Northern Bank Pension Scheme

Report to Members
December 2016

Danske Bank

Contact Information

Equiniti (Scheme Administrator)
Danske Administration, Equiniti,
Sutherland House, Russell Way,
Crawley, West Sussex, RH10 1UH

Tel: 01293 604 224
Email: danske.administration@equiniti.com

The Equiniti team deal with the day-to-day administration of the Scheme and should be your first point of contact for all general enquiries, including requests for details of your Scheme benefits.

Scheme Secretary
Northern Bank Pension Trust Ltd
Donegall Square West
Belfast, BT1 6JS

Tel: 028 9004 8514
Email: edar@danskebank.co.uk

The Scheme Secretary (Brett Armstrong) and his team, assist the Trustee Board with the management and operation of the Scheme. Please contact the Secretary if your query cannot be resolved by Equiniti.

This Member Report summarises developments within, and progress of, the Northern Bank Pension Scheme. It also contains details of Scheme benefits and other general pension information. Checks have been undertaken to verify the accuracy of its content, however in the event of any omissions or inaccuracies, the legal documents governing the Scheme, or relevant legislation, will apply.

Northern Bank Pension Trust Limited
Registered in Northern Ireland NI 3155
Registered Office: Donegall Square West, Belfast, BT1 6JS

Danske Bank
Danske Bank is a trading name of Northern Bank Limited
www.danskebank.co.uk

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Northern Bank Pension Trust Limited - Directors

Kevin Brown* (Chairman)
BESTrustees plc** – Zahir Fazal (Deputy Chairman)
Paul Alexander*
Brona Brennan
Clive Harper
Anders Herskind
Stephen Johnston*
Irene Martin*
Stephen McLaughlin
Brian Telford

* (Member Nominated Director) ** (Corporate Director)

Pension Scams – Don't Get Stung!

Members who are considering transferring their benefits from the Scheme should also be aware of pension scams. In an attempt to scam you out of your pension savings, scammers may try to flatter, tempt and pressure you into transferring your pension. Tactics used may include promises of guaranteed or unusually high returns; a cold call, text or website pop-up offering a free pension review, a one-off opportunity or a legal loophole; access to pension savings before age 55; paperwork delivered by courier that requires immediate signature; a proposal to put your pension savings in a single investment or an overseas transfer.

Once a transfer is made to a scam scheme, **it is too late**. Your pension savings will then only benefit the scammers. **Never** be rushed or pressurised into making a transfer decision. Further information is available from the Scheme Administrator or from The Pensions Advisory Service on 0300 123 1047. Visit www.pension-scams.com to find out more about how to protect yourself against scams.

Chairman's Introduction

Dear Member

I have pleasure in issuing the 2016 edition of the Member Report. Its purpose is to provide all members with an update on the Scheme, including its investments and its funding position. It also includes other important Scheme information as well as some general pension-related issues.

During 2016, there have been two significant events in the progress of the Scheme:

1. Completion of the triennial valuation by the Scheme Actuary
2. Further material de-risking of the Scheme's investments

With regard to the triennial valuation, I am pleased to report the results of the actuarial valuation show a surplus funding position at 31 December 2015 of **£45m** (which reflects a funding level of **104%** on the on-going valuation basis). Despite significantly lower expected future investment returns (mainly as a result of changes to both market conditions and investment strategy since the last valuation) the level of surplus remained similar to the results of the 2012 valuation (£48m - 105%). In addition, the Actuary's statutory estimate of solvency as at 31 December 2015 had improved to 84% (2012 – 77%).

The Scheme's investment strategy, which is regularly reviewed, was also reviewed as part of the triennial valuation process. Accordingly, a number of investment de-risking actions were implemented during 2016. The outcome was to reduce the target allocation of Equities to 32% of the Scheme's 'non Buy-in' assets. In the context of the overall Scheme, this means almost 85% of Scheme investments are now invested in Matching or Income/Protection assets.

Further information on the above events, and other Scheme matters, can be found in the Report. If you have any questions, please contact Brett Armstrong (Scheme Secretary) who will be happy to assist you.

J K H Brown
Chairman
December 2016

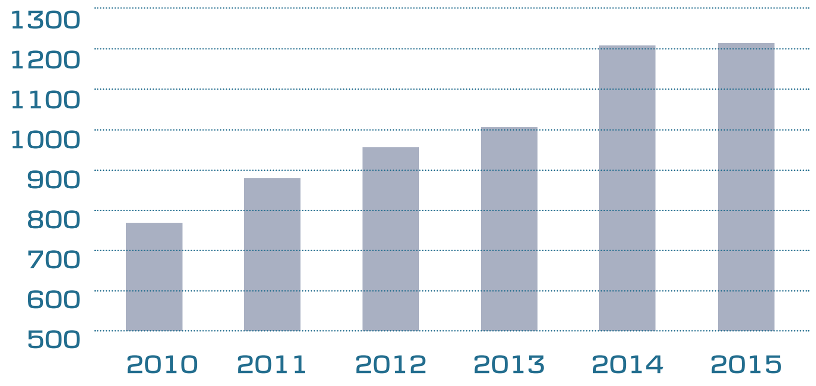
Scheme Assets

How the Scheme's Fund Value has changed

The Scheme's assets (excluding AVCs) amounted to £1,215 M at 31 December 2015.

£millions

Fund Value 2010-2015



How the Scheme's (non Buy-in) Assets are Invested

At 30 November 2016, the Scheme's non Buy-in assets were invested as follows:

Asset Type	Manager	£m	%	Target Allocation %
Equities	BlackRock (Passive)	223.0	34.9	
FX Contracts	Danske Bank	3.2	0.5	
Growth Assets		**226.2**	**35.4**	**32**
Bonds	BlackRock (Active/Passive)	288.8	45.3	
Directly-held Property	Osborne King	55.2	8.6	
Interest-rate Derivatives	Danske Bank	61.6	9.7	
Cash	BlackRock	6.3	1.0	
Income/Protection Assets		**411.9**	**64.6**	**68**
Total non Buy-in Assets		**£638.1M**	**100**	**100**

The value of the Buy-in policy, which is an asset of the Scheme, is not included in the 30 November 2016 figures above. The Scheme Actuary values the policy at the end of each year, based on the value of the pensions covered under the policy as well as any additional value which may arise under its terms (i.e. in periods of low inflation). Prudential are required to deposit agreed levels of collateral in a custody account with an independent third party custodian. The Required Collateral Amount under the Buy-in policy at 30 November 2016 was **£786M** and assets in excess of this amount were held in the Trustee's custody account with Bank of New York Mellon at that date.

Scheme Liabilities (Technical Provisions)

Actuarial Valuation Results as at 31 December 2015

The table below shows the liabilities accrued in the Scheme as at 31 December 2015, as calculated by the Actuary using the method and assumptions set out in the Statement of Funding Principles (agreed by the Trustee and the Bank).

Valuation Statement	31 December 2015 £M
Active Members	294
Deferred Members	182
Pensioners / Dependants (not covered under the Buy-in policy)	70
Pensioners / Dependants (covered under the Buy-in policy)	624
Liabilities ('Technical Provisions')	**1,170**
Assets (excluding AVCs)	**1215**
Past Service Surplus (Assets less Technical Provisions)	45
Funding Level (Assets ÷ Technical Provisions)	**104%**

Schedule of Contributions

At each valuation, a Schedule of Contributions is agreed between the Trustee and the Bank. The Employer contribution agreed at the 2012 valuation was £6.8m p.a. The Employer contribution recently agreed at the 2015 valuation has increased to £8.4m for the year from 1 October 2016 and then to 31% of pensionable salaries each year thereafter (until the next valuation or until 30 September 2021, whichever is sooner). With the annual amount of contributions linked to pensionable payroll from October 2017, the amount of Employer contributions is expected to reduce in line with Active members leaving or retiring from Service.

The Schedule of Contributions is otherwise unchanged from those agreed at the previous two valuations, with the Employer contributing £0.9m p.a. towards the expenses of running the Scheme and making additional payments to cover the PPF levy, to cover any costs arising from ill health retirements and to cover any augmentation costs arising from early retirements. The Employee contribution rate is 6% of pensionable salaries.

Income and Expenditure 2015

Summary of the Scheme's Accounts for the year ended 31 December 2015:

Income	£m
Employer Contributions (normal funding)	7.7
Employer Contributions (additional – PPF levies)	0.2
Employer Contributions (early retirement funding)	2.1
Member Contributions (normal and AVC)	1.8

Total £11.8m

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Expenditure	£m
Pensions paid	29.7
Commutations and retirement lump sums	6.3
Lump sum death benefits	0.1
Transfers out	1.0
Administration expenses	1.3
PPF Levies	0.2

Total £38.6m

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Return on Investments	£m
Change in market value of investments	13.1
Annuity Income (Buy-in)	18.2
Investment income	4.0
Investment expenses	(1.2)

Total £34.1m

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Assets	£m
Net assets (inc AVCs) at 1 January 2015	1,209.2
Net increase	7.3
Net assets (inc AVCs) at 31 December 2015	1,216.5

Increase

Total £7.3m

General Information for all Members

Membership Statistics

30 September 2016

Active members	879
Active pensioners ('flexible retirees')	52
Deferred members	1,719
Pensioner members	1,960
Spouses / Dependants of former members	184
Children of former members	15
Total Membership	**4,809**

The 'Buy-in' Insurance Policy

During 2016, a number of adjustments were made to the insured benefits under the Buy-in policy. These adjustments were expected, and were in accordance with the agreed terms of the policy, entered into in April 2015. The adjustments resulted in a net increase in the insured benefits and accordingly the Trustee paid a further premium of £28m to Prudential in October 2016.

Also, during 2016, Prudential, by way of a Part VII transfer (under the Financial Services and Markets Act 2000) transferred the entire business of Prudential Retirement Income Limited (the initial counterparty to the Buy-in policy) to The Prudential Assurance Company Limited ("PAC"). This transaction (to improve the flexibility and efficiency of capital management by Prudential UK) was Court-approved. Prior to Court-approval, the Trustee received professional advice on the impact of the transfer on the Trustee's Buy-in policy – the advice did not raise any concerns or identify any issues for the Trustee.

Further information on the Buy-in insurance policy is available from the Scheme Secretary.

Annual Report & Accounts (2015)

A copy of the Scheme's audited Annual Report and Accounts for the year ended 31 December 2015 is available from the Scheme Administrator.

Report on Actuarial Valuation (31 December 2015)

A copy of the Actuarial Valuation Report as at 31 December 2015 is available from the Scheme Administrator.

Information for Active Members

Transfer Out Options

Active members are reminded that they may elect to transfer their benefits (subject to certain conditions) out of the Scheme at the point of their retirement. This includes the option of a partial transfer of main Scheme benefits (e.g. all pre-CARE benefits or all CARE benefits at the point they are due to be paid) or of AVCs. This enables members to avail of wider flexibility on how they receive their pension benefits. Further details on transferring benefits can be found later in this Report under 'Information for Deferred Members'.

New Pension Age

This is the age at which pension accrued for service after 31 December 2007 will be payable without reduction. Pension can still be taken at age 60, subject to reduction for post-2007 accrual, or earlier under certain options. New Pension Age for 2016 is 60 years and 10 months. New Pension Age for 2017 will be 61 years and 0 months.

'A Guide to Your Benefits'

Basic information on the Scheme's benefits can be found in the member guide – A Guide to Your Benefits. The latest version (May 2016) is available on the Company's 'Danske People' teamsite.

Do you need to complete or update an existing Expression of Wish Form?

In certain circumstances (death-in-service or potentially within 5 years of your pension coming into payment) a lump sum is payable by the Trustee.

The choice of person(s) to receive any lump sum is at the discretion of the Trustee. The lump sum is not normally subject to tax. If you would like consideration to be given to the whole or part of the lump sum being paid to someone other than your spouse or civil partner, you should complete an Expression of Wish Form. An Expression of Wish Form is available on the Danske People teamsite or from the Scheme Administrator.

Active members can boost their pension savings by making AVCs

Active members of the Scheme can pay additional voluntary contributions (AVCs) to boost the value of their pension benefits at retirement. The full value of your Scheme AVC fund can presently be taken as a tax-free lump sum when your pension comes into payment subject to it being within the maximum tax-free lump sum allowed.

An updated AVC Information Booklet (December 2016) can be found on the Danske People teamsite or can be obtained from the Scheme Administrator. Members should take HMRC's Annual Allowance limit into account when making AVCs. You are encouraged to take independent financial advice before making AVCs. You are also encouraged to regularly review your AVC fund choice, particularly as you approach retirement.

Information for Active Members
(continued)

Flexible Retirement for Active Members upon reaching Age 60

Active members can elect to settle their Scheme benefits accrued before 2008 on reaching age 60 whilst continuing to work in the Bank. (Members who elect to settle their pre-2008 scale pension at age 60 whilst continuing to work in the Bank may also continue to accrue pension benefits until they reach 40 years' pensionable service.) Details of all the options available are provided to active members by the Scheme Administrator in advance of their 60th birthday.

Minimum Pension Age

Active members aged over 55 who wish to retire early may do so with the consent of the Bank. If you retire early, your pension will normally be reduced to reflect the early payment.

Information for Pensioners

Staff Bank Accounts – Danske Bank

Pensioner members who have their pension paid to a Danske Bank account may ordinarily avail of staff account facilities. This is not a Scheme benefit but is offered at the discretion of Danske Bank. Staff account facilities include the availability of commission-free foreign currency at special rates. Staff foreign cash purchases **must not exceed** £3,000 per calendar year and must only be used for personal travel purposes.

Pensioner-organised Social Activities

After retiring, some pensioners like to keep in touch with each other through various social activities such as luncheons and golf outings. These are organised by different groups of pensioner members.

If you would like further information on these activities, please email nbpensionergroup@gmail.com

Information for Deferred Members

Keeping in contact with the Scheme Administrator

Deferred members are reminded that it is important to inform the Scheme Administrator if your name or address change. This will ensure that you receive any Trustee communications and enable the Scheme Administrator to contact you to arrange payment of your pension when it is due.

Your Deferred Pension and its Payment

Deferred members are sent a pension quotation around six months before their pension is due to come into payment. If you have AVCs, you should regularly review your fund choice, particularly as you approach retirement.

Early retirement quotations are also available from the Scheme Administrator. Your pension cannot normally be paid before age 55 and will be reduced to reflect any early payment. (Members who left service under the 1993/94/95 voluntary severance schemes have protected age entitlement and may continue to bring their pension into payment at any time from age 50.)

Transferring your Deferred Pension out of the Scheme

Since April 2015, there is greater freedom for individuals with Defined Contribution (DC) pension arrangements to access their pension funds in retirement. These individuals will have the flexibility to take money from their DC fund in whatever pattern they like (e.g. an annuity from an insurance company, income drawdown, cash or combination thereof).

Members of the Northern Bank Pension Scheme (a DB scheme) are not granted the same flexibility with pension benefits from the Scheme normally paid by way of an annual pension or a reduced pension and cash lump sum. To avail of the new DC flexibility you would need to transfer your Scheme benefits to a DC arrangement. The Scheme Rules allow transfers out up to the point of your retirement (including a partial transfer of AVCs).

Whilst transferring your benefits to a DC arrangement may be attractive to some members, it might not be suitable for all, depending on personal circumstances. **Before transferring your benefits from the Scheme, you need to fully consider the benefits and risks of doing so. It is therefore important to get independent financial advice if you are considering such a transfer.** If the transfer value is £30,000 or above, under the new legislation, a member must provide evidence that they have taken 'appropriate independent advice' from a financial adviser who is regulated by the FCA and has permission to advise on pension transfers. The FCA Financial Services Register can be accessed online at www.fca.org.uk/register. Further details are available from the Scheme Administrator.

Please note that you may have to pay for any independent advice that you receive and you would also need to decide where any transfer would be payable to.

Summary Funding Statement

The Trustee is required to send all members a regular update of the Scheme's funding position.

Valuing the Scheme

A formal valuation of the Scheme was carried out on 31 December 2015 and has recently been agreed with the Bank. This showed that the funding position of the Scheme was as follows:

Scheme assets	£1,215 million
Assets needed to provide benefits	£1,170 million
Surplus assets	£45 million

The Bank has agreed to pay 31% of pensionable salaries each year, to meet the cost of the benefits being earned by the active members. As the Scheme was in surplus, there is no requirement for any additional shortfall contributions from the Bank.

Change in funding position

The above figures show a funding level of 104%, which has fallen from the funding level of 114% shown in the last annual update at 31 December 2014.

The main reason for this change is a lower expectation of future investment returns from the assets held, which increases the amount of assets needed to provide the benefits. The purchase of the 'Buy-in' Policy in 2015 utilised surplus (to reduce risk) and this also contributed to the fall in the funding level from 2014.

The next formal funding valuation of the Scheme is due at 31 December 2018. However, the Trustee will continue to monitor the funding position of the Scheme annually on an informal basis.

Solvency position

As part of the formal valuation, an estimate was made of the additional money that the Bank would be required to pay into the Scheme to secure members' benefits with an insurance company. This might be required if, for example, the Scheme were to be wound up. The Trustee is required by law to provide you with this information - it does not mean that there is any intention of winding up the Scheme.

If the Scheme had been wound up on 31 December 2015, it is estimated that an additional £230 million would have been needed to ensure that all members' benefits could have been paid in full. At the previous assessment on 31 December 2014, this figure was £250 million.

Payments to the Bank

There have not been any payments to employers from the Scheme's assets since we sent you the last Summary Funding Statement (again, the Trustee is required by law to provide you with this information).

Where can I obtain more information?

If you have any other questions, or would like any more information, please contact the Scheme Secretary (see back cover for contact details).