary revaluation increases awarded to deferred pensions.

Former members of the Royal Bank of Scotland Staff Pension Scheme have in the past been awarded increases of RPI inflation up to 5% per annum for service after 6 April 1997. Following an investigation of pension increases it has been identified that the legal entitlement in accordance with the Rules of the Fund is for pension increases to be based on RPI inflation up to 3% per annum subject to a statutory minimum required by legislation. After taking detailed legal advice on the matter the Trustee has concluded that going forward pension increases will be based on RPI inflation up to 3%, in line with the Rules. The Trustee has agreed with the Bank that, in terms of past increases, where a member has been overpaid the Trustee will not reduce the pension or seek repayment. However, where a member has been underpaid the Trustee will pay the uplift plus interest on the arrears so that the pension is fully corrected. The Trustee is in the process of contacting the individual members who are affected by these changes.

#### Transfer values

Members can request transfer values and find other information about their retirement options via the Fund website [www.rbsgrouppensionfund.co.uk](http://www.rbsgrouppensionfund.co.uk). Transfer values made during the year were calculated on the basis agreed by the Trustee having taken advice from the Scheme Actuary. In certain circumstances (normally linked to a weak funding level) Trustees can reduce transfer values if they decide that is necessary. The Trustee confirms no such reduction was applied for transfer values during the last year. There is no allowance for future discretionary increases built in to the Fund's transfer value calculations.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Report on Actuarial Liabilities and Funding

Paying the promised benefits to members is the key objective for the Trustee. 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' as calculated by the Scheme Actuary. The technical provisions represent the value of the benefits members are entitled to, based on pensionable service to the valuation date. In simpler terms this means that the Fund must hold sufficient assets to pay the benefits promised to members based on a prudent set of assumptions for future investment returns, life expectancies and other variables which affect the liabilities.

### Actuarial Valuation

The Trustee works closely with the Bank to ensure that your benefits are well funded, secure and governed.

A formal actuarial valuation is usually carried out every three years by the Scheme Actuary. The NWM and RBSI sections were set up in 2018. The first actuarial valuation for the NWM and RBSI sections was undertaken as at 31 December 2018 and the valuation process was completed in 2019. The results of the most recent actuarial valuation for all four sections are summarised below:

	Main Section	RBS AA Section	NWM Section	RBSI Section
Valuation date	31 December 2017	31 December 2017	31 December 2018	31 December 2018
Technical provisions liabilities (£M)	46,549	1,062.8	219.5	65.6
Assets (£M)	44,751	1,161.3	199.5	73.6
(Deficit)/Surplus (£M)	(1,798)	98.5	(20.0)	8.0
Funding ratio	96% before deficit contributions	109%	91% before deficit contributions	112%

As part of the first valuation for NWM and RBSI sections the Trustee agreed funding packages with the Bank as summarised below:

- NWM Section - The Bank agreed to make a **£52.7 million deficit contribution which was paid during 2019.**
- RBSI Section - There was no shortfall at the valuation date so a Recovery Plan with deficit contributions was not needed.

In addition, the funding packages for the Main and RBS AA sections which were agreed as part of the 31 December 2017 valuations remain unchanged:

- Main Section - The Bank agreed to make a **£2.0 billion deficit contribution which was paid during 2018.** The Fund will also be entitled to **additional contributions of up to £1.5 billion payable** from 2020, based on the Fund receiving an amount equal to any shareholder distributions, such as dividends, 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 with deficit contributions was not needed.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Ongoing contributions for accruing benefits

Each section receives contributions from the bank for active members who are accruing benefits in the Fund. The contribution rates are agreed between the Trustee and the Bank as part of the actuarial valuation based on advice from the actuary. The bank contribution rates, before deducting any member contributions payable in force as at 31 December 2019 were as follows:

	Main Section	RBS AA Section	NWM Section	RBSI Section
Members with a normal retirement age of 65	41.5%	65.2%	36.8%	39.8%
All other members	48.5%	73.7%	36.8%	39.8%
Basis for contributions	% of Contribution Salary	% of Pensionable Salary	% of Contribution Salary	% of Contribution Salary

In addition, the bank pays contributions for each section in respect of running expenses, levies and any benefit augmentations paid to individual members at the bank's request.

### Solvency position

It is 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. Please note that there are no plans to wind up the scheme and this information is provided solely to meet the disclosure requirements.

- **Main Section-** At the date of the 31 December 2017 valuation the solvency funding level was 70% with a shortfall of £19,512 million (2015: 51% funding level and a shortfall of £29,557 million). The solvency funding level stated here does not incorporate the £2.0 billion deficit contribution paid into the Fund by the bank in October 2018.
- **RBS AA Section-** At the date of the 31 December 2017 valuation the solvency funding level was 83% with a shortfall of £246.2 million (2015: 66% funding level and a shortfall of £462 million).
- **NWM Section-** At the date of the 31 December 2018 valuation the solvency funding level was 60% with a shortfall of £130.4 million. The solvency funding level shown here does not incorporate the £52.7 million deficit contribution paid into the Fund by the bank in January 2019.
- **RBSI Section-** At the date of the 31 December 2018 valuation the solvency funding level was 76% with a shortfall of £22.8 million.

### Refunds and the Pension Regulator's role

There have been no payments from the Fund to the Bank over the year.

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 any Section.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

### Significant actuarial assumptions

The most recent full actuarial valuation of the Main Section and RBS AA Section was carried out as at 31 December 2017 and for NWM Section and RBSI Section as at 31 December 2018. The technical provisions are assessed by the Scheme Actuary using assumptions which are agreed between the Trustee and the Bank, and are set out in the Statement of Funding Principles. Key actuarial assumptions used in the valuation are shown below:

	Main Section	RBS AA section	NWM Section	RBSI Section
Calculation method	Projected Unit Method with a control period of 10 years			
Discount rate	Hedging Discount Curve plus a fixed spread of 0.58% p.a. (broadly equivalent to swaps+0.8% p.a.)	Nominal gilt yield curve plus a fixed spread of 0.4% p.a.	Nominal gilt yield curve plus a fixed spread of 0.4% p.a.	Nominal gilt yield curve plus a fixed spread of 0.4% p.a.
RPI Inflation	Hedging Inflation Curve (a blend of gilt and swap inflation based on the hedging portfolio)	Breakeven RPI gilt yield curve	Breakeven RPI gilt yield curve	Breakeven RPI gilt yield curve
CPI inflation	RPI inflation minus 1.1%			
Capped pension increases	RPI or CPI inflation curve adjusted for inflation caps and floors			
Salary increases (pensionable/basic)	1.8% p.a.			
Post-retirement mortality - base mortality	SP2A Light mortality tables adjusted for average scaling factors determined using the Aon Hewitt Longevity Model based on the member's date of birth, sex and socio-economic information inferred from their postcode and membership category.			
Post-retirement mortality - future improvements	CMI 2017 Core Projections Model with smoothing parameter $Sk = 8.0$ . Long term rate to the improvements of 1.5% p.a. for males and females.			
All other assumptions	As set out in the Statement of Funding Principles which is available online at <a href="http://www.rbsgrouppensionfund.co.uk/documents/funding-and-investment">www.rbsgrouppensionfund.co.uk/documents/funding-and-investment</a>			

### Next valuation

The next actuarial valuation of all four sections is expected to be as at 31 December 2020.

### More information

More information including the **valuation report** and the **Statement of Funding Principles** for the sections are available online at [www.rbsgrouppensionfund.co.uk/documents](http://www.rbsgrouppensionfund.co.uk/documents).



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Investment management

#### Investment governance

The Investment Committee oversees the management of the Fund's investment objective in line with objectives set by the Trustee. This includes setting the strategic benchmark for the Fund.

The Investment Committee is supported by RBS Investment Executive Limited ("RIEL"). RIEL is responsible for providing investment advice and overseeing the implementation of the investment strategy. Aon Hewitt is employed to provide additional oversight on investment matters. The assets of the Fund are sectionalised. Each section has its own strategic benchmark and the assets are held separately. The Main Section is able to run a more diversified range of growth assets and investment managers due to its larger size compared to the RBS AA Section, NWM Section and RBSI Section.

#### Statement of Investment Principles

More information including the **Statement of Investment Principles** for the Fund is available online at <https://rbsgrouppensionfund.co.uk/documents/funding-and-investment>

All investments made by the Trustee are in line with the Statement of Investment Principles.

#### Employer related investments

There were no material employer related investments in the current year or prior period. The Fund holds no direct investment in the Royal Bank of Scotland Group plc, although indirect holdings are possible through the pooled investment vehicles. These holdings are less than 5% of the Fund's assets.

The Fund operates certain interest rate swaps, inflation swaps, credit derivatives, cross currency swaps and forward exchange rate agreements where National Westminster Bank plc and NatWest Markets plc are counterparties. These transactions are on commercial terms and carried out on an arms-length basis.

There were two instances of the late receipt of contributions during the year. The July and August expenses allowances for the Main and RBS AA Sections were to be increased in line with RPI from July 2019. This adjustment was applied late resulting in contributions of £136k being received after the 90 days allowed under the Schedules of Contributions. This amount was deemed to be an employer related investment during the year.

#### Responsible investment and engagement

The Trustee believes that the objective of any company should be to generate and deliver sustainable long-term financial value. This will be helped by having long-term owners to whom the company is accountable and whose agents understand the expectations of providers of capital. The Trustee seeks to invest in and fund companies that are able to demonstrate that they embrace this objective. The Trustee's Responsible Ownership Policy provides a framework for its interaction with companies it invests in and articulates the Trustee's principles in relation to environmental, social and governance factors in the Fund's portfolio. The Responsible Ownership Policy can be accessed here:

<https://rbsgrouppensionfund.co.uk/assets/uploads/Documents/responsible-ownership-policy.pdf>

The Trustee has appointed Hermes Equity Ownership Services Ltd to assist in the implementation of its Responsible Ownership Policy through: monitoring of Fund investments, engagement with investee companies, regulators and standard-setters, and voting of Fund shares. It is the Trustee's policy to exercise its voting rights in all practicable cases.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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The Trustee prepares an annual report on the implementation of its Responsible Ownership Policy which can be accessed here:

<https://rbsgrouppensionfund.co.uk/assets/uploads/Documents/Annual-report-on-ROP-signed.pdf>

The Trustee is against any activity which constitutes modern slavery or human trafficking under the United Kingdom's Modern Slavery Act 2015. The Trustee monitors its suppliers and the actions they are taking to combat slavery and human trafficking. The Trustee will consider all incidents of slavery and human trafficking reported to it by its suppliers and take any action it considers appropriate to manage or mitigate such incidents.

#### **Investments and Custodians**

The Trustee is responsible for setting the investment policy and managing the assets. The Investment Committee oversees the investment arrangements. Day-to-day investment decisions are delegated to the investment managers under formal legal agreements between the Trustee and each investment manager.

In accordance with the Pensions Act 1995, subsequently amended by the Pensions Act 2004, the Trustee maintains a Statement of Investment Principles that describes the Fund's investment policy.

The majority of the Fund's assets are held in custody by The Bank of New York Mellon. The investments are held in the name of The Bank of New York (Nominees) Limited. The remaining assets are held externally but are registered in the name of the Trustee.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Main Section

#### Investment Activity - Main Section

Investment strategy for the Main Section remained unchanged in 2019. The allocation to growth assets was broadly stable at £16.0bn, (£15.8bn at 31/12/2018). The amount of assets that are used to hedge the liabilities and provide liquidity to meet payments increased from £28.2bn to £30.6bn due to the fall in bond yields. Additional interest rate and inflation hedging was put in place during the year as the cost of inflation protection reduced.

The Main Section continues to build its portfolio of renewable energy investments. In 2019 there were three additional purchases of anaerobic digestion plants.

This brings the total invested in renewable energy assets, (held within the infrastructure equity allocation in the strategy benchmark) to £350m. In 2019 these assets exported 365 gigawatt hours of renewable electricity, enough to power 117,742 UK homes for a year and injected 20.6m cubic metres of renewable gas into the grid, meeting the gas demands of a further 17,137 UK homes. This off-sets the equivalent of c. 337,058 tonnes of carbon dioxide (tCO<sub>2</sub>e) compared to power generation using coal. In addition the Fund owns a 50% stake in Phoenix Natural Gas which provides customers in Northern Ireland with the ability to switch from oil based heating to natural gas; Phoenix Natural Gas offset a further 610,000 tCO<sub>2</sub>e in 2019.

The Fund also has c.£300m invested in timber assets. The estimated total carbon dioxide equivalent stored in these assets is 10 million tonnes. The timber assets are located in Northern California, Australia and New Zealand; timber assets are exposed to fire risk however there has been no significant fire impact on the assets owned by the Main Section to date.

The Main Section has £8.4bn invested in credit assets (£8.1bn at 31/12/2018). Additional allocations were made to Infrastructure Debt where there was an increase in the extra yield versus investment grade debt. Further allocations were made to distressed debt and credits whose credit ratings are being downgraded which might result in other investors being forced to sell the asset cheaply in order to comply with their investment guidelines.

In previous years the Main Section made investments in illiquid assets such as litigation finance and distressed debt. These types of assets can prove beneficial to the Fund, given its long-term horizon and holding period. During 2019 more of these investments have matured, resulting in greater levels of cash being returned to the Trustee. The litigation finance portfolio has returned £140m in cash and the distressed debt portfolio c.£18m in cash over the lifetime of their investments.

Further sales of freehold European property assets were made as valuations continued to improve. The Fund bought one property in Central London; this is leased to the UK Government, providing stable income and low valuation volatility versus the fund's liability.

The Trustee requires that its fund managers exclude some investments in order to comply with the Trustee's Responsible Ownership Policy. The Responsible Ownership Policy requires managers to consider the risk that externalities are not always correctly taxed by governments or regulators. The risk that they may do so at some point in the future is considered when making investment decisions along with the consequence of these costs falling on the capital factor of production, thus reducing capital's expected returns.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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In 2019 some investments in investment grade credit companies in the oil and gas sector were excluded due to a concern that externalities are not priced adequately into these long-dated credit instruments. In the sector, the Fund retains equity, credit instruments that have a maturity date prior to 31st December 2025 and those credit instruments that have yields commensurate with a sub-investment grade credit rating.

A list of other sectors that are excluded can be found in Appendix 2 of the Responsible Ownership Policy.

#### **Investment Activity - AA Section**

The AA Section has a strong funding position which has allowed the Trustee to maintain a low level of investment risk with growth asset investments of £506m mainly in credit instruments (£509m at 31/12/2018).

The Trustee continued its policy of hedging a very high proportion of the section's interest rate and inflation risk. Additional interest rate and inflation hedging was put in place during the year and the hedging assets increased in value from £542m to £589m, due to the fall in bond yields.

#### **Investment Activity - NWM Section**

As part of the actuarial valuation the Trustee secured a funding agreement with the Bank which included a deficit contribution of £52.7m. The deficit contribution was made in 2019 and invested in hedging assets, allowing the Trustee to hedge a very high proportion of the section's interest rate and inflation risk. The hedging assets increased in value from £78m to £159m, due to the fall in bond yields, the deficit contribution from the Bank and contributions which are paid to the section for members who continue to accrue service.

The NWM Section has a strong funding position which has allowed the Trustee to maintain a low level of investment risk with growth asset investments of £124m mainly in credit instruments (£114m at 31/12/2018).

#### **Investment Activity - RBSI Section**

The RBSI Section has a strong funding position which has allowed the Trustee to maintain a low level of investment risk with growth asset investments of £36m mainly in credit instruments (£34m at 31/12/2018).

The Trustee continued its policy of hedging a very high proportion of the section's interest rate and inflation risk. Additional interest rate and inflation hedging was put in place during the year and the hedging assets increased in value from £37m to £44m, due to the fall in bond yields plus contributions which are paid to the section for members who continue to accrue service.

#### **Investment Activity - Additional Member Contributions**

During the year the active UK equity and International equity funds were withdrawn with members' investments being switched into equivalent passive funds.

Although these funds had outperformed their passive equivalents in recent years, most active managers underperform passive funds. The Trustee was no longer confident that these active funds would continue to generate higher returns in future and offset the significantly higher costs members would be expected to pay over time, therefore not offer better value for money than passive funds with lower costs.

There were no changes to any of the other funds available for Members' APeCs.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

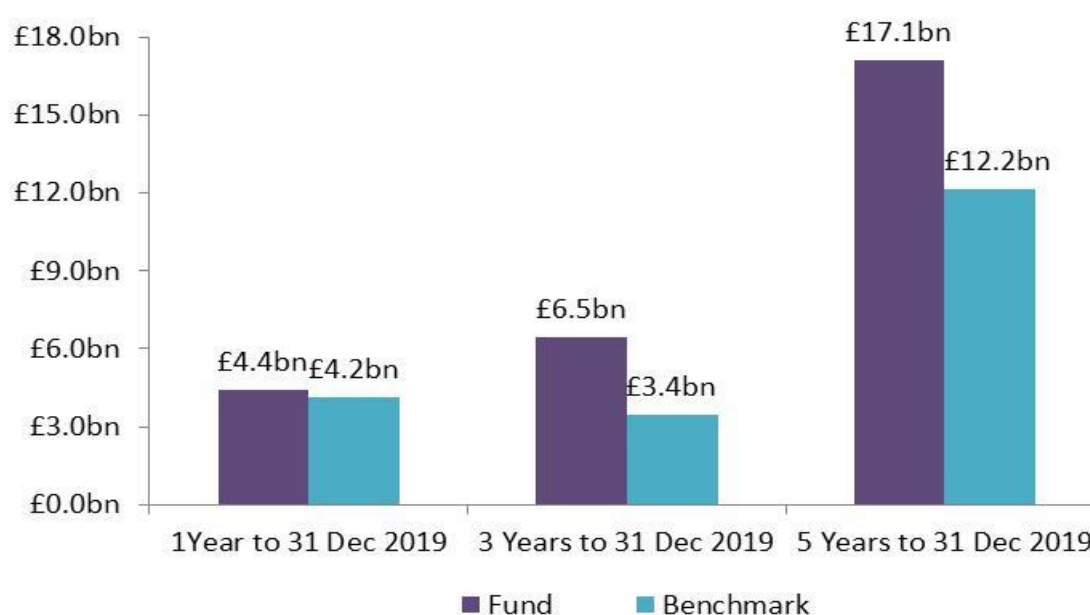
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#### Investment performance - Main Section

At 31 December 2019 the Main Section's investments totalled £46.6 billion (excluding net current assets and AVCs). Growth assets generated a return of £1.1 billion; liability-matching assets (including gilt spread and swaptions performance) generated a return of £3.3 billion. Adjusting for the contributions into and payments from the Fund, the net assets increased by £2.9 billion.

The Main Section out-performed the strategic benchmark return by approximately £0.2 billion. The strategic benchmark for the Main Section for 2019 is based on 0.6% pa in excess of the self-sufficiency liability performance.

#### Main Section - Performance to 31 December 2019



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

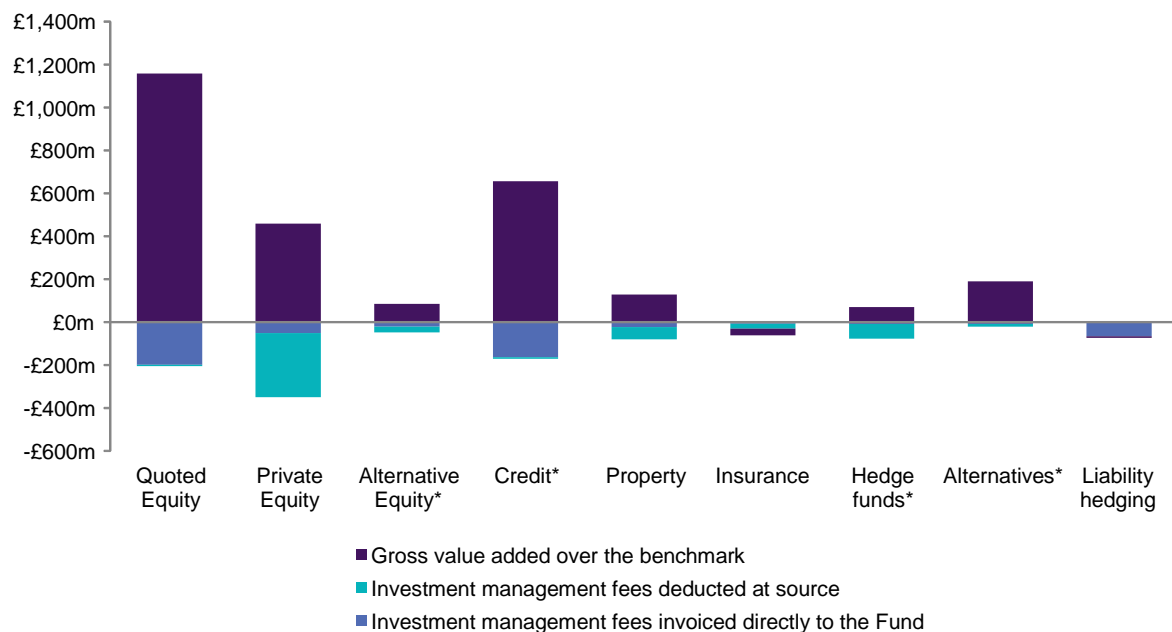
## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

### Investment Fees

Investment management fees are monitored closely, including fees deducted at source, to determine whether the Trustee is getting value for money from its investment managers. Estimates are used where necessary. The Trustee monitors fees in absolute terms as well as comparing fees to the value added over the benchmark i.e. outperformance. Investment management fees are compared to performance versus benchmark (including commissions, taxes, exchange and broker fees but excluding transaction costs, administration and other ancillary costs) in the chart below.

**Performance versus Benchmark and Fees (Main Section), 2010-2019**



\* In 2015, Alternatives were split into Alternative Equity and Credit while Hedge Funds were removed.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

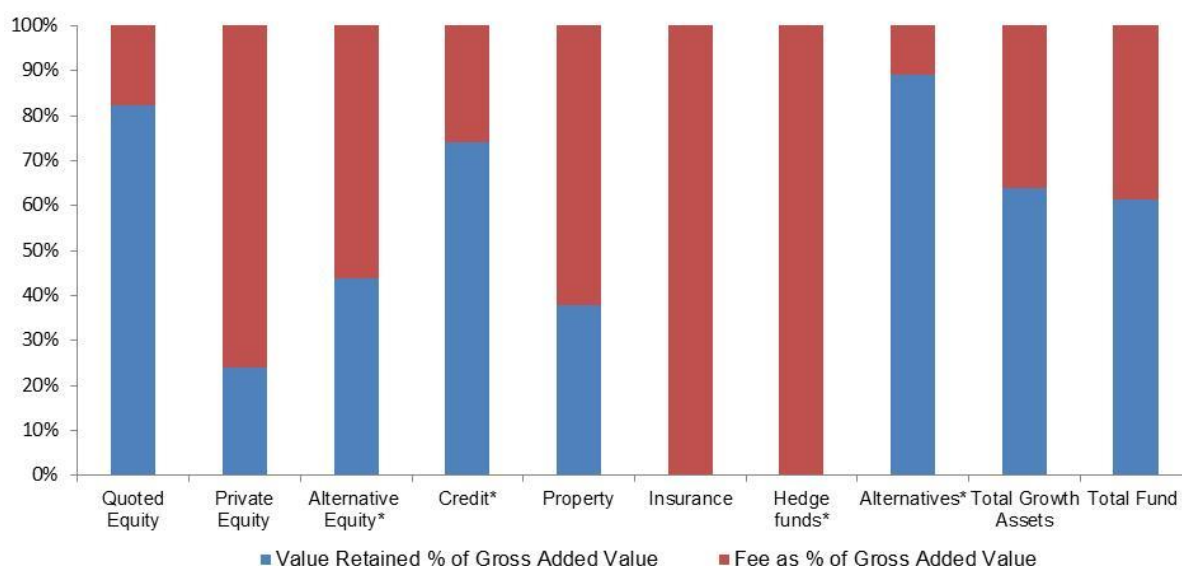
## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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The Trustee monitors the proportion of the value retained and investment management fees versus individual managers' performance benchmarks. The chart below shows this data for each component of the strategic benchmark and includes all current and previous investment managers.

#### Value Retained and Fees as a percentage of Gross Value Added (Main Section), 2010-2019



\* Benchmark against value added over GBP Cash + 3%. In 2015, Alternatives were split into Alternative Equity and Credit while Hedge Funds were removed.

The fees shown in the chart above include both fees deducted at source and fees invoiced to the Fund. The fees detailed in note 12 of the accounts exclude fees deducted at source (including performance fees and carried interest).

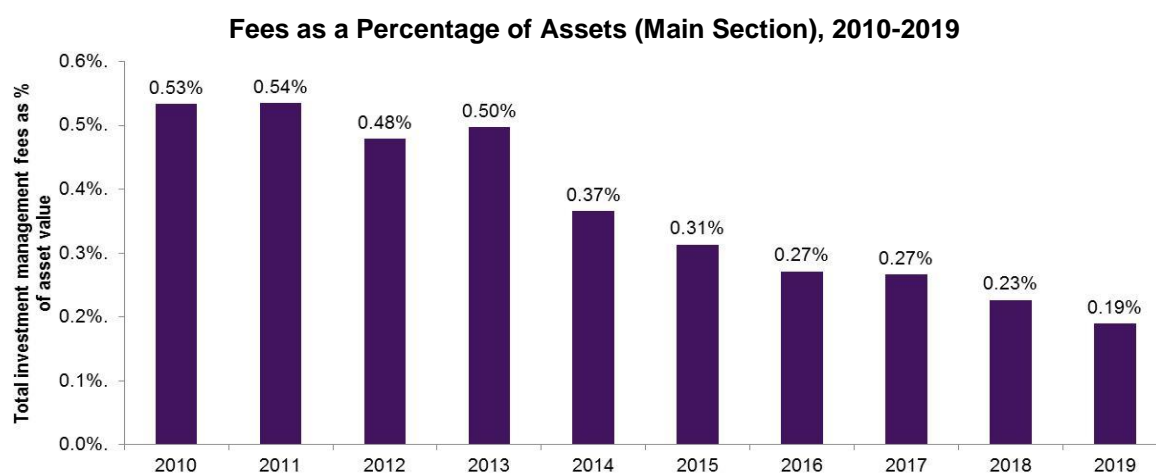
# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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Investment management fees (invoiced fees and fees deducted at source including performance fees and carried interest) are shown as a percentage of the assets in the chart below.



### Strategic Benchmark and Asset Allocation

The Trustee continues to pursue a diversified investment strategy seeking asset classes and managers which lower the overall correlation with existing assets classes and with those economic factors which drive the health of the Bank as sponsor of the Fund. The Fund was within the limits of the strategic benchmark across the four sections. The only exception to that was the Insurance asset class within the RBS AA Section, which was allowed to deviate and exceed the strategic benchmark limit.

The Fund's strategic benchmark is shown in the Statement of Investment Principles which is available from the link below.

<https://www.rbsgrouppensionfund.co.uk/documents/funding-and-investment>

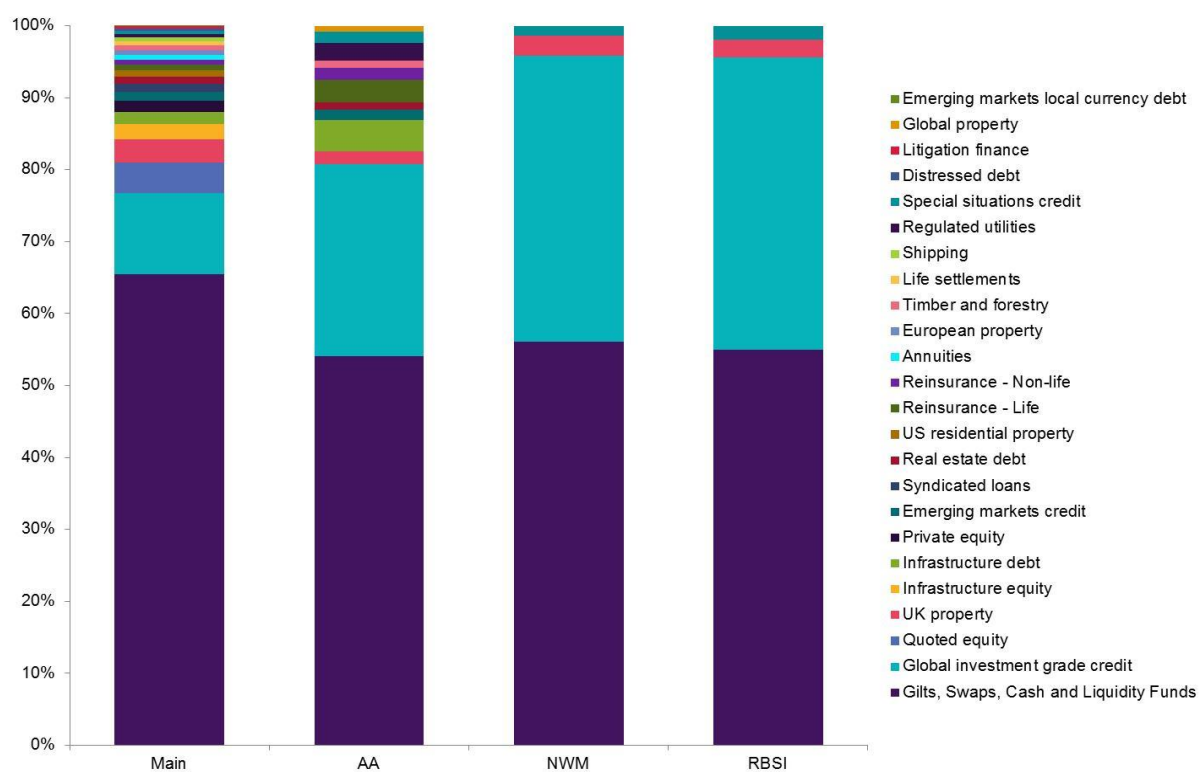


# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

Asset Allocation 31 December 2019



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

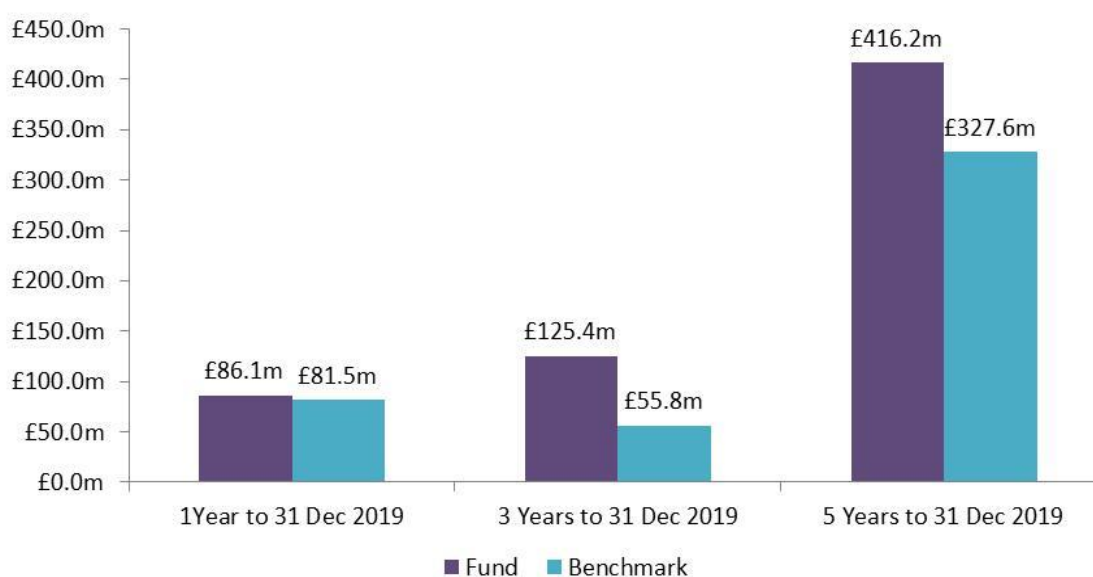
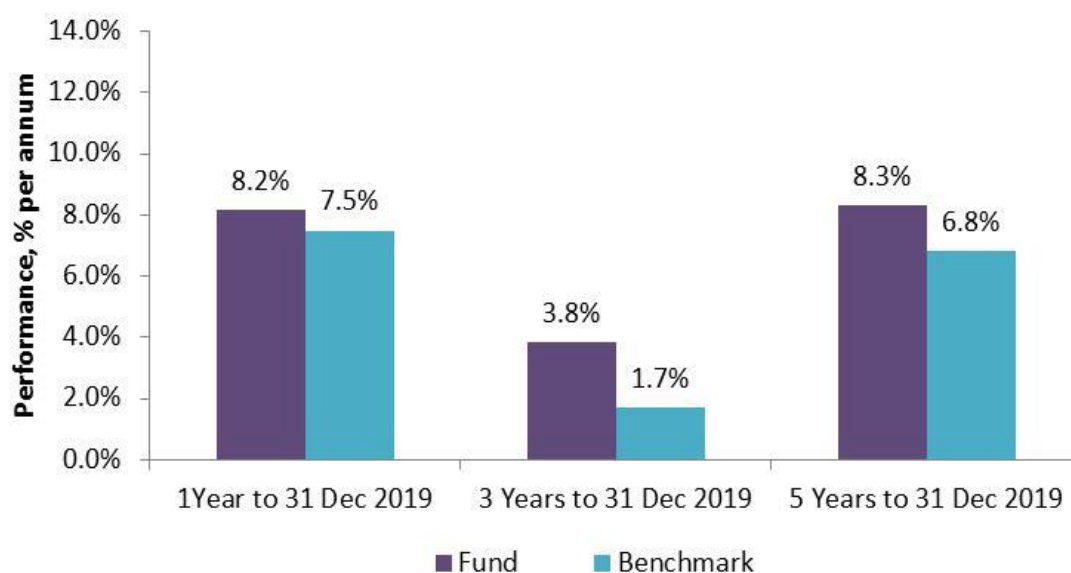
### RBS AA SECTION

#### Investment Performance

At 31 December 2019 the RBS AA Section's assets totalled £1,089.0 million (excluding net current asset and AVCs). Growth assets generated a return of £25.9 million and liability-matching assets (including gilt spread performance) generated a return of £60.2 million. Including the contributions into and payments from the Fund, the net assets increased by £37.4 million.

The RBS AA Section out-performed the strategic benchmark return by £4.5 million. The strategic benchmark for the RBS AA Section for 2019 is based on 0.4% pa in excess of the self-sufficiency liability performance.

**RBS AA Section Performance to 31 December 2019**



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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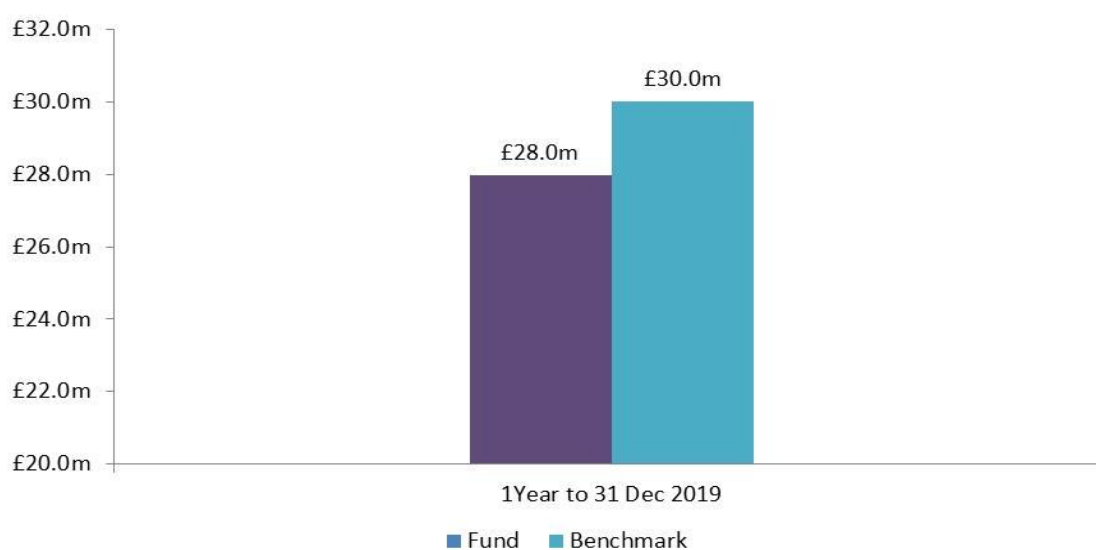
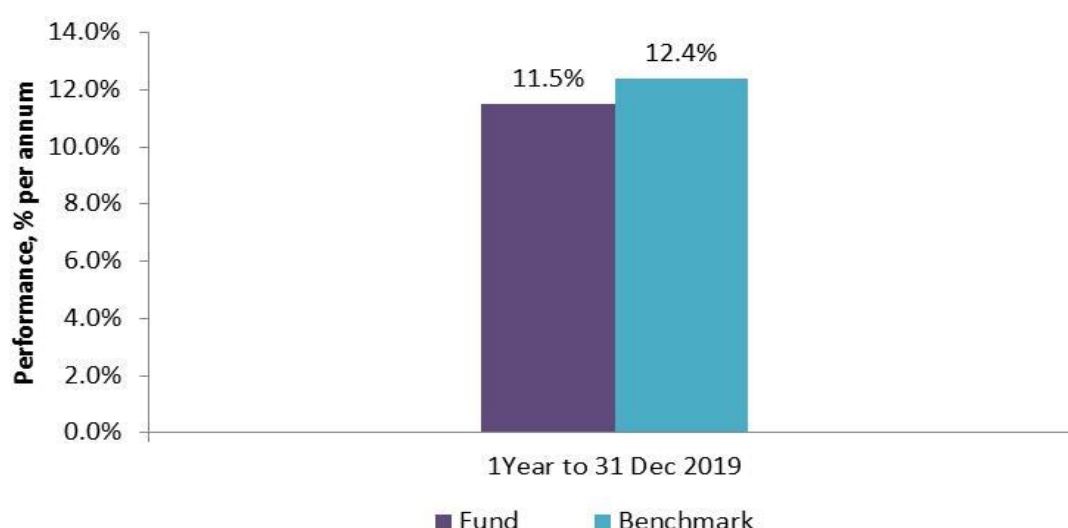
### NWM SECTION

#### Investment Performance

At 31 December 2019 the NWM Section's assets totalled £283.3 million (excluding net current asset and AVCs). Growth assets generated a return of £9.4 million and liability-matching assets (including gilt spread performance) generated a return of £18.6 million. Including the contributions into and payments from the Fund, the net assets increased by £84.0 million.

The NWM Section under-performed the strategic benchmark return by £2.0 million. The strategic benchmark for the NWM Section is based on 0.4% pa in excess of the self-sufficiency liability performance.

NWM Section Performance to 31 December 2019



Note that the NWM Section was established in 2018 and therefore 3 and 5 year performance information is not available.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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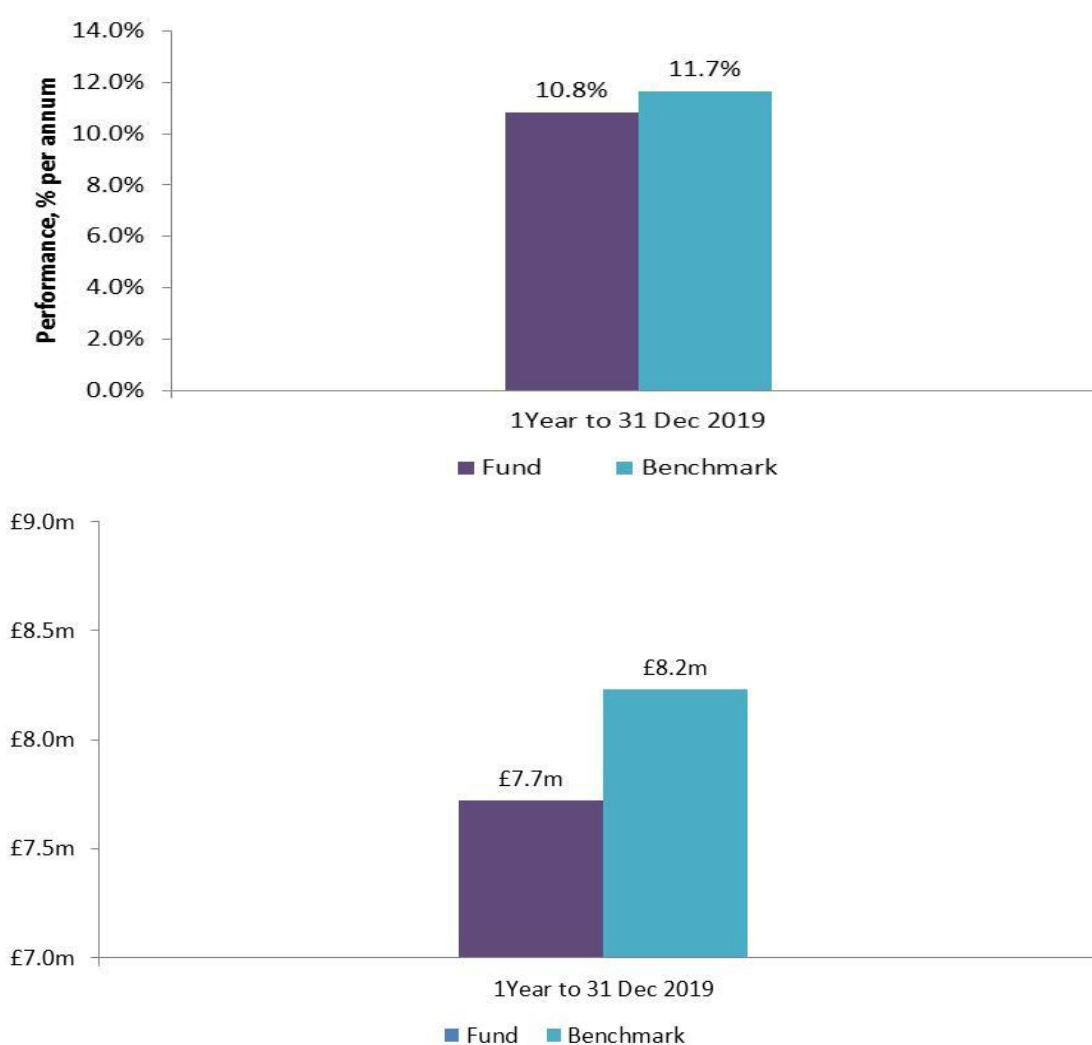
### RBSI SECTION

#### Investment Performance

At 31 December 2019 the RBSI Section's assets totalled £80.8 million (excluding net current asset and AVCs). Growth assets generated a return of £2.8 million and liability-matching assets (including gilt spread performance) generated a return of £4.9 million. Including the contributions into and payments from the Fund, the net assets increased by £8.2 million.

The RBSI Section under-performed the strategic benchmark return by £0.5 million. The strategic benchmark for the RBSI Section is based on 0.4% pa in excess of the self-sufficiency liability performance.

RBSI Section Performance to 31 December 2019



Note that the RBSI Section was established in 2018 and therefore 3 and 5 year performance information is not available.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

### Additional Member Contributions - Investment Performance (Net of Fees) and Member Charges

Investment fund and benchmark	1 year performance (% pa) to 31.12.2019	3 year performance (% pa) to 31.12.2019	5 year performance (% pa) to 31.12.2019
<b>Diversified Growth Fund</b>	<b>16.3</b>	<b>6.9</b>	<b>8.1</b>
Composite benchmark	14.8	7.5	8.3
<b>UK Equity Tracker Fund</b>	<b>20.0</b>	<b>7.1</b>	<b>7.6</b>
FTSE All-Share Index (Mid-day priced)	19.3	7.1	7.5
<b>International Equity Tracker Fund</b>	<b>24.4</b>	<b>10.6</b>	<b>13.2</b>
FTSE All-World Developed ex-UK Index	24.5	10.6	13.3
<b>Emerging Markets Equity Tracker Fund</b>	<b>16.2</b>	<b>8.5</b>	<b>9.0</b>
FTSE All-World Emerging Markets Index	16.1	8.8	9.3
<b>Annuity Pre-Retirement Fund</b>	<b>14.2</b>	<b>5.7</b>	<b>6.8</b>
Composite benchmark	13.7	5.4	6.4
<b>UK Gilts Over 15 Year Tracker Fund</b>	<b>11.6</b>	<b>4.8</b>	<b>6.4</b>
Composite benchmark	11.7	4.9	6.4
<b>Index-Linked Gilt Fund</b>	<b>5.3</b>	<b>2.7</b>	<b>6.5</b>
FTSE UK Gilts Index-Linked Over 5 Year Index	5.3	2.8	6.5
<b>Corporate Bond Fund</b>	<b>15.9</b>	<b>6.3</b>	<b>7.0</b>
BAML Euro-Sterling over 10 Year Index	15.0	5.7	6.3
<b>Property Fund</b>	<b>11.7</b>	<b>5.4</b>	<b>6.4</b>
Property benchmark	6.5	6.5	5.2
<b>Cash Fund</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>
Libid 7 day Index	0.6	0.4	0.4

During the year the active UK equity and International equity funds were withdrawn. The performance for these funds to the period 31st October 2019, prior to withdrawal is shown in the table below.

Investment fund and benchmark	10 month performance (% pa) to 31.12.2019	2 year 10 month performance (% pa) to 31.12.2019	4 year 10 month performance (% pa) to 31.12.2019
<b>UK Equity Fund</b>	13.7	6.1	7.8
<b>FTSE All Share index</b>	12.8	5.2	6.6
<b>International Equity Fund</b>	20.3	10.0	12.1
<b>Composite Benchmark</b>	18.7	9.3	12.0

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

Each of the investment funds has a charge (called the "ongoing charge") paid by the members. The ongoing charge is shown as a percentage per year of each member's savings invested in that fund. This covers the cost of investment services provided to members by the fund managers and can include performance fees, transaction costs, custody fees and fund accounting fees.

The ongoing charge is made up of each investment fund's annual management charge plus any other Fund Administration charges (but excluding transaction costs). These other Fund Administration charges cover, for example, the costs of auditing the investment fund and can change from time to time. This means that the ongoing charge can also change over time.

The components of the current ongoing charge for each of the investment funds as at 31 December 2019 are shown in the table below.

Ongoing charges	Annual Management Charge* (%pa)	+ Other Fund Administration (%pa)	= On-going Charge (TER) (%pa)
Diversified Growth Fund	0.245	0.032	0.277
UK Equity Tracker Fund	0.105	0.000	0.105
International Equity Tracker Fund	0.110	0.000	0.110
Emerging Market Fund	0.350	0.000	0.350
Property Fund	0.470	0.010	0.480
Over 15 Year Fund	0.100	0.000	0.100
Index-Linked Fund	0.100	0.000	0.100
Corporate Bond Fund	0.370	0.070	0.440
Annuity Pre-retirement Fund	0.262	0.042	0.304
Cash Fund	0.120	0.000	0.120

During the year the active UK equity and International equity funds were withdrawn. The charges for these funds as at 30th September 2019, the quarter end prior to withdrawal are shown in the table below.

Ongoing charges	Annual Management Charge* (%pa)	+ Other Fund Administration (%pa)	= On-going Charge (TER) (%pa)
UK Equity Fund	0.702	0.077	0.779
International Equity Fund	0.513	0.083	0.596

\*The Annual Management Charge includes Fidelity's platform fee of 7 basis points (0.07%).

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Climate-Related Financial Disclosures

The Trustee endeavours to take account of all known material risks to its primary objective of paying members' benefits. The potential impact of climate change on the Fund is of concern to the Trustee and is considered as an integral part of the Trustee's investment strategy and risk management processes. The Trustee believes that climate-related financial disclosure by companies in which it invests will assist in the management of the Fund's financial risk attributable to climate factors. The Trustee also believes it is appropriate for asset owners to provide climate-related financial disclosures where appropriate to allow stakeholders to determine the financial risk attributable to climate factors.

### Governance

**A.** The Trustee board comprises 10 directors with a diverse range of skills and experience. The board meets quarterly and reviews the work of its sub-committees as well as making decisions on matters reserved for the board. Investment strategy and the Fund's risk framework is determined by the board with implementation delegated to its sub-committees. The board is able to take account of climate risks in setting investment strategy and when developing the risk framework.

The Investment Committee (as a sub-committee of the board) is tasked with oversight of the investment strategy and monitoring of investment performance. The implementation of the investment strategy is carried out by the Trustee's executive team and retained investment adviser, RBS Investment Executive Limited ("RIEL"). Asset allocation and investment manager selection is delegated to RIEL. The Investment Committee is kept apprised of risks and opportunities that may arise in the portfolio as a consequence of climate change and is able to make decisions on such matters. The Investment Committee has approved a Responsible Ownership Policy that applies to the Trustee's investment activities.

<https://rbsgrouppensionfund.co.uk/assets/uploads/Documents/responsible-ownership-policy.pdf>

This policy articulates the Trustee's position on environmental matters including climate change. The Trustee publishes an annual report of activities covered by this policy.

<https://rbsgrouppensionfund.co.uk/assets/uploads/Documents/Annual-report-on-ROP-signed.pdf>

The Risk and Audit Committee (also a sub-committee of the board) is tasked with oversight of risk in the Fund. The Risk and Audit Committee has authority to instigate a review of strategy or risk controls where there is a material concern.

**B.** RIEL advises the Trustee on investment strategy and is responsible for implementing its investment programme. The Trustee's investment strategy is intended to achieve a return over time that will allow the Trustee to reach its target funding level. RIEL delegates day to day management of the Fund's assets to third party investment managers to create a diverse portfolio of growth and hedging assets. RIEL ensures that all third party investment managers have credible policies for managing climate risk. RIEL works with those managers to identify assets that could reduce portfolio risk or that aim to achieve the Fund's required returns in an investment environment potentially impacted by climate change. RIEL is responsible for monitoring the performance of Fund's assets and liabilities and reporting this to the Trustee. Negative impact on assets caused by physical or transition climate risks are reported to the Trustee through the normal reporting process.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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The RIEL board has an environmental, social and governance ("ESG") sub-committee (including external expertise) that assumes responsibility for policy and reporting of ESG issues in the Fund including climate change. The ESG sub-committee is responsible for monitoring Fund exposure to climate risk and determining which assets, companies or sectors should be excluded from investment by the investment managers appointed to run individual mandates.

#### **Strategy**

**A.** The Trustee believes in working with other investors to help companies meet the Paris accord. The Trustee is a signatory of Climate Action 100+. The Trustee believes in engaging with companies through its equity holdings. Where expansion of carbon-intensive assets via capital expenditure or risk of stranded assets on transition exists, the Trustee restricts investment in the debt of the issuer. The Trustee is active in its alternative portfolio to physically reduce the carbon intensity of its assets and to invest in renewable energy and timber.

The majority of the Fund's assets are gilts and cash. The Trustee does not believe climate change will have a significant financial impact on these assets. The growth assets of the portfolio have more exposure to climate change. The path for the mitigation of climate change is uncertain for all asset owners. The Trustee seeks to diversify the risk of how the path evolves.

The Fund's allocation to alternative equity includes a portfolio of renewable energy assets which will operate for up to 25 years and qualitatively are viewed as assets that should benefit from energy transition. The Trustee has also invested in forestry which stores carbon and can be used in construction in place of more carbon-intensive materials. These are viewed as short to medium term opportunities.

**B.** The Trustee and RIEL anticipate that climate change could have a negative impact on the value of individual assets within the Fund. The Fund's exposure to any single asset is relatively small in the context of the size of the Fund. In the ordinary course, total loss of a single asset can be managed (and such a loss is within the risk appetite of the Fund). RIEL works with its third party investment managers to understand which assets could be most sensitive to financial loss due to climate change, though this remains a qualitative process. The Trustee has a tried and tested governance process for adapting its investment strategy to changes in asset and liability performance and funding levels regardless of the cause of those changes. An impact on assets and liabilities caused by climate change transition risk could be a reason to commence a strategy review depending on its severity. It is not anticipated that physical risk would be a catalyst for strategy change, though decisions in relation to individual assets would take account of physical risk and further investment may be required to protect real Fund assets (property and forestry) from physical risk.

The Trustee has taken steps to exclude coal companies from its portfolio (subject to certain parameters). Investment in real estate to assets falling within flood danger zones is not permitted. Also, it has taken steps to limit its credit exposure to oil and gas production companies maturing beyond five years. All of these are short to medium term risk management actions influenced to some degree by the Trustee's views on climate change and the risk that externalities are not currently correctly priced by markets.



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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**C.** Generally, the Trustee relies on sustained economic activity over time. It also relies on diversification for risk management and performance. RIEL has reviewed the IEA ETP 2017 2 degrees scenario and while it anticipates very substantial changes to energy production and usage, it assumes continued GDP growth which is important to achieving market returns in line with expectation. RIEL has not yet been able to apply this or any other scenario analysis in a meaningful empirical way to the Fund's current asset holdings, but continues to explore options for doing so. It is important to note that in the most extreme climate scenarios, if the value of the Fund's assets declined significantly and the Trustee lost the ability to diversify, without material sponsor support, the probability of paying all member benefits could be severely reduced (assuming no change to liabilities). Efficient deployment of capital and long term growth in asset value is fundamental to the Trustee's operation of the Fund.

### **Risk Management**

**A.** Asset value impacts caused by climate change (or any other factor) are reported by RIEL to the Investment Committee on a quarterly basis in line with established reporting processes. Emergent climate risks requiring early intervention or mitigation are reported by RIEL as they arise. RIEL relies on its third party investment managers to report on a regular basis and more frequently as and when risks arise. Manifest physical risks are reported as soon as parties become aware of them. Severity of risks are considered by RIEL and its investment managers initially with review and decision making escalated to the Investment Committee or Risk and Audit Committee as appropriate. RIEL and the Trustee are concerned with any value impact caused by climate change and have not set a minimum threshold for consideration of these risks.

The Trustee's engagement manager Hermes EOS monitors the behaviour of issuers against UN Global Compact principles. Any publicly available information indicating severe controversies or persistent failure to comply with principles (including in relation to environmental performance) is shared with RIEL. RIEL considers in its ESG sub-committee if any controversial companies should be excluded from the Fund's investment programme.

**B.** The Trustee's options for managing climate risk are (i) to choose not to invest in (or divest from) assets deemed unsuitable for the Trustee's investment programme, (ii) to engage with issuers to encourage better disclosure and better management of climate risk and (iii) to invest in capital expenditure in certain assets to provide protection against physical risks. These are actions the Trustee already carries out either through decisions at Investment Committee or as a delegated action by RIEL. Where appropriate, this activity will be reported in the Trustee's annual Responsible Ownership Report. Risk management also extends as far as changing investment strategy in response to climate risk. The Trustee and RIEL expect third party investment managers to reduce assets exposed to unacceptable climate risks over time. The Trustee has already reduced its exposure to coal and oil and gas production.

**C.** Processes for identifying, assessing and managing climate-related risks form a part of the Trustee's risk management framework. There are a large number of potential risks to which the Fund is subject with the likely outcome in most cases being a loss in value of Fund assets or an increase in its liabilities. Potential and manifest risks are detected by third party investment managers or RIEL in the first instance before being assessed and reported to the Trustee as part of the quarterly reporting cycle, or on an ad hoc basis as required. Requirements for third party investment managers to have climate-related policies and reporting and to react to the Trustee's portfolio exclusions are included as contractual terms in their investment management agreements.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### **Targets and Metrics**

A. The Trustee is not currently using specific metrics to assess climate-related opportunities. When assessing a new asset class or investment that was potentially a climate-related opportunity, the investment analysis would need to include appropriate sensitivities around expected returns. At the same time, RIEL and investment managers are expected to have a qualitative view of any such opportunities which would form part of the investment decision process.

Through Hermes EOS, the Trustee encourages issuers to improve their environmental performance and climate related financial disclosures. The Trustee also supports the Climate Action 100+ engagement programme. These engagement activities are subject to agreed targets which are monitored by RIEL. A summary of engagement and voting activity is included in the ROP.

B. The Trustee is not currently able to calculate the aggregate share of greenhouse gas ("GHG") emissions attributable to all Fund investments (though it has this data for a number of individual assets). This process will become easier to the extent that more issuers include these types of data in their own financial disclosures. With this in mind, the Trustee continues to encourage climate related financial reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures. The Trustee currently includes data for some assets in the ROP.

C. The Trustee and RIEL have an aim to ensure that all third party investment managers are reporting environmental performance of directly held real assets via Global Real Estate Sustainability Benchmark (GRESB) reports. RIEL monitors GRESB performance and will seek to improve the environmental performance of its assets over time. Summary GRESB data is included in the ROP.

As referred to above, the Trustee's engagement activities are subject to agreed targets which are monitored by RIEL.

### **Controlling Interests in Subsidiaries**

The Fund invests in seven entities in which it holds controlling interests as at 31 December 2019.

- West Granite Homes Inc invests in residential property in the US and is 99.9% owned by the Fund although the Fund has 100% of the voting rights.
- Albemarle Shipping Ltd invests in shipping assets and is 100% owned by the Fund.
- Phoenix Natural Gas is a Northern Irish Natural Gas Distributor and is 50% owned as part of a joint venture.
- Ventus Investments Ltd invests in onshore wind generation assets and is 100% owned by the Fund.
- AD Aggregator Platform Ltd is a holding company for the Fund's investments in anaerobic digestion facilities in the UK and is 100% owned by the Fund.
- German Biogas Holdco Ltd invests in anaerobic digestion facilities in Germany and is 100% owned by the Fund.
- Simple Power Holdco Ltd invests in onshore wind turbines in Northern Ireland and is 100% owned by the Fund.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## TRUSTEE'S REPORT *(continued)*

**YEAR ENDED 31 DECEMBER 2019**

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Approved by the Directors of RBS Pension Trustee Limited and signed on behalf of RBS Pension Trustee Limited by:

*Ronald Bowie*

Ronald Bowie (Jun 12, 2020 16:48 GMT+1)

**Ronald Bowie**

Chairman - RBS Pension Trustee Limited

*V C M North*

V C M North (Jun 12, 2020 08:52 GMT+1)

**Victoria North**

Director - RBS Pension Trustee Limited

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

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**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**MAIN FUND SECTION**

**ACTUARIAL VALUATION AS AT 31 DECEMBER 2017**  
**ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS**

Name of Scheme: The Royal Bank of Scotland Group Pension Fund – Main Fund Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 December 2017 to be met by the end of the period specified in the Recovery Plan dated 9 October 2018.

**Adherence to Statement of Funding Principles**

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 9 October 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Main Fund Section's liabilities by the purchase of annuities, if the Main Fund Section were wound up.

Signature:



Date:

9 OCTOBER 2018

Name: David Eteen

Qualification: Fellow of the Institute and  
Faculty of Actuaries

Address: Verulam Point  
Station Way  
St Albans  
AL1 5HE

Name of  
employer: Aon Hewitt Limited

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

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**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**RBS AA SECTION**

**ACTUARIAL VALUATION AS AT 31 DECEMBER 2017**  
**ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS**

Name of Scheme: The Royal Bank of Scotland Group Pension Fund – RBS AA Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 December 2017 to continue to be met for the period for which the schedule is to be in force.

**Adherence to Statement of Funding Principles**

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 28 June 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the RBS AA Section's liabilities by the purchase of annuities, if the RBS AA Section were wound up.

Signature:



Date:

1 August 2018

Name:

David Eteen

Qualification:

Fellow of the Institute and  
Faculty of Actuaries

Address:

Verulam Point  
Station Way  
St Albans  
AL1 5HE

Name of  
employer:

Aon Hewitt Limited

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

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**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**NATWEST MARKETS SECTION**

**ACTUARIAL VALUATION AS AT 31 DECEMBER 2018**  
**ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS**

Name of Scheme: The Royal Bank of Scotland Group Pension Fund – NatWest Markets Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 December 2018 to be met by the end of the period specified in the Recovery Plan dated 27 June 2019.

**Adherence to Statement of Funding Principles**

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 27 June 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the NatWest Markets Section's liabilities by the purchase of annuities, if the NatWest Markets Section were wound up.

Signature:



Date:

1 October 2019

Name: David Eteen

Qualification: Fellow of the Institute and  
Faculty of Actuaries

Address: Verulam Point  
Station Way  
St Albans  
AL1 5HE

Name of  
employer: Aon Hewitt Limited

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ACTUARIAL CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS**

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**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**ROYAL BANK OF SCOTLAND INTERNATIONAL LTD SECTION ("RBSI SECTION")**

**ACTUARIAL VALUATION AS AT 31 DECEMBER 2018**  
**ACTUARIAL CERTIFICATION OF THE SCHEDULE OF CONTRIBUTIONS**

Name of Scheme: The Royal Bank of Scotland Group Pension Fund – RBSI Section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 December 2018 to continue to be met for the period for which the schedule is to be in force.

**Adherence to Statement of Funding Principles**

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 30 August 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the RBSI Section's liabilities by the purchase of annuities, if the RBSI Section were wound up.

Signature:



Date:

1 October 2019

Name: David Eteen

Qualification: Fellow of the Institute and  
Faculty of Actuaries

Address: Verulam Point  
Station Way  
St Albans  
AL1 5HE

Name of  
employer: Aon Hewitt Limited

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## SUMMARY OF CONTRIBUTIONS

YEAR ENDED 31 DECEMBER 2019

During the year ended 31 December 2019 the contributions payable to the Fund by the employers under the Schedules of Contributions and Payment Schedules were as follows:

	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Contributions required by the Schedules of Contributions and Payment Schedules as reported on by the Fund Auditor</b>				
<b>Employers</b>				
Normal contributions	191.60	0.20	10.40	202.20
Augmentation contributions	7.00	—	0.20	7.20
Additional contributions	32.40	1.20	1.00	34.60
Deficit funding	—	—	52.70	52.70
<b>Employees</b>				
Normal contributions	—	—	0.60	0.60
Winston Charge	9.50	—	—	9.50
	<u>240.50</u>	<u>1.40</u>	<u>64.90</u>	<u>306.80</u>
<b>Other contributions not reported on by the Fund Auditor</b>				
<b>Employers</b>				
Normal contributions	0.50	—	0.10	0.60
<b>Employees</b>				
Additional voluntary contributions	6.90	—	0.50	7.40
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>Contributions included in the Financial Statements</b>	<u>247.90</u>	<u>1.40</u>	<u>65.50</u>	<u>314.80</u>



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## SUMMARY OF CONTRIBUTIONS *(continued)*

### YEAR ENDED 31 DECEMBER 2019

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Employers' additional contributions in respect of the Main Section include the reimbursement of expenses and Pension Protection Fund levies and the reimbursement of the capital costs of members taking early retirement. In respect of the RBS AA Section and NWM and RBSI Sections, the Employers' additional contributions include the reimbursement of Pension Protection Fund levies and other expenses from the Employers.

There were two instances of late receipt of contributions during the year. The July and August expenses allowances for the Main Section and RBS AA Section were to be increased in line with RPI from July 2019. This adjustment was applied late resulting in contributions of £136k being received after the 90 days allowed under the Schedules of Contributions. As the amount is not material, the Auditor's Statement about Contributions has not been qualified.

Further details regarding the Winston Charge can be found on page 54.

Approved by the directors of RBS Pension Trustee Limited and signed on behalf of RBS Pension Trustee Limited by:

  
Ronald Bowie (Jun 12, 2020 16:48 GMT+1)

**Ronald Bowie**  
Chairman - RBS Pension Trustee Limited  
10 June 2020

  
V C M North (Jun 12, 2020 08:52 GMT+1)

**Victoria North**  
Director - RBS Pension Trustee Limited

## THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

### INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND *(continued)*

**YEAR ENDED 31 DECEMBER 2019**

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We have examined the summary of contributions to the Royal Bank of Scotland Group Pension Fund for the Fund year ended 31 December 2019 to which this statement is attached.

In our opinion contributions for the Fund year ended 31 December 2019 as reported in the summary of contributions and payable under the schedules of contributions and payments schedules have in all material respects been paid at least in accordance with the schedules of contributions certified by the Fund Actuary and payment schedules as follows:

- Main Section - Schedule of Contributions certified by the Fund Actuary on 9 October 2018.
- AA Section - Schedule of Contributions certified by the Fund Actuary on 1 August 2018.
- NWM Section - for the period 1 January 2019 to 30 September 2019 in accordance with the Payment Schedule dated 9 October 2018 and for the period 1 October 2019 to 31 December 2019 in accordance with the Schedule of Contributions certified by the Fund Actuary on 1 October 2019.
- RBSI Section - for the period 1 January 2019 to 30 September 2019 in accordance with the Payment Schedule dated 9 October 2018 and for the period 1 October 2019 to 31 December 2019 in accordance with the Schedule of Contributions certified by the Fund Actuary on 1 October 2019.

#### **Scope of work on statement about contributions**

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

#### **Respective responsibilities of the Trustee and the auditor**

As explained more fully in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and payment schedules and for monitoring whether contributions are made to the Fund by the employer in accordance with the schedule of contributions.

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

#### **Use of our report**

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 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 work has been undertaken so that we might state to the Trustee those matters we are required to state to them 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 Trustee as a body for our work, for this statement, or for the opinion we have formed.

*Deloitte LLP*

**Deloitte LLP**  
**Statutory Auditor**  
**Reading**  
**United Kingdom**  
**Date:**

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# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

YEAR ENDED 31 DECEMBER 2019

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of the Royal Bank of Scotland Group Pension Fund (the 'Fund'):

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2019 and of the amount and disposition at that date of its assets and liabilities, other than the 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 including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; 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, made under the Pensions Act 1995.

We have audited the financial statements of the Fund which comprise:

- the fund account;
- the statement of net assets; and
- the related notes 1 to 32.

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).

#### 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 Fund 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 are required by ISAs (UK) to report in respect of the following matters where:

- the Trustee's use of the going concern basis of accounting in 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 Fund'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.

We have nothing to report in respect of these matters.

## THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND *(continued)*

YEAR ENDED 31 DECEMBER 2019

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#### 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 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 respect of these matters.

#### Responsibilities of the Trustee

As explained more fully in the Statement of Trustee's Responsibilities, the Trustee is responsible for the preparation of the financial statements and 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 Fund'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 Fund or to cease operations, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND *(continued)*

YEAR ENDED 31 DECEMBER 2019

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### Use of our report

This report is made solely to the 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 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 Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

*Deloitte LLP*

Deloitte LLP  
Statutory Auditor  
Reading  
United Kingdom  
Date:

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## FUND ACCOUNT

YEAR ENDED 31 DECEMBER 2019

		Main Section 2019 £m	RBS AA Section 2019 £m	NWM and RBSI Sections 2019 £m	Total 2019 £m	Total 2018 £m
<b>Contributions and benefits</b>						
Employer contributions		231.50	1.40	64.40	297.30	2,235.60
Employee contributions		16.40	—	1.10	17.50	14.20
Total contributions	<b>5</b>	<u>247.90</u>	<u>1.40</u>	<u>65.50</u>	<u>314.80</u>	<u>2,249.80</u>
Benefits paid or payable	<b>6</b>	(953.70)	(17.30)	(0.60)	(971.60)	(949.00)
Payment to and on account of leavers	<b>7</b>	(841.40)	(33.30)	(6.30)	(881.00)	(1,186.10)
Administrative expenses	<b>8</b>	<u>(15.40)</u>	<u>(0.30)</u>	<u>(0.40)</u>	<u>(16.10)</u>	<u>(16.50)</u>
		<u>(1,810.50)</u>	<u>(50.90)</u>	<u>(7.30)</u>	<u>(1,868.70)</u>	<u>(2,151.60)</u>
<b>Net (withdrawals)/additions from dealings with members</b>		(1,562.60)	(49.50)	58.20	(1,553.90)	98.20
<b>Returns on investments</b>						
Investment income	<b>9</b>	1,028.50	26.10	0.30	1,054.90	1,216.70
Change in market value of investments	<b>10</b>	3,490.90	63.10	36.60	3,590.60	(2,005.70)
Investment management expenses	<b>12</b>	(100.70)	(2.00)	—	(102.70)	(105.40)
Taxation	<b>13</b>	<u>(1.90)</u>	<u>—</u>	<u>—</u>	<u>(1.90)</u>	<u>(3.60)</u>
<b>Net return on investments</b>		<u>4,416.80</u>	<u>87.20</u>	<u>36.90</u>	<u>4,540.90</u>	<u>(898.00)</u>
<b>Net increase/(decrease) in the Fund during the year</b>		2,854.20	37.70	95.10	2,987.00	(799.80)
Transfers between sections	<b>14</b>	3.20	(0.30)	(2.90)	—	—
<b>Net assets of the Fund</b>						
At 1 January		44,066.50	1,063.70	279.70	45,409.90	46,209.70
<b>At 31 December</b>		<u>46,923.90</u>	<u>1,101.10</u>	<u>371.90</u>	<u>48,396.90</u>	<u>45,409.90</u>

The notes on pages 47 to 81 form part of these financial statements.

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**

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

**AS AT 31 DECEMBER 2019**

		Main Section 2019 £m	RBS AA Section 2019 £m	NWM and RBSI Sections 2019 £m	<b>Total 2019 £m</b>	Total 2018 £m
<b>Investment assets</b>	<b>Note 10</b>					
Equities		2,943.30	26.30	–	2,969.60	2,749.30
Bonds		34,508.20	807.50	–	35,315.70	31,855.10
Property	<b>15</b>	1,424.80	–	–	1,424.80	1,401.20
Pooled investment vehicles	<b>16</b>	2,188.80	101.90	347.80	2,638.50	2,700.40
Derivatives	<b>17</b>	8,433.30	103.90	–	8,537.20	5,944.90
Cash instruments	<b>18</b>	3,622.70	92.40	16.30	3,731.40	3,556.60
Other investments	<b>19</b>	10.50	–	–	10.50	8.80
AVC investments	<b>20</b>	242.60	12.80	8.00	263.40	238.60
Cash	<b>21</b>	157.30	11.20	–	168.50	299.40
Other investment balances	<b>22</b>	119.60	3.60	–	123.20	141.10
		<u>53,651.10</u>	<u>1,159.60</u>	<u>372.10</u>	<u>55,182.80</u>	<u>48,895.40</u>
<b>Investment liabilities</b>	<b>10</b>					
Derivatives	<b>17</b>	(4,618.80)	(56.00)	–	(4,674.80)	(3,224.60)
Cash	<b>21</b>	(252.60)	(1.80)	–	(254.40)	(344.00)
Cash instruments	<b>18</b>	(1,923.50)	–	–	(1,923.50)	–
		<u>(6,794.90)</u>	<u>(57.80)</u>	<u>–</u>	<u>(6,852.70)</u>	<u>(3,568.60)</u>
<b>Total net investments</b>		<u>46,856.20</u>	<u>1,101.80</u>	<u>372.10</u>	<u>48,330.10</u>	<u>45,326.80</u>
<b>Current assets</b>	<b>27</b>	133.50	1.00	3.90	138.40	120.50
<b>Current liabilities</b>	<b>28</b>	(65.80)	(1.70)	(4.10)	(71.60)	(37.40)
<b>Net assets of the Fund at 31 December</b>		<u><u>46,923.90</u></u>	<u><u>1,101.10</u></u>	<u><u>371.90</u></u>	<u><u>48,396.90</u></u>	<u><u>45,409.90</u></u>

The notes on pages 47 to 81 form part of these financial statements.

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**  
**STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) (continued)**

**YEAR ENDED 31 DECEMBER 2019**

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The Financial Statements summarise the transactions of the Fund during the year and deal with the net assets at the disposal of RBS Pension Trustee Limited as at 31 December 2019. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with on pages 12 to 14 in the Report of the Trustee and the Actuarial Certificates, on pages 34 to 36, of the Annual Report and these Financial Statements should be read in conjunction with them.

These Financial Statements were approved by the Directors of RBS Pension Trustee Limited and signed on behalf of RBS Pension Trustee Limited by:



Ronald Bowie (Jun 12, 2020 16:48 GMT+1)

**Ronald Bowie**

Chairman - RBS Pension Trustee Limited  
10 June 2020



V C M North (Jun 12, 2020 08:52 GMT+1)

**Victoria North**

Director - RBS Pension Trustee Limited

**The notes on pages 47 to 81 form part of these financial statements.**

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# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 1. General information

The Fund is established as a trust under English law. The Fund is a registered pension scheme under the Finance Act 2004 and also has tax authorisation in certain other tax jurisdictions. The address for enquiries to the scheme is included in the Trustee's report.

### 2. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations, Financial Reporting Standard 102 - The financial reporting standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (FRC) and the guidance set out in the Statement of Recommended Practice (Revised November 2018).

This is the first year of adoption for the 2018 SORP. There have been no restatements of prior year figures as a result of this adoption.

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

3. Comparative fund account and statement of net assets available for benefits

Fund account

	Note	Main Section 2018 £m	RBS AA Section 2018 £m	NWM and RBSI Sections 2018 £m	Total 2018 £m
<b>Contributions and benefits</b>					
Employer contributions		2,232.10	1.20	2.30	2,235.60
Employee contributions		14.00	–	0.20	14.20
Total contributions	5	2,246.10	1.20	2.50	2,249.80
Benefits paid or payable	6	(934.20)	(14.80)	–	(949.00)
Payment to and on account of leavers	7	(1,130.10)	(54.90)	(1.10)	(1,186.10)
Administrative expenses	8	(16.00)	(0.30)	(0.20)	(16.50)
		(2,080.30)	(70.00)	(1.30)	(2,151.60)
<b>Net (withdrawals)/additions from dealings with members</b>		165.80	(68.80)	1.20	98.20
<b>Returns on investments</b>					
Investment income	9	1,192.80	23.90	–	1,216.70
Change in market value of investments	10	(1,954.70)	(47.50)	(3.50)	(2,005.70)
Investment management expenses	12	(103.10)	(2.10)	(0.20)	(105.40)
Taxation	13	(3.60)	–	–	(3.60)
<b>Net return on investments</b>		(868.60)	(25.70)	(3.70)	(898.00)
<b>Net increase/(decrease) in the Fund during the year</b>		(702.80)	(94.50)	(2.50)	(799.80)
Transfers between sections	14	(261.00)	(21.20)	282.20	–
<b>Net assets of the Fund</b>					
At 1 January		45,030.30	1,179.40	–	46,209.70
<b>At 31 December</b>		44,066.50	1,063.70	279.70	45,409.90

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 3. Comparative fund account and statement of net assets available for benefits *(continued)*

#### Statement of net assets (available for benefits)

	Note	Main Section 2018 £m	RBS AA Section 2018 £m	NWM and RBSI Sections 2018 £m	Total 2018 £m
<b>Investment assets</b>	<b>10</b>				
Equities		2,727.20	22.10	–	2,749.30
Bonds		31,027.50	827.60	–	31,855.10
Property	<b>15</b>	1,401.20	–	–	1,401.20
Pooled investment vehicles	<b>16</b>	2,413.80	87.20	199.40	2,700.40
Derivatives	<b>17</b>	5,892.00	52.90	–	5,944.90
Cash instruments	<b>18</b>	3,419.40	72.30	64.90	3,556.60
Other investments	<b>19</b>	8.80	–	–	8.80
AVC investments	<b>20</b>	220.10	11.90	6.60	238.60
Cash	<b>21</b>	288.70	10.70	–	299.40
Other investment balances	<b>22</b>	136.60	4.50	–	141.10
		<u>47,535.30</u>	<u>1,089.20</u>	<u>270.90</u>	<u>48,895.40</u>
<b>Investment liabilities</b>	<b>10</b>				
Derivatives	<b>17</b>	(3,206.60)	(18.00)	–	(3,224.60)
Cash	<b>21</b>	(335.50)	(8.50)	–	(344.00)
		<u>(3,542.10)</u>	<u>(26.50)</u>	<u>–</u>	<u>(3,568.60)</u>
<b>Total net investments</b>		<u>43,993.20</u>	<u>1,062.70</u>	<u>270.90</u>	<u>45,326.80</u>
<b>Current assets</b>	<b>27</b>	109.30	2.20	9.00	120.50
<b>Current liabilities</b>	<b>28</b>	(36.00)	(1.20)	(0.20)	(37.40)
<b>Net assets of the Fund at 31 December</b>		<u>44,066.50</u>	<u>1,063.70</u>	<u>279.70</u>	<u>45,409.90</u>

### 4. Accounting policies

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.

#### Currency

The Fund's functional currency and presentational currency is Sterling (GBP). Transactions in foreign currencies are translated into sterling at the rate ruling at the date of the transactions. Investments, current assets and liabilities denominated in foreign currencies are translated into their sterling equivalent at the rates ruling at the Fund's year-end. Differences arising are dealt with in change in market value within the Fund Account.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 4. Accounting policies *(continued)*

#### **Contributions**

Normal contributions from the employer have been made at the rate set out in the Schedules of Contributions and Payment Schedules in force for the Fund year. Normal contributions relating to wages and salaries earned in the Fund year have been recognised in the Financial Statements.

Additional contributions from the employer and Additional Voluntary Contributions (AVCs) from members are accounted for on an accruals basis. Augmentations from the employer are accounted for when paid.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier.

Contributions paid in excess of those required by the Schedule of Contributions are accounted for when received.

#### **Transfer from and to other plans**

Individual transfer values are accounted for at the time of receipt or payment.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

#### **Benefits**

Pensions in payment are accounted for on an accruals basis.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

#### **Administrative, investment management and other expenses**

All Administrative, Investment Management and other expenses are accounted for on an accruals basis.

#### **Investment income**

Investment income is accounted for on an accruals basis. Receipts from annuity policies are accounted for as investment income. Interest income related to the Special Purpose Vehicle, held within Other Investments, is accounted for as sales proceeds. All investment income is stated inclusive of any related recoverable taxation but net of any irrecoverable tax, including overseas withholding taxes and the costs of collection. Accrued income includes outstanding dividend entitlements, accrued interest income and recoverable withholding tax.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 4. Accounting policies *(continued)*

#### Valuation of investments

Investments are included in the Statement of Net assets at their fair value.

Bonds are stated at their clean prices - i.e. market value excluding any accrued interest at the year-end date. Accrued income is accounted for as investment income receivable, and bond purchases and sales are also reported on a clean basis.

Quoted securities are valued at fair value using the closing bid price as notified by the relevant stock exchange or closing prices if these are not available.

Unquoted securities can consist of a range of different investment types. The valuation methods used in relation to these investments are set out below:

- Investments in private equities are valued at fair value by the Fund's investment managers in accordance with International Private Equity and Venture Capital (IPEVC) guidelines based on the latest information from investment managers adjusted for any cash flows in the period between the valuation date and the year-end.
- Corporate loans are carried at fair value using the latest available price in the market. Certain other unlisted loans, where there is no available price in the market, are valued using a discounted cash-flow methodology adjusted for impairment, as a proxy for fair value.
- Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.
- Properties are valued at fair value at the year-end date on the basis of open market value by an independent valuer. Given the scale and nature of the Fund's US property holdings a valuation model has been applied where all properties are individually valued over a two year cycle. Each year as at 31 December, half of the US properties held are independently valued to ascertain fair value on those properties. The fair value information obtained from those valuations is then used to derive indicative prices for the remainder of the properties held. Those properties subject to indicative prices in the current year will be independently valued in the following year. Properties purchased within 3 months of the year-end have been valued at cost. The Trustee does not consider that any subsequent change to the value of these properties would materially impact these Financial Statements.
- Open future contracts are included in the net asset statement at fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract.
- The fair value of swaps is calculated using pricing models where inputs are based on market data at the year-end.
- Options (exchange traded) are recognised at the fair value as determined by the exchange price for closing the option as at year-end.
- Forward foreign exchange contracts outstanding at the year-end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 4. Accounting policies *(continued)*

#### Valuation of investments *(continued)*

- The fair value of Special Purpose Vehicles is calculated as the current value of future cash flows arising from the agreements in place, determined by discounted cash flow models.
- Annuity policies are shown at nil value in the Statement of Net Assets. This is a departure from the SORP as they are not held at the amount of the related obligation, determined using the most recent funding valuation assumptions and methodology. The Trustee does not consider the difference in accounting treatment to materially impact these Financial Statements.
- Accrued interest is excluded from the market value of fixed income securities and is included in accrued income receivable.

#### Subsidiaries and joint ventures

Subsidiaries are entities of which the Fund has the power to govern the financial and operating policies of that entity. These powers generally accompany an interest in an entity of over 50%. Joint ventures are subsidiaries where the power to govern is shared jointly with other partners in an undertaking. The Trustee considers the Fund's Subsidiary and Joint Venture holdings to be held as part of the Fund's investment portfolio in the bonds and equities asset classes. As such these holdings have been shown in the Fund's Financial Statements at fair value.

### 5. Contributions

	2019			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section £m	Sections £m	£m
<b>Employer contributions</b>				
Normal	192.10	0.20	10.50	202.80
Augmentation	7.00	–	0.20	7.20
Additional contributions	32.40	1.20	1.00	34.60
Deficit funding	–	–	52.70	52.70
	<u>231.50</u>	<u>1.40</u>	<u>64.40</u>	<u>297.30</u>
<b>Employee contributions</b>				
Normal	–	–	0.60	0.60
Additional voluntary contributions	6.90	–	0.50	7.40
Winston Charge	9.50	–	–	9.50
	<u>16.40</u>	<u>–</u>	<u>1.10</u>	<u>17.50</u>
	<u>247.90</u>	<u>1.40</u>	<u>65.50</u>	<u>314.80</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 5. Contributions *(continued)*

		2018		
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Employer contributions</b>				
Normal	210.70	0.90	2.30	213.90
Augmentation	9.90	–	–	9.90
Additional contributions	11.50	0.30	–	11.80
Deficit funding	2,000.00	–	–	2,000.00
	<u>2,232.10</u>	<u>1.20</u>	<u>2.30</u>	<u>2,235.60</u>
<b>Employee contributions</b>				
Normal	–	–	0.10	0.10
Additional voluntary contributions	6.70	–	0.10	6.80
Winston Charge	7.30	–	–	7.30
	<u>14.00</u>	<u>–</u>	<u>0.20</u>	<u>14.20</u>
	<u>2,246.10</u>	<u>1.20</u>	<u>2.50</u>	<u>2,249.80</u>

Employers' additional contributions in respect of the Main Section include the reimbursement of expenses and Pension Protection Fund levies and the reimbursement of the capital costs of members taking early retirement. In respect of the RBS AA Section and NWM and RBSI Sections, the Employers' additional contributions include the reimbursement of Pension Protection Fund levies and other expenses from the Employers.

The Bank paid a £2.0 billion deficit contribution to the Main Section in 2018. 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 shareholders distributions, the bank pays from 2020 (subject to a cap of £0.5 billion in any one year). These will be accounted for when paid.

The Bank paid a £52.7 million deficit contribution to the NatWest Markets Section during January 2019 in accordance with the terms of the Bulk Transfer Agreement dated 9 October 2018. This contribution is documented in the Recovery Plan dated 27 June 2019.

During 2017, in response to the abolition of contracting out and the increased national insurance cost this places on the employer, the Bank introduced a new contribution charge on members. This is referred to as the "Winston Charge" contributions and was phased in gradually during 2017 and 2018 to the current level of 2.0% of salary.

There were two instances of the late receipt of contributions during the year. The July and August expenses allowance, for the Main Section and RBS AA Section, were to be increased in line with RPI from July 2019. This adjustment was applied late resulting in contributions of £136k being received after the 90 days allowed in the Schedule of Contributions, on 5 December 2019.

Further details can be found on pages 12 to 14.

**THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND**

**NOTES TO THE FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2019**

**6. Benefits paid or payable**

	<b>2019</b>			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Pensions	807.40	14.70	0.10	822.20
Commutations and lump sum on retirement	140.00	2.60	0.50	143.10
Purchase of annuities	0.70	–	–	0.70
Lump sum death benefits	5.10	–	–	5.10
Lifetime allowance charge	0.50	–	–	0.50
	<u>953.70</u>	<u>17.30</u>	<u>0.60</u>	<u>971.60</u>
	<b>2018</b>			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Pensions	776.30	13.10	–	789.40
Commutations and lump sum on retirement	150.20	1.70	–	151.90
Purchase of annuities	0.80	–	–	0.80
Lump sum death benefits	5.60	–	–	5.60
Lifetime allowance charge	1.30	–	–	1.30
	<u>934.20</u>	<u>14.80</u>	<u>–</u>	<u>949.00</u>

**7. Payment to and on account of leavers**

	<b>2019</b>			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Individual transfers to other schemes	840.60	33.30	6.30	880.20
Group transfers out	–	–	–	–
Payments for members joining the state scheme	0.80	–	–	0.80
	<u>841.40</u>	<u>33.30</u>	<u>6.30</u>	<u>881.00</u>



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 7. Payment to and on account of leavers *(continued)*

	2018			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Individual transfers to other schemes	1,114.40	54.90	1.10	1,170.40
Group transfers out	15.60	–	–	15.60
Payments for members joining the state scheme	0.10	–	–	0.10
	<u>1,130.10</u>	<u>54.90</u>	<u>1.10</u>	<u>1,186.10</u>

During the prior year, all members of the NatWest DC Section were transferred to the RBS Retirement Savings Plan with a corresponding transfer of assets of £15.6 million.

### 8. Administrative expenses

	2019			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Administration and professional fees including irrecoverable VAT	13.70	0.30	0.40	14.40
Trustee Directors' fees (see below)	0.40	–	–	0.40
Pension Protection Fund Levy	1.30	–	–	1.30
	<u>15.40</u>	<u>0.30</u>	<u>0.40</u>	<u>16.10</u>

	2018			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Administration and professional fees including irrecoverable VAT	14.70	0.30	0.20	15.20
Trustee Directors' fees (see below)	0.40	–	–	0.40
Pension Protection Fund Levy	0.90	–	–	0.90
	<u>16.00</u>	<u>0.30</u>	<u>0.20</u>	<u>16.50</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2019

#### 8. Administrative expenses *(continued)*

Included within administration and professional fees are audit fees of £163k (2018: £158k).

Included within Employer contributions remitted to the Fund are amounts used to offset administrative costs. The Trustee has agreed that the Fund will reimburse The Royal Bank of Scotland Group plc for its administration costs incurred by People Services and RBS Investment Executive Limited. For the year ended 31 December 2019 this amounted to £2.2 million (31 December 2018: £2.1 million).

Trustee Directors who are not current employees of the Bank are paid a fee to compensate them for their time. In addition, Trustee Directors are reimbursed for expenses they incur on Trustee business such as the cost of travelling to and from meetings. The Fund also meets the cost of employer's National Insurance Contributions, where applicable.

The total of the fees paid plus expenses reimbursed at cost and any applicable employer National Insurance Contributions are detailed below.

	Year ended 31 December 2019	Year ended 31 December 2018
Trustee Director	£	£
Ronald Bowie (Independent Trustee)	121,395	116,037
Stephen Fallowell	–	3,644
Malcolm Groves	–	4,356
Ian Purves	18,073	16,286
Capital Cranfield (Independent Trustee)	76,114	70,844
George Graham	18,000	19,642
David England	17,376	8,021
Peter Walker	17,781	9,745
	<u>268,739</u>	<u>248,575</u>

#### 9. Investment income

	2019			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
Income from properties	43.50	£m	–	43.70
Income from bonds	692.90	18.80	–	711.70
Dividends from equities	94.30	1.20	–	95.50
Income from pooled investment vehicles	94.80	0.70	0.30	95.80
Income/(expense) from derivatives	66.30	3.80	–	70.10
Annuity income	–	1.00	–	1.00
Interest on cash deposits	36.70	0.40	–	37.10
	<u>1,028.50</u>	<u>26.10</u>	<u>0.30</u>	<u>1,054.90</u>

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

9. Investment income (continued)

		2018	NWM and RBSI	
	Main Section	RBS AA	Sections	Total
	£m	Section	£m	£m
		£m		
Income from properties	26.70	–	–	26.70
Income from bonds	731.80	20.00	–	751.80
Dividends from equities	175.20	1.50	–	176.70
Income from pooled investment vehicles	109.30	1.80	–	111.10
Income/(expense) from derivatives	120.60	(0.60)	–	120.00
Annuity income	–	0.80	–	0.80
Interest on cash deposits	29.20	0.40	–	29.60
	<u>1,192.80</u>	<u>23.90</u>	<u>–</u>	<u>1,216.70</u>

10. Reconciliation of investments

Main Section

	Value at 1 January 2019	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 31 December 2019
	£m	£m	£m	£m	£m
Equities	2,727.20	1,268.80	(1,367.60)	314.90	2,943.30
Bonds	31,027.50	10,725.80	(9,078.10)	1,833.00	34,508.20
Property	1,401.20	44.60	(57.50)	36.50	1,424.80
Pooled investment vehicles	2,413.80	1,298.10	(1,574.70)	51.60	2,188.80
Derivatives	2,685.40	2,067.80	(2,220.80)	1,282.10	3,814.50
Cash instruments	3,419.40	29,375.60	(31,053.10)	(42.70)	1,699.20
Other investments	8.80	–	(1.10)	2.80	10.50
AVC investments	220.10	94.30	(110.20)	38.40	242.60
	<u>43,903.40</u>	<u>44,875.00</u>	<u>(45,463.10)</u>	<u>3,516.60</u>	<u>46,831.90</u>
Cash	(46.80)			(23.80)	(95.30)
Other investment balances	136.60			(1.90)	119.60
	<u>43,993.20</u>			<u>3,490.90</u>	<u>46,856.20</u>

Included in the above are unconsolidated subsidiaries of the Fund. As at 31 December 2019 the aggregate net asset value of the subsidiaries amounted to £1,200 million (2018: £1,202 million).

The change in market value of investments during the year includes 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 change in market value for cash and near cash assets is due to net foreign exchange gains and losses.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 10. Reconciliation of investments *(continued)*

#### RBS AA Section

	Value at 1 January 2019 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31 December 2019 £m
Equities	22.10	4.70	(3.50)	3.00	26.30
Bonds	827.60	255.60	(332.70)	57.00	807.50
Pooled investment vehicles	87.20	87.40	(71.60)	(1.10)	101.90
Derivatives	34.90	54.50	(43.30)	1.80	47.90
Cash instruments	72.30	504.60	(484.80)	0.30	92.40
AVC investments	11.90	0.20	(1.30)	2.00	12.80
	<u>1,056.00</u>	<u>907.00</u>	<u>(937.20)</u>	<u>63.00</u>	<u>1,088.80</u>
Cash	2.20			0.20	9.40
Other investment balances	4.50			(0.10)	3.60
	<u>1,062.70</u>			<u>63.10</u>	<u>1,101.80</u>

The change in market value of investments during the year includes 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 change in market value for cash and near cash assets is due to net foreign exchange gains and losses.

#### NWM and RBSI Sections

	Value at 1 January 2019 £m	Purchases at cost £m	Sales proceeds £m	Change in market value £m	Value at 31 December 2019 £m
Pooled investment vehicles	199.40	226.10	(112.70)	35.00	347.80
Cash instruments	64.90	42.90	(91.90)	0.40	16.30
AVC investments	6.60	2.60	(2.40)	1.20	8.00
	<u>270.90</u>	<u>271.60</u>	<u>(207.00)</u>	<u>36.60</u>	<u>372.10</u>

The change in market value of investments during the year includes 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 ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 11. Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. Transaction costs are included in the cost of purchases and deducted from the sales proceeds disclosed in the reconciliation in note 10. Direct transaction costs incurred are analysed as follows:

Transaction costs analysed by main asset class and type of cost are as follows:

	2019				2018
	Fees £m	Commission £m	Taxes £m	Total £m	Total £m
Equities	0.20	0.40	–	0.60	5.00
Bonds	0.10	0.10	–	0.20	0.50
Other	–	0.20	–	0.20	0.10
Total 2019	<u>0.30</u>	<u>0.70</u>	<u>–</u>	<u>1.00</u>	
Total 2018	<u>2.30</u>	<u>3.30</u>	<u>–</u>		<u>5.60</u>

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles. Transaction costs disclosed above cover commissions, fees and taxes paid for quoted equity and credit segregated mandates.

Transaction costs do not include costs for assets not held by the Fund's custodian. In addition to the direct transaction costs disclosed, indirect transaction costs are incurred through the bid-offer spread of certain pooled investment vehicles. The Fund is compliant with the CTI templates for total transaction costs that cover direct and indirect costs. The Trustee monitors all fees as described on page 20 and Note 12.

*Other includes Pooled investment vehicles, Cash Instruments and Fixed Interest Investments.*

### 12. Investment management expenses

	2019			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
Investment managers fees	96.70	1.60	–	98.30
Custody fees	1.30	0.20	–	1.50
Other investment fees	2.70	0.20	–	2.90
	<u>100.70</u>	<u>2.00</u>	<u>–</u>	<u>102.70</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 12. Investment management expenses *(continued)*

	2018			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
Investment managers fees	98.60	£m	£m	100.50
Custody fees	1.80	1.90	–	1.90
Other investment fees	2.70	0.10	–	3.00
	<u>103.10</u>	<u>2.10</u>	<u>0.20</u>	<u>105.40</u>

### 13. Taxation

The Royal Bank of Scotland Group Pension Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. The Fund also has tax authorisation in certain other jurisdictions and so benefits from tax exempt status in those other jurisdictions. Tax charges are accrued on the same basis as the investment income to which they relate.

### 14. Transfers between sections

	2019			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
Transfers between sections	<u>3.20</u>	<u>(0.30)</u>	<u>(2.90)</u>	<u>–</u>

	2018			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
Transfers between sections	<u>(261.00)</u>	<u>(21.20)</u>	<u>282.20</u>	<u>–</u>

Transfers between sections mainly represent the movement of funds for individual members transferring between sections, but in addition can include larger bulk movements such as the transfer of 11 members from the AA Section to Main Section in April 2018 for a consideration of £16.4 million. Also in 2018 the Trustee created two new sections within the Fund. On 1 November 2018, 254 members transferred from the Main Section to the NatWest Markets Section for a consideration of £207.6 million, and 110 members transferred from the Main Section to the new RBS International Section for a consideration of £74.6 million. There were no bulk transactions in 2019.

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

15. Property

	2019			Total £m
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	
UK	1,117.90	–	–	1,117.90
Overseas	306.90	–	–	306.90
	<u>1,424.80</u>	<u>–</u>	<u>–</u>	<u>1,424.80</u>

	2018			Total £m
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	
UK	1,089.40	–	–	1,089.40
Overseas	311.80	–	–	311.80
	<u>1,401.20</u>	<u>–</u>	<u>–</u>	<u>1,401.20</u>

16. Pooled investment vehicles

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

	2019			Total £m
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	
Credit	170.80	15.50	145.50	331.80
Alternative equity	293.90	10.90	–	304.80
Property	439.90	24.70	9.80	474.40
Private equity	699.40	–	–	699.40
Insurance	584.80	50.80	–	635.60
Hedging assets	–	–	192.50	192.50
	<u>2,188.80</u>	<u>101.90</u>	<u>347.80</u>	<u>2,638.50</u>

	2018			Total £m
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	
Credit	159.10	16.10	138.80	314.00
Alternative equity	244.90	8.70	–	253.60
Property	481.10	20.70	9.80	511.60
Private equity	870.50	–	–	870.50
Insurance	658.20	41.70	–	699.90
Hedging assets	–	–	50.80	50.80
	<u>2,413.80</u>	<u>87.20</u>	<u>199.40</u>	<u>2,700.40</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 16. Pooled investment vehicles *(continued)*

The Main Section of the Fund invests in a number of pooled investment vehicles in which it is the sole investor, the aggregated investment position of these sole investor funds is summarised below:

	2019 £m	2018 £m
Alternative equity	111.9	98.7
Credit	170.9	159.1
Private equity	496.3	626.7
Insurance	136.3	157.0
	<u>915.4</u>	<u>1,041.5</u>

### 17. Derivatives

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

		2019	NWM and RBSI	
	Main Section £m	RBS AA Section £m	Sections £m	Total £m
<b>Derivative assets</b>				
Futures	5.20	1.30	—	6.50
Options	122.80	—	—	122.80
Swaps	8,090.60	96.00	—	8,186.60
Forward FX contracts	214.70	6.60	—	221.30
	<u>8,433.30</u>	<u>103.90</u>	<u>—</u>	<u>8,537.20</u>
<b>Derivative liabilities</b>				
Futures	(3.10)	(0.10)	—	(3.20)
Options	(0.90)	—	—	(0.90)
Swaps	(4,577.90)	(54.90)	—	(4,632.80)
Forward FX contracts	(36.90)	(1.00)	—	(37.90)
	<u>(4,618.80)</u>	<u>(56.00)</u>	<u>—</u>	<u>(4,674.80)</u>
	<u>3,814.50</u>	<u>47.90</u>	<u>—</u>	<u>3,862.40</u>



THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

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YEAR ENDED 31 DECEMBER 2019

17. Derivatives (continued)

		2018		
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Derivative assets</b>				
Futures	7.00	—	—	7.00
Options	279.90	—	—	279.90
Swaps	5,583.00	52.00	—	5,635.00
Forward FX contracts	22.10	0.90	—	23.00
	<u>5,892.00</u>	<u>52.90</u>	<u>—</u>	<u>5,944.90</u>
<b>Derivative liabilities</b>				
Futures	(15.10)	(2.60)	—	(17.70)
Options	(1.30)	—	—	(1.30)
Swaps	(3,025.90)	(9.60)	—	(3,035.50)
Forward FX contracts	(164.30)	(5.80)	—	(170.10)
	<u>(3,206.60)</u>	<u>(18.00)</u>	<u>—</u>	<u>(3,224.60)</u>
	<u>2,685.40</u>	<u>34.90</u>	<u>—</u>	<u>2,720.30</u>

**Futures**

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

Nature	No. of contracts	Economic exposure £m	Expires	Asset value £m	Liability value £m
Overseas bonds	7450	820.50	06/03/2020- 31/03/2020	4.30	(2.60)
Overseas equities	4392	206.60	12/03/2020- 15/04/2020	0.20	(0.50)
Overseas interest rates	811	158.00	16/03/2020	—	—
UK interest rates	98	12.20	18/03/2020	—	—
UK bonds	1036	136.10	27/03/2020	1.60	(0.10)
UK equity	1395	104.60	20/03/2020	0.40	—
<b>Total 2019</b>		<u>1,438.00</u>		<u>6.50</u>	<u>(3.20)</u>
Total 2018		<u>1,776.50</u>		<u>7.00</u>	<u>(17.70)</u>

Futures facilitate more efficient portfolio management and are used to manage exposures and for hedging. All Futures detailed above are Exchange Traded.

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

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YEAR ENDED 31 DECEMBER 2019

17. Derivatives *(continued)*

Options

No. of contracts	Expiration Dates	Underlying Investment	Notional amount of outstanding contract Millions	Asset £m	Liability £m
5	10/01/2023 - 01/04/2043	Interest Rate Swaps (OTC)	502.00 GBP	121.1	–
6	15/01/2020 - 18/03/2020	Interest Rate Swaps (OTC)	2,618.00 EUR	0.4	(0.3)
7	22/01/2020 - 18/03/2020	Equity Market Volatility (ET)	0	0.8	(0.3)
6	15/01/2020 - 18/03/2020	Interest Rate Swaps (OTC)	2,670.00 USD	0.5	(0.3)
<b>Total 2019</b>				122.8	(0.9)
Total 2018				279.9	(1.3)

Options allow the Fund to benefit from potentially greater returns or reduced risk through efficiently increasing or reducing exposure to bond and equity markets.

ET – Exchange traded

OTC – Over the counter

Swaps

The Fund had outstanding derivative swap contracts at the year-end as follows:

Nature	No. of contracts	Notional amounts £m	Expires	Asset value £m	Liability value £m
Credit default swaps	34	484.20	20/06/2021-17/02/2051	2.10	(9.30)
Currency swaps	27	2,153.20	23/01/2020-28/09/2029	117.10	(6.70)
Inflation swaps	220	16,215.70	15/12/2020-15/08/2069	922.40	(1,113.50)
Interest rate swaps	819	60,904.60	09/04/2020-28/08/2069	7,145.00	(3,502.60)
Total return swaps	7	40.40	15/01/2020-15/01/2022	–	(0.70)
<b>Total 2019</b>		79,798.10		8,186.60	(4,632.80)
Total 2018		75,647.50		5,635.00	(3,035.50)

Swaps are used to offset the sensitivity of the Fund's actuarial liability to changes in interest rates, inflation rates and currency exchange rates.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 17. Derivatives (continued)

#### Forward FX contracts

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

Settlement date	No. of contracts	Currency bought	Currency sold	Asset value £m	Liability value £m
17/01/2020-31/03/2020	23	424.6 GBP	803.1 AUD	1.60	(3.10)
17/01/2020-17/09/2021	80	1,142.5 GBP	1,317.1 EUR	24.10	(1.20)
02/01/2020-28/02/2020	9	51.4 GBP	515.1 HKD	1.50	–
21/01/2020-17/09/2021	23	125.6 EUR	108.1 GBP	0.10	(1.30)
10/01/2020-04/02/2020	8	184.8 USD	166.7 EUR	–	(1.80)
10/01/2020-30/06/2023	181	7,163.9 GBP	9,278.8 USD	184.80	(18.70)
23/01/2020-28/02/2020	8	12,376.5 JPY	90.4 GBP	–	(4.40)
09/01/2020-12/01/2021	62	550.3 USD	414.8 GBP	7.20	(7.20)
Various contracts with values of less than £1m	31			2.00	(0.20)
<b>Total 2019</b>				<u>221.30</u>	<u>(37.90)</u>
Total 2018				<u>23.00</u>	<u>(170.10)</u>

The Fund uses forward currency contracts to manage the currency risk which arises from holding investments which are not denominated in Sterling.

#### Collateral

Under the OTC contracts, the Main section has posted collateral of £1,520 million (2018: £1,022 million); in the form of bonds. The Main section has received collateral of £3,780 million (2018: £2,799 million) in the form of £3,322 million in cash and £458 million in bonds. The net total collateral is £2,260 million (2018: £1,777 million).

Under the OTC contracts, the AA section has posted collateral of £31.5 million (2018: £17.2 million); £8.6 million in cash and £22.9 million in bonds. The AA section has received collateral of £55.4 million (2018: £39.0 million); £28.9 million in cash and £26.5 million in bonds. The net total collateral is £23.9 million (2018: £21.8 million).

### 18. Cash instruments

	2019			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
Treasury bills	502.30	–	–	502.30
Liquidity funds	1,928.70	92.40	16.30	2,037.40
Other cash and cash equivalents	(731.80)	–	–	(731.80)
	<u>1,699.20</u>	<u>92.40</u>	<u>16.30</u>	<u>1,807.90</u>

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

18. Cash instruments *(continued)*

		2018	NWM and RBSI	
	Main Section	RBS AA	Sections	Total
	£m	Section	£m	£m
	£m	£m	£m	£m
Treasury bills	622.10	–	–	622.10
Liquidity funds	1,754.60	72.30	64.90	1,891.80
Other cash and cash equivalents	1,042.70	–	–	1,042.70
	<u>3,419.40</u>	<u>72.30</u>	<u>64.90</u>	<u>3,556.60</u>

Treasury bills represent UK Government securities held. Liquidity funds invest in a range of securities and bonds with high credit ratings for short-term investments.

19. Other investments

	Main Section	2019 RBS AA Section	Total
	£m	£m	£m
Special purpose vehicles	<u>10.5</u>	<u>–</u>	<u>10.5</u>

	Main Section	2018 RBS AA Section	Total
	£m	£m	£m
Special purpose vehicles	<u>8.8</u>	<u>–</u>	<u>8.8</u>

The special purpose vehicle consists of a loan book. The Trustee does not consider there to be a ready market for this investment which is therefore considered to be illiquid.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 20. AVC investments

	2019			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
Fidelity Investments Life Assurance Limited*	229.10	10.50	8.00	247.60
Standard Life Assurance Limited*	7.90	0.20	–	8.10
Scottish Widows' Fund and Life Assurance Society	4.00	–	–	4.00
The Equitable Life Assurance Society* (Utmost Life and Pensions Limited from 1 January 2020)	0.60	2.10	–	2.70
Clerical Medical Investment Group Limited*	0.40	–	–	0.40
Aviva Insurance Limited (formerly Norwich)*	0.60	–	–	0.60
	<u>242.60</u>	<u>12.80</u>	<u>8.00</u>	<u>263.40</u>
	2018			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
Fidelity Investments Life Assurance Limited*	209.00	9.50	6.60	225.10
Standard Life Assurance Limited*	7.10	0.20	–	7.30
Scottish Widows' Fund and Life Assurance Society	1.50	–	–	1.50
The Equitable Life Assurance Society* (Utmost Life and Pensions Limited from 1 January 2020)	0.50	2.20	–	2.70
Clerical Medical Investment Group Limited*	1.50	–	–	1.50
Aviva Insurance Limited (formerly Norwich)*	0.50	–	–	0.50
	<u>220.10</u>	<u>11.90</u>	<u>6.60</u>	<u>238.60</u>

\* These managers hold assets derived from RBSelect contributions and/or AVCs.

The Trustee holds assets invested separately from the main Fund in the form of individual accounts securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

21. Cash

	2019			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Cash assets</b>				
Cash with investment managers	87.00	0.90	—	87.90
Variation margins with brokers	17.30	10.30	—	27.60
Cash in transit	53.00	—	—	53.00
	<u>157.30</u>	<u>11.20</u>	<u>—</u>	<u>168.50</u>
<b>Cash liabilities</b>				
Variation margins with brokers	(163.70)	(1.80)	—	(165.50)
Cash in transit	(88.90)	—	—	(88.90)
	<u>(252.60)</u>	<u>(1.80)</u>	<u>—</u>	<u>(254.40)</u>
	<u>(95.30)</u>	<u>9.40</u>	<u>—</u>	<u>(85.90)</u>
	2018			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Cash assets</b>				
Cash with investment managers	238.80	5.70	—	244.50
Variation margins with brokers	25.20	5.00	—	30.20
Cash in transit	24.70	—	—	24.70
	<u>288.70</u>	<u>10.70</u>	<u>—</u>	<u>299.40</u>
<b>Cash liabilities</b>				
Variation margins with brokers	(255.90)	(8.10)	—	(264.00)
Cash in transit	(79.60)	(0.40)	—	(80.00)
	<u>(335.50)</u>	<u>(8.50)</u>	<u>—</u>	<u>(344.00)</u>
	<u>(46.80)</u>	<u>2.20</u>	<u>—</u>	<u>(44.60)</u>

22. Other investment balances

	2019			
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Other investment balances assets</b>				
Accrued income	119.60	3.60	—	123.20

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 22. Other investment balances *(continued)*

		2018		
	Main Section £m	RBS AA Section £m	NWM and RBSI Sections £m	Total £m
<b>Other investment balances assets</b>				
Accrued income	136.60	4.50	–	141.10

### 23. Fair value determination

The fair value of investments is determined using valuation techniques that utilise various inputs and these inputs have been categorised as set out below:

Level 1 – the unadjusted quoted price in an active market for identical assets.

Level 2 – inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data).

Level 3 – inputs are unobservable (i.e. for which market data is unavailable).

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

	At 31 December 2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Main Section</b>				
Equities	1,815.50	–	1,127.80	2,943.30
Bonds	84.20	32,380.90	2,043.10	34,508.20
Property	–	–	1,424.80	1,424.80
Pooled investment vehicles	15.30	–	2,173.50	2,188.80
Derivatives	2.10	3,812.40	–	3,814.50
Cash instruments	7.40	1,646.20	45.60	1,699.20
Other investments	–	–	10.50	10.50
AVC investments	–	229.10	13.50	242.60
Cash	(95.30)	–	–	(95.30)
Other investment balances	119.60	–	–	119.60
	1,948.80	38,068.60	6,838.80	46,856.20
<b>RBS AA Section</b>				
Equities	26.30	–	–	26.30
Bonds	–	767.50	40.00	807.50
Pooled investment vehicles	–	–	101.90	101.90
Derivatives	1.20	46.70	–	47.90
Cash instruments	70.30	–	22.10	92.40
AVC investments	–	10.40	2.40	12.80
Cash	9.40	–	–	9.40
Other investment balances	3.60	–	–	3.60
	110.80	824.60	166.40	1,101.80

THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

23. Fair value determination (continued)

**NWM and RBSI Sections**

Pooled investment vehicles	–	337.90	9.90	347.80
Cash instruments	–	16.30	–	16.30
AVC investments	–	8.00	–	8.00
	–	362.20	9.90	372.10
	<u>2,059.60</u>	<u>39,255.40</u>	<u>7,015.10</u>	<u>48,330.10</u>

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>Main Section</b>				
Equities	1,600.00	–	1,127.20	2,727.20
Bonds	88.10	28,870.30	2,069.10	31,027.50
Property	–	–	1,401.20	1,401.20
Pooled investment vehicles	14.10	–	2,399.70	2,413.80
Derivatives	(7.90)	2,693.30	–	2,685.40
Cash instruments	42.70	3,376.70	–	3,419.40
Other investments	–	–	8.80	8.80
AVC investments	–	209.10	11.00	220.10
Cash	(46.80)	–	–	(46.80)
Other investment balances	136.60	–	–	136.60
	<u>1,826.80</u>	<u>35,149.40</u>	<u>7,017.00</u>	<u>43,993.20</u>
<b>RBS AA Section</b>				
Equities	22.00	–	–	22.00
Bonds	–	818.00	9.60	827.60
Pooled investment vehicles	–	–	87.20	87.20
Derivatives	(2.60)	37.50	–	34.90
Cash instruments	62.00	–	10.30	72.30
AVC investments	–	9.50	2.50	12.00
Cash	2.20	–	–	2.20
Other investment balances	4.50	–	–	4.50
	<u>88.10</u>	<u>865.00</u>	<u>109.60</u>	<u>1,062.70</u>
<b>NWM and RBSI Sections</b>				
Pooled investment vehicles	–	189.60	9.80	199.40
Cash instruments	–	64.90	–	64.90
AVC investments	–	6.60	–	6.60
	–	261.10	9.80	270.90
	<u>1,914.90</u>	<u>36,275.50</u>	<u>7,136.40</u>	<u>45,326.80</u>



**24. Investment risk disclosures**

**Investment risks**

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, in line with a strategic benchmark. The strategic benchmark is set taking into account the Fund's risk appetite and strategic investment objectives. These investment objectives are implemented through the investment management agreements in place with the Fund's investment managers. The performance of investment managers is monitored by the Trustee and its advisers with regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Fund's exposures to credit and market risks are set out below. This does not include AVC investments whose value is not material in relation to the overall investments of the Fund.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 24. Investment risk disclosures *(continued)*

#### Credit risk

The Fund is subject to credit risk through its bonds, derivatives and cash balances. The Fund also invests in pooled investment vehicles and is therefore indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

A summary of the exposures to credit risk is given in the following table, the notes below explain how this risk is managed and mitigated for the different classes of investment:

	Main Section	RBS AA Section	NWM and RBSI Sections	Total as at 31 December 2019 £m	Total as at 31 December 2018 £m
	£m	£m	£m		
Bonds	34,508.2	807.5	–	35,315.7	31,855.1
Pooled investment vehicles					
- direct risk only	2,188.8	101.9	347.8	2,638.5	2,700.4
Derivatives					
- assets	8,433.3	103.9	–	8,537.2	5,943.2
- liabilities	(4,618.8)	(56.0)	–	(4,674.8)	(3,218.6)
Other investments	10.5	–	–	10.5	8.8
Cash instruments	1,699.2	92.4	16.3	1,807.9	3,556.6
Cash & trading accounts with managers					
- assets	214.0	13.0	–	227.0	248.8
- liabilities	(309.4)	–	–	(309.4)	(289.3)
	<u>42,125.8</u>	<u>1,062.7</u>	<u>364.1</u>	<u>43,552.6</u>	<u>40,805.0</u>

The Fund is exposed to credit risk which can take the form of an adverse change in credit spreads which reduces the market value of the bonds or higher than expected defaults on bonds the Fund holds.

The exposure to credit spreads is illustrated in the sensitivity analysis below:

Scenario	Main Section Change in Assets £m	RBS AA Section Change in Assets £m	NWM Section Change in Assets £m	RBSI Section Change in Assets £m
0.10% increase in credit spreads excluding sovereign bonds	(43.1)	(2.4)	(0.7)	(0.2)
0.10% increase in credit spreads and spreads on sovereign bonds	(830.8)	(17.9)	(0.7)	(0.2)

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 24. Investment risk disclosures *(continued)*

The credit ratings of the bonds held by the Fund are analysed below:

Credit rating	Main Section as at 31 December 2019		Main Section as at 31 December 2018	
	£m	%	£m	%
Investment grade	33,096.8	97.1	29,717.5	97.3
Non-investment grade	825.6	2.4	682.1	2.2
Unrated	139.9	0.5	160.6	0.5
	<b>34,062.3</b>	<b>100.0</b>	<b>30,560.2</b>	<b>100.0</b>

Credit rating	AA Section as at 31 December 2019		AA Section as at 31 December 2018	
	£m	%	£m	%
Investment grade	807.0	99.9	825.3	99.7
Unrated	0.7	0.1	2.6	0.3
	<b>807.7</b>	<b>100.0</b>	<b>827.9</b>	<b>100.0</b>

The NatWest Markets Section and RBS International Section did not hold any segregated bond holdings during the year or as at 31 December 2019.

'Investment grade' bonds are those which rank in the higher tiers of credit quality by either Moody's or S&P. 'Non-investment grade' bonds are those which either Moody's or S&P have classified in the lower tiers of credit quality but which may still provide a good investment opportunity on a risk-adjusted basis. 'Unrated bonds' may be deemed to be of equivalent credit quality to investment grade by the investment manager.

Credit risk is mitigated by employing investment managers who have a high level of expertise in managing such investments and applying restrictions to the agreements with investment managers which require the portfolios to be highly diversified, thereby avoiding inappropriate risk concentrations.

Direct credit risk arising from pooled investment vehicles (the risk that a loss arises from a failure of the vehicle or structure, rather than loss arising from the underlying assets) is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Due diligence checks are carried out on the appointment of new pooled investment managers with on-going monitoring thereafter.

Credit risk arising on derivatives depends on a number of factors including whether the derivative is traded on or cleared through an exchange or, alternatively, over the counter (OTC) on a bilateral basis between the Fund and a counterparty. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Fund is subject to risk of loss in the event of failure of the counterparty; however, this credit risk is reduced to very low levels by collateral arrangements. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but the contracts tend to be short term and the counterparties are selected carefully by the investment managers based on assessments of creditworthiness.

Cash and cash instruments are held either directly with institutions which have a high degree of creditworthiness or are invested in pooled funds which hold a diversified portfolio of cash instruments secured against companies with strong credit ratings.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 24. Investment risk disclosures *(continued)*

#### Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles.

The Fund's total asset exposure by major currency at the year-end (excluding currency hedges) was as follows:

	Main Section	RBS AA Section	Total as at 31 December 2019	Total as at 31 December 2018
	£m	£m	£m	£m
USD	7,778.6	281.8	8,060.4	7,499.7
EUR	2,183.4	55.6	2,239.0	1,856.4
Other	1,180.9	21.7	1,202.6	1,207.3
	<u>11,142.9</u>	<u>359.1</u>	<u>11,502.0</u>	<u>10,563.4</u>

The NatWest Markets Section and RBS International Section were not exposed to any currency risk during the year or as at 31 December 2019.

For the Main and AA sections, currency risk is managed with a currency hedging programme:

- Global equities: 50% hedge on all major developed market currencies through global equities. Emerging market currencies are not hedged.
- Private equity: partially hedged.
- Alternative equity: 100% hedged.
- Credit: 100% hedged, except for emerging market local currency debt which is not hedged.
- Property: 100% hedged.
- Insurance: 100% hedged.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 24. Investment risk disclosures (continued)

#### Interest rate risk

The Fund is subject to interest rate risk because the value of the Fund's liabilities and some of the Fund's investments are sensitive to interest rates. The table below shows the market value of instruments used for managing interest rate risk, not sensitivity to interest rates.

	Main Section	RBS AA Section	NWM and RBSI Sections	Total as at 31 December 2019 £m	Total as at 31 December 2018 £m
Bonds	34,508.2	807.5	–	35,315.7	31,855.1
Derivatives					
- assets	8,213.4	96.0	–	8,309.4	5,913.8
- liabilities	(4,578.8)	(54.9)	–	(4,633.7)	(3,039.0)
Other investments	10.6	–	–	10.5	8.8
Cash instruments	1,699.2	92.4	16.2	1,807.9	3,556.6
Cash & trading accounts with managers					
- assets	214.0	13.0	–	227.0	248.8
- liabilities	(309.4)	–	–	(309.4)	(289.3)
	<u>39,757.2</u>	<u>954.0</u>	<u>16.2</u>	<u>40,727.4</u>	<u>38,254.8</u>

Interest rate and inflation risk are managed as part of the Fund's liability hedging programme.

The Trustee has a policy of hedging interest rate and inflation risk on each of the four sections.

#### Other price risk

Other price risk arises principally in relation to the Fund's growth asset portfolio which includes listed equities, private equity, credit (corporate bonds), property and alternative investments held in pooled investment vehicles.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

	Main Section	RBS AA Section	NWM and RBSI Sections	Total as at 31 December 2019 £m	Total as at 31 December 2018 £m
Equities	2,943.3	26.3	–	2,969.6	2,749.3
Bonds	34,508.2	807.5	–	35,315.7	31,855.1
Property	1,424.8	–	–	1,424.8	1,401.2
Pooled investment vehicles	1,604.0	51.1	155.3	1,810.4	1,949.7
	<u>40,480.3</u>	<u>884.9</u>	<u>155.3</u>	<u>41,520.5</u>	<u>37,955.3</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 25. Stock lending

Certain Investment Managers of the Fund are authorised to use certain fund assets for sale and re-purchase transactions (Repo) with third parties.

The Trustee has agreed terms for a securities lending programme for equity and debt securities which began in 2018. At the year-end there were £338.4 million of assets on repo or on loan (2018: £364.0 million), including £99.2 million of corporate bonds (2018: £78.2 million) and £239.2 million of equities (2018: £285.8 million).

In addition, stock lending may be undertaken within pooled investment vehicles at the discretion of Investment Managers as part of normal investment activities.

### 26. Employer related investments

There were no material employer related investments in the current year or prior period. The Fund holds no direct investment in the Royal Bank of Scotland Group plc, although indirect holdings are possible through the pooled investment vehicles. These holdings are less than 5% of the Fund's assets.

The Fund operates certain interest rate swaps, inflation swaps, credit derivatives, cross currency swaps and forward exchange rate agreements where National Westminster Bank plc and NatWest Markets plc acts as counterpart. These transactions are on commercial terms and carried out on an arms-length basis.

There were two instances of the late receipt of contributions during the year. The July and August expenses allowances for the Main and RBS AA Sections were to be increased in line with RPI from July 2019. This adjustment was applied late resulting in contributions of £136k being received after the 90 days allowed under the Schedules of Contributions. This amount was deemed to be an employer related investment during the year.

### 27. Current assets

	2019			
	Main Section	RBS AA	NWM and RBSI	Total
	£m	Section	Sections	£m
		£m	£m	
Contributions due in respect of:				
Employers	17.50	–	0.60	18.10
Other debtors and prepayments	7.80	–	–	7.80
Due from RBS Main Section	–	0.10	–	0.10
Cash balances	108.20	0.90	3.30	112.40
	<u>133.50</u>	<u>1.00</u>	<u>3.90</u>	<u>138.40</u>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

### 27. Current assets (continued)

		2018	NWM and RBSI	
	Main Section	RBS AA	Sections	Total
	£m	Section	£m	£m
	£m	£m	£m	£m
Contributions due in respect of:				
Employers	20.70	0.10	0.80	21.60
Other debtors and prepayments	4.10	–	–	4.10
Due from RBS Main Section	–	0.50	–	0.50
Cash balances	84.50	1.60	8.20	94.30
	<u>109.30</u>	<u>2.20</u>	<u>9.00</u>	<u>120.50</u>

### 28. Current liabilities

		2019	NWM and RBSI	
	Main Section	RBS AA	Sections	Total
	£m	Section	£m	£m
	£m	£m	£m	£m
Unpaid benefits	3.20	–	–	3.20
Due to RBS AA Section	0.10	–	–	0.10
Accrued expenses	18.40	1.40	–	19.80
Sundry creditors	13.40	0.30	–	13.70
Employer contributions received in advance	30.70	–	4.10	34.80
	<u>65.80</u>	<u>1.70</u>	<u>4.10</u>	<u>71.60</u>

		2018	NWM and RBSI	
	Main Section	RBS AA	Sections	Total
	£m	Section	£m	£m
	£m	£m	£m	£m
Unpaid benefits	3.50	–	–	3.50
Due to RBS AA Section	0.50	–	–	0.50
Accrued expenses	18.90	0.90	0.20	20.00
Sundry creditors	13.10	0.30	–	13.40
Employer contributions received in advance	–	–	–	–
	<u>36.00</u>	<u>1.20</u>	<u>0.20</u>	<u>37.40</u>

Employer contributions received in advance relate to overpaid employer normal contributions during 2019. The employer has agreed to offset these against future additional contributions which become due when distributions are paid to shareholders for the Main Section and against future employer normal contributions for the NWM and RBSI Sections.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 29. Related party transactions

The following information is provided in accordance with FRS 102 Section 33, "Related Party Disclosures":

- Certain Directors of RBS Pension Trustee Limited are active or pensioner members of the Fund. Contributions received and pensions paid in respect of these Trustee Directors are made in accordance with the Schedules of Contributions and Trust Deed and Rules.
- Directors and Executives of The Royal Bank of Scotland Group plc and senior managers within areas of the Bank responsible for pensions administration, policy and Trustee support were active members of the Fund during the year.
- The cost of the services of RBS Pension Trustee Limited has been charged directly to the Fund. The fees and expenses payable to the Directors for the year ended 31 December 2019 are disclosed in note 8.
- Certain costs of administering the Fund were borne directly by The Royal Bank of Scotland Group plc during the year.
- The Fund operates Bank accounts held with The Royal Bank of Scotland Group plc. At 31 December 2019 these balances amounted to £112.4m (2018: £94.3m).
- The Fund operates certain interest rate swaps, inflation swaps, credit derivatives, cross currency swaps and forward exchange rate agreements where the Royal Bank of Scotland Group plc or its subsidiaries act as counterparties. These transactions are on commercial terms and carried out on an arms-length basis.
- On 1 December 2008, the UK Government through HM Treasury became the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK Government. As a result, the UK Government and UK Government controlled bodies became related parties of the Fund. The Fund had transactions with UK Government bodies on an arm's length basis and investments in government securities (either held directly or as part of a pooled fund) during the year, and are included in note 12. The volume and diversity of such transactions in the Fund is such that disclosure of their amounts in the year ended 31 December 2019 is impractical.
- The Fund invests in seven entities in which it holds controlling interests as at 31 December 2019.
  - West Granite Homes Inc invests in residential property in the US and is 99.9% owned by the Fund although the Fund has 100% of the voting rights.
  - Albemarle Shipping Ltd invests in shipping assets and is 100% owned by the Fund.
  - Phoenix Natural Gas is a Northern Irish Natural Gas Distributor and is 50% owned as part of a joint venture.
  - Ventus Investments Ltd invests in onshore wind generation assets and is 100% owned by the Fund.
  - AD Aggregator Platform Ltd is a holding company for the Fund's investments in anaerobic digestion facilities in the UK and is 100% owned by the Fund.
  - German Biogas Holdco Ltd invests in anaerobic digestion facilities in Germany and is 100% owned by the Fund.
  - Simple Power Holdco Ltd invests in onshore wind turbines in Northern Ireland and is 100% owned by the Fund.



# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2019

All of these entities are considered by the Trustee to be held as part of the Fund's investment portfolio so have been incorporated into the Financial Statements at fair value on an equity accounting basis and not consolidated with the Fund's Financial Statements.

#### 30. Capital commitments and contingencies

The following capital commitments held at the year-end are in relation to the Fund's investments in Private Equity Funds and Property Funds. These assets are disclosed under pooled investment vehicles in note 9.

	As at 31 December 2019 £m	As at 31 December 2018 £m
SL Capital 2016 Co-investment LLP	89.2	128.3
New Forest Property Funds*	27.9	54.1
Leadenhall Life Insurance Linked Investments Fund II, L.P.*	—	3.1
Hermes Private Equity	35.0	44.5
Pathway Private Equity*	25.0	29.2
Orion European Real Estate Fund III C.V*	8.6	11.2
JP Morgan Private Equity*	3.0	4.6
Brockton Capital Fund II L.P	1.1	3.8
Partners Group Real Estate Secondary 2009 (Euro) S.C.A.	2.1	2.3
Brookfield Asset Management, Inc.*	0.9	0.9
	<u>192.8</u>	<u>282.0</u>

\* Commitments denominated in overseas currencies which have been converted into Sterling at an exchange rate prevailing at the respective period/year-end.

#### Contingent liabilities

As explained on page 7 of the Trustee report, on 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension scheme. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The judgement also applies to the Fund and many other defined benefit pension schemes who also offered GMPs. Some members will be entitled to backdated benefit adjustments in relation to GMP equalisation plus interest on the arrears. This work is now underway. For many members GMP is a small part of their overall pension entitlement and therefore any back-payments are expected to be low for most of those affected. Based on an initial assessment of the likely arrears the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

"Anti-franking" legislation operates to satisfy the obligation to revalue the GMP during the interval between the member leaving contracted-out service and the GMP coming into payment without causing the non-GMP ("excess") pension to reduce. The Trustee has identified that anti-franking checks have not been applied in some cases. The Trustee is in the process of identifying which pensioner members may have been affected at which point it will be in a position to begin recalculating the pension of any member who has been disadvantaged. For a majority of members the GMP is a small part of the overall pension entitlement and therefore any back-payments are expected to be low for most of those affected. The overall financial impact to the Fund is not expected to be material but cannot be determined accurately at this point.

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED 31 DECEMBER 2019

The Fund has a small number of members in a number of Crown dependency jurisdictions including Guernsey and Jersey. The Trustee has identified that some of these members may have received benefit payments which complied with UK tax requirements but did not comply with the tax requirements in the local jurisdiction. It is possible that there may be a tax charge either to the Fund or to the member or both. The Trustee is in the process of identifying the members who have been affected and will then consider what steps need to be taken to resolve this matter. The overall financial impact to the Fund is not expected to be material but cannot be determined accurately at this point.

#### 31. NWM and RBSI Sections

	NatWest Markets Section	RBS International Section	<b>NWM and RBSI Sections Total</b>	NWM and RBSI Sections Total
	2019 £m	2019 £m	<b>2019 £m</b>	2018 £m
<b>Investment assets</b>				
Pooled investment vehicles	271.4	76.4	<b>347.8</b>	60.2
Cash instruments	11.9	4.4	<b>16.3</b>	204.1
AVC investments	7.6	0.4	<b>8.0</b>	6.6
<b>Total net investments</b>	<b>290.9</b>	<b>81.2</b>	<b>372.1</b>	<b>270.9</b>
<b>Current assets</b>	<b>2.5</b>	<b>1.4</b>	<b>3.9</b>	<b>9.0</b>
<b>Current liabilities</b>	<b>(3.8)</b>	<b>(0.3)</b>	<b>(4.1)</b>	<b>(0.2)</b>
<b>Net assets of the Fund at 31 December</b>	<b>289.6</b>	<b>82.3</b>	<b>371.9</b>	<b>279.7</b>

# THE ROYAL BANK OF SCOTLAND GROUP PENSION FUND

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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### 32. Subsequent events

On 31 January 2020 the United Kingdom left the European Union. The Trustee continues to monitor the situation carefully and is taking appropriate advice on the expected impact to the investment portfolio.

Since the year end date, the new coronavirus (Covid-19) has quickly emerged as a major risk to global activity and it is also having an impact on global markets. The Trustee and its advisors are monitoring the situation including its effect on business continuity, the value of investments and the ongoing strength of the employer covenant. The Trustee and its suppliers have put in place working practices which allow the Fund to continue to function on an uninterrupted basis. As at 30 April 2020 there had been no material change in the total value of the investments given the Fund is heavily invested in gilts and other hedging assets. Whilst the quantum of the effect on the unquoted investments in the portfolio is difficult to determine the Trustee continues to monitor them and is considering the impact this subsequent event may have on the future performance of the unquoted investments held by the Fund. The Trustee has taken advice on the employer covenant and concluded that it remains appropriate to treat the Fund as a going concern.