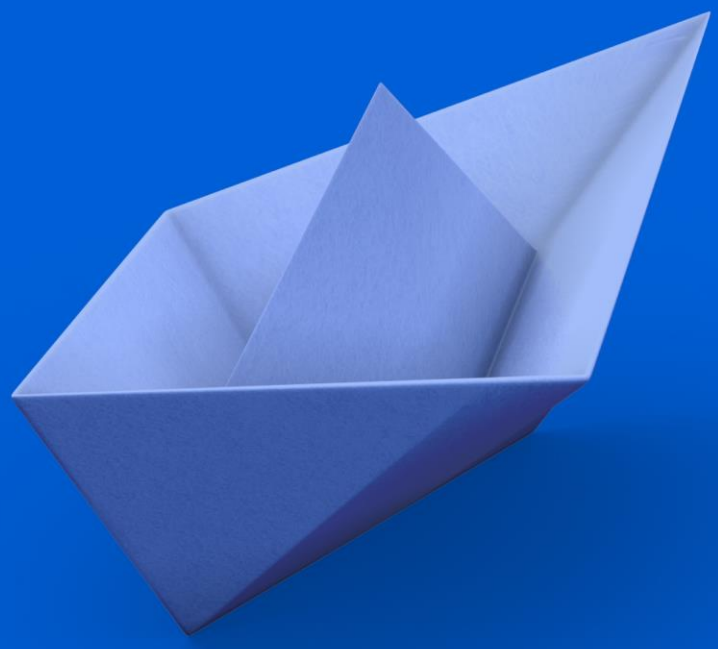
Royal & SunAlliance UK Pension Scheme 2002

Summary Funding Statement

May 2021



Dalriada.
A better way

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Chair's Introduction

As Trustee of the Royal & SunAlliance UK Pension Scheme 2002 ("the Scheme"), which is sponsored by Royal & Sun Alliance Insurance plc ("the Company"), I am pleased to issue this Summary Funding Statement to members of the Scheme.

I hope that this Statement finds you well, and that you and your family remain safe and healthy during this time.

A Summary Funding Statement is designed to keep you informed about the Scheme's financial security and the funding of the Scheme. Under Scheme Funding Requirements of the Pensions Act 2004, a full actuarial valuation (a formal financial healthcheck of the Scheme) is carried out at least every three years. The latest actuarial valuation was carried out with an effective date of 31 December 2019 ("the 2019 Valuation"). This Statement summarises the results of the assessment.

In the years where a full actuarial valuation is not carried out we are required to obtain an approximate assessment of the Scheme's financial position. The next approximate assessment will be carried out with an effective date of 31 December 2020. We will send you a statement like this each year to let you have updated information about the funding of the Scheme.

The Trustee is pleased to confirm that we have now completed the 2019 Valuation, and the Company has committed to pay £325k p.a. in the Scheme for a 6 year period ending on 31 December 2025 (the Recovery Period).

These contributions were agreed to eliminate the shortfall in the Scheme identified in the 2019 Valuation of the Scheme. Details of the results are contained in this Summary Funding Statement.

The Trustee is continually working closely with the Company to reduce the risk within the Scheme, and ultimately to improve the security of your pension benefits held in the Scheme.

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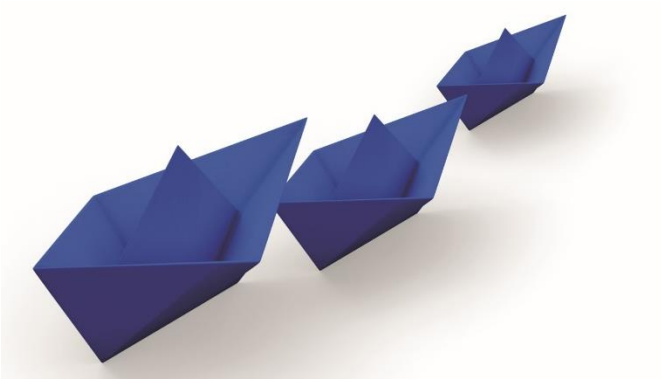
Calculating the Scheme's finances

- The Trustees need to keep a close eye on the Scheme's financial situation to ensure that there is enough money to pay for members' benefits, both now and in the future.
- We have appointed an independent actuary to carry out in-depth investigations of the Scheme's financial position, known as actuarial valuations. An actuarial valuation compares the current value of the investments ('the assets') with the amount of money the actuary estimates the Scheme needs now to pay all the benefits due to members ('the liabilities' – also known as 'technical provisions'). The law requires that the actuary must carry out a full actuarial valuation of the Scheme's finances at least every three years.
- During the valuation the Scheme actuary takes into account the Scheme's membership, general population trends, mortality rates and investment returns and then makes assumptions to estimate the future liabilities. The actuary then works out the 'funding level', which is the proportion of the liabilities that are covered at the valuation date by the current Scheme assets. The actuary's assumptions use an 'ongoing' valuation basis – which assumes that the Scheme will continue in the future and has no plans to wind up.



- If the assets are greater than the liabilities the Scheme has a surplus and a funding level of more than 100%.
- If the liabilities are greater than the assets the Scheme has a deficit and a funding level of less than 100%. In that case, the Trustees and the employer need to agree a 'Recovery Plan' to eliminate the deficit, which may mean additional contributions from the employer.
- In the years between full actuarial valuations, the Trustees must obtain an interim valuation of the Scheme's financial position. The latest interim valuation examined the Scheme's finances as they stood on 31 December 2018. This Summary Funding Statement summarises the results of the interim valuation and the last full Actuarial Valuation.

The Scheme's current financial position

The most recent actuarial valuation was carried out at 31 December 2019. On that date the Scheme had a deficit of £4,028,000, which corresponds to a funding level of 79%.

The table below shows how the funding position (and funding level) has changed since the 31 December 2016 valuation.

Scheme's Funding Level		
	31 December 2016	**31 December 2019**
Value of the assets:	£11,842,000	£15,047,000
Value of the liabilities:	£18,129,000	£19,075,000
Surplus / (Deficit):	(£6,287,000)	(£4,028,000)
Overall funding level:	65%	79%

IMPORTANT

If you are thinking of leaving the Scheme for any reason you should consult a professional adviser, such as an Independent Financial Adviser, before taking any action. The Trustees cannot provide you with financial advice.

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Reasons for the change

You can see from the table that there has been an improvement in the funding level since the 31 December 2016 actuarial valuation.

This had been mainly due to the Company's deficit reduction contributions paid as part of the "Recovery Plan" (i.e. an agreement made between the Company and Trustee to eliminate the deficit through additional funding). In addition, the Scheme assets performed strongly over the inter-valuation period.

It is important to remember that the funding level has been calculated using very prudent assumptions and represents the position at 31 December 2019. Due to changes in financial conditions and continued uncertainty in relation to financial markets, the funding position may have deteriorated since 31 December 2019.

The Trustees review the Scheme's financial position on a regular basis. The next formal actuarial valuation will examine the Scheme's finances as they stand on 31 December 2022.

Balancing the books

The Company agreed a 'Recovery Plan' with the Trustees to eliminate the deficit by paying extra contributions of £325,000 each year up until 31 December 2025. The Company is also required to make contributions to meet the costs of administering the Scheme.

As you can see, the Company provides significant financial support to the Scheme. This is necessary as:

- The funding level can fluctuate, for a number of reasons.
- The Scheme may experience poorer than expected investment returns.
- Changes in financial conditions, such as inflation etc.
- Changes in experience, such as members living longer, transferring out etc.
- When there is a funding shortfall, the Company will usually need to put in more money.
- The target funding level may turn out not to be enough, meaning the Company will need to put in more money.
- The Company will be paying the future expenses of running the Scheme.

The Trustee monitors the strength of the Company and how this might affect the Scheme in the future. The Trustees are satisfied that the Company will continue to be able to support the Scheme so that members' benefits can be paid in full when required.

Scheme Investments

The Trustees are required to advise you if there have been any payments to the Company from the Scheme's assets in the last 12 months – we can advise that no such payments have been made.

The Trustees invest the Scheme's funds in a wide range of assets. The table below shows the main types of assets and the proportions of Scheme funds invested in each:

Asset Class	%
Equities	36%
Government bonds	45%
Corporate Bonds	14%
Other	5%

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The Trustees agreed the Statement of Investment Principles in September 2020, which sets out their strategy for investing the Scheme's assets.

A different approach

The funding levels we have looked at so far assume that the Scheme will continue (also known as 'the ongoing funding position') until the last member's benefits have been paid.

However, the Trustees must also value the Scheme on a **'solvency basis'**, which considers what would happen to the Scheme if it were wound-up at the valuation date (meaning closed down completely). There are currently no plans to do this, but the Trustees must obtain estimated figures for 'full solvency' funding - where the Scheme assets would be used to buy insurance policies to provide the benefits built up to the date the Scheme wound up.

The estimated amount needed to pay all members' benefits in full, if the Scheme had started winding up on 31 December 2019 and benefits were bought through an insurance policy, was £20,641,000 compared to the estimated 'ongoing' basis of £19,075,000.

The reason that the 'full solvency' cost is greater than the 'ongoing' cost is because insurance policy prices are generally more expensive. This is because they invest in assets that offer a more certain, but lower rate of growth and, therefore, need more assets to provide a given future benefit. The insurance policy will also include administration fees and the insurer's profit margin.

The pensions safety net

If the Scheme were to wind up, the law requires that the Company pays enough money to the Scheme so that it can meet the 'full solvency' cost. If the Company became insolvent and there were insufficient monies available to pay the Scheme the amount required to secure the benefits with an insurance company on a 'full solvency' basis (as described above), then the Pension Protection Fund (PPF) might be able to take over the Scheme and pay compensation to members.

The PPF was set up as a 'safety net' for pension scheme members whose schemes wind up without their employer being able to afford the cost of providing all the benefits.

The PPF can provide compensation to people who would otherwise lose their pensions in this way. PPF compensation may be less than the full benefit you have earned in the Scheme, depending on your age and when the benefits were earned.

The Company pays an annual levy to the PPF towards the cost of this protection. If you would like to find out more about the PPF visit their website at www.pensionprotectionfund.org.uk

The Pensions Regulator

Under the provisions of the Pensions Act 2004, The Pensions Regulator has the authority to:

- Change the rate at which members earn benefits
- Instruct a pension scheme on how to value members benefits
- Set a deadline for making good the shortfall
- Set the future level of contributions

The Pensions Regulator has not exercised any of these powers in relation to the Scheme.

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The Scheme's documents

Please read this Summary Funding Statement carefully as it's important you understand the Scheme's financial position. You don't need to take any action, however, if you have any questions, or would like any more information please get in touch using the contact details below.

You may also find the following Scheme documents useful, copies of which you can request from the trustees.

Statement of Funding Principles	Sets out the Scheme's funding plan and details of the method and assumptions used for last Actuarial Valuation
Recovery Plan	Explains how any funding shortfall in the Scheme is being met and over what timescale.
Statement of Investment	Explains how the Trustee invests the money that is paid into the Scheme.
Schedule of Contributions	Shows how much money is being paid into the Scheme.
Annual Report and Accounts	Shows the Plan's income and expenditure and is prepared for each Scheme year ending 31 December.
Actuarial Valuation Report	Following the Scheme Actuary's review of the funding level as it stood on 31 December 2019.
Actuarial Report	Annual updates on the Scheme's funding level on 31 December each year, the most recent being 31 December 2018.
Scheme Booklet	You should have been given a copy when you joined the Scheme.

Contacts

If you have any questions about this Summary Funding Statement, would like a copy of any Scheme documentation listed above, or have any general enquiries about your Scheme benefits, please contact:

In writing: Adrian Campbell, Dalriada Trustees Limited, 46 New Broad Street, London, EC2M 1JH

By telephone: 02037940191

By email: RSA2002@dalriadatrustees.co.uk

Dalriada. A better way

Belfast

Linen Loft
27-37 Adelaide Street
Belfast
BT2 8FE

Birmingham

Edmund House
12-22 Newhall Street
Birmingham
B3 3AS

Bristol

Castlemead
Lower Castle Street
Bristol
BS1 3AG

Glasgow

The Culzean Building
36 Renfield Street
Glasgow
G2 1LU

Leeds

Princes Exchange
Princes Square
Leeds
LS1 4HY

London

46 New Broad Street
London
EC2M 1JH

Manchester

82 King Street
Manchester
M2 4WQ