Funding **update 2017**

Pace's funding has improved

Every three years the actuary, an adviser to the Trustee, looks at Pace Complete's finances to undertake a formal valuation of the Scheme. The actuary also carries out less detailed 'annual check-ups' on Pace Complete.

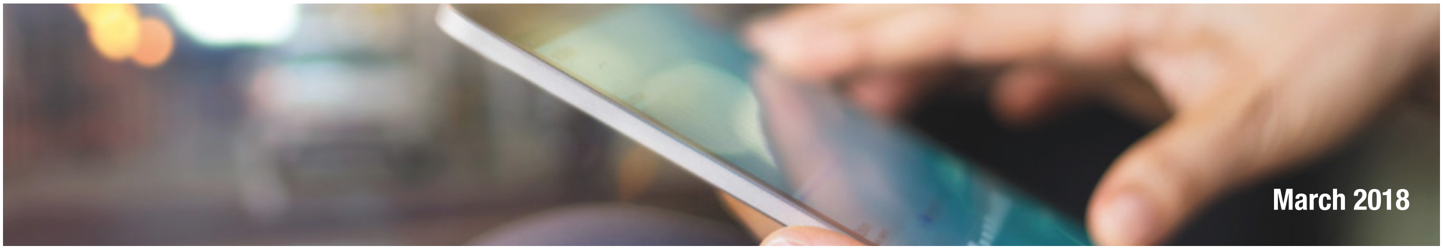
Understanding the funding position

The estimated cost of providing the benefits built up in Pace Complete to date is known as the 'liabilities'.

The money paid into Pace Complete by members, the Co-op and the Bank is invested so that it will grow and can provide members' benefits as they become payable. The money is held in a communal fund, not separate funds for each individual (with the exception of members' Additional Voluntary Contributions). The money invested is known as the 'assets'.

The actuary compares the value of Pace Complete's liabilities with its assets to work out the funding position. If Pace Complete has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities, it is said to have a 'surplus'.

Both the three-yearly valuation and the annual check-ups look at the position of Pace Complete on a particular day – in our case, 5 April. The most recent valuation of Pace Complete was carried out as at 5 April 2016, and an annual update was carried out as at 5 April 2017. The results are shown on the next page.

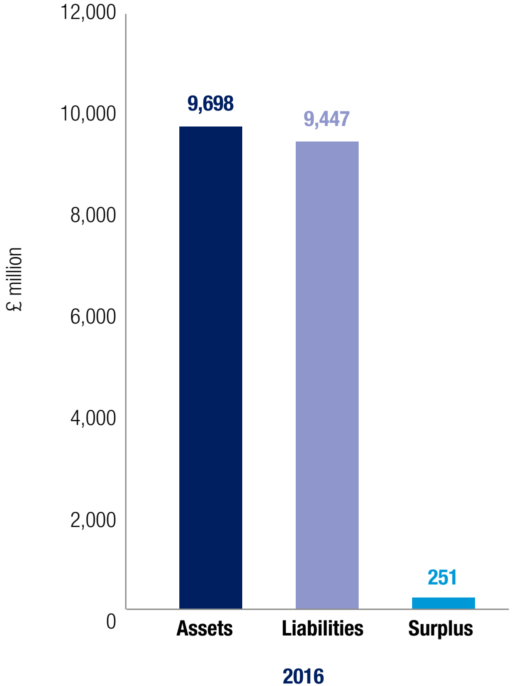


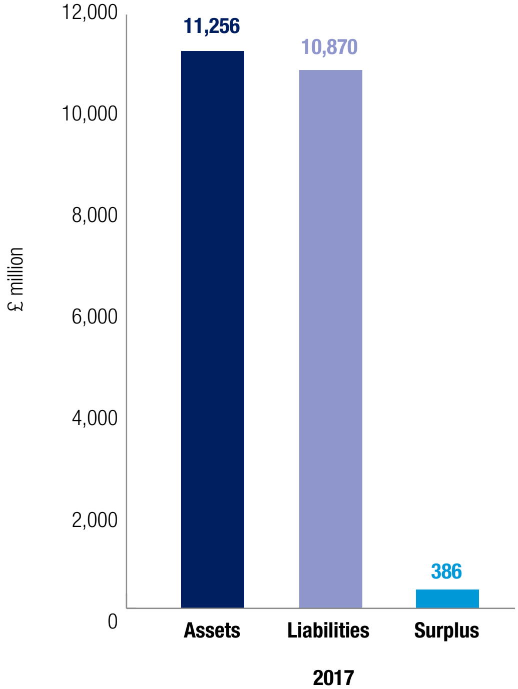
What was the funding position at 5 April 2016?

As at 5 April 2016, the value of Pace Complete's assets was £9,698m and the liabilities were valued at £9,447m, so there was a surplus of £251m. The funding level was therefore 103%, which means the assets were more than enough to cover the liabilities and Pace Complete is well funded.

What was the funding position at 5 April 2017?

As at 5 April 2017, the value of Pace Complete's assets was £11,256m and the liabilities were estimated to be £10,870m, giving an estimated surplus of £386m. The funding level was therefore 104%.





Funding update continued

Why has the funding position improved since the April 2016 valuation?

Between 5 April 2016 and 5 April 2017, the funding level increased from 103% to 104%, due to a combination of factors including contributions paid by the Co-op and the Bank during the year, and investment growth on Scheme assets.

Will the Co-op and the Bank continue to pay contributions into Pace Complete, given that there is no shortfall?

Based on the actuary's calculations, the Trustee and the Co-op have agreed that no additional contributions are required at this time. The Co-op is committed to providing extra funding if needed and this position will be reassessed at the next valuation in April 2019.

The Bank will continue to contribute into Pace Complete and contributions will continue as part of the agreement to create two separate sections in Pace during 2018. Further information about each section, including how they will be funded, will be provided later in 2018.

Payments to the Co-op

The Trustee must also tell you whether there have been any surplus payments to the Co-op out of Pace Complete in the last 12 months. We can confirm that no such payments have been made.

Shortfall on winding up

As part of the valuation, the actuary also looks at the funding level if Pace Complete was wound up. Including this information does not mean that the Co-op or the Trustee is planning to wind up Pace Complete. The Trustee is required by law to give you this information.

If Pace Complete had wound up as at 5 April 2016, the actuary estimated that the Trustee would have had to pay an insurance company £12,076m to provide all the benefits in full. This would have left Pace Complete with a shortfall of around £2,378m, and a funding level of 80%. The Trustee aims to have enough money to pay pensions and other benefits to members as they fall due, rather than having to pay an insurance company to provide the benefits, which can be very expensive.

Pension Protection Fund

The Pension Protection Fund (PPF) was set up in 2005 to compensate members of eligible UK pension schemes which are wound up, when the employer is insolvent and the scheme does not have enough assets to cover members' benefits.

All eligible pension schemes, including Pace Complete, are required to contribute to the PPF by paying a levy each year. Further information is available at **www.pensionprotectionfund.org.uk**

The Pensions Regulator

The Pensions Regulator regulates work-based pension schemes in the UK. Its aims include protecting members' benefits and promoting good scheme administration. You can find more details at **www.thepensionsregulator.gov.uk**

The Trustee needs to tell you if the Regulator has used its powers in relation to Pace Complete over the last year, for example, by changing the way future benefits build up, or the way the funding target is worked out, or amending the employer contribution rate. The Regulator has not used its powers in relation to Pace Complete.

Find out more

The pensions website at **www.legalandgeneral.com/coopbank** has more information about Pace Complete, including a copy of the Report and Accounts. Other key documents are available on request by calling the Pensions Department on 0330 606 1000 or emailing staffpensions@coop.co.uk