HYMANS ROBERTSON

Kingfisher Pension Scheme

Actuarial valuation as at 31 March 2016 compliance report

August 2016

Crawford Taylor
Fellow of the Institute and Faculty of Actuaries

HYMANS ROBERTSON LLP

Technical provisions (TP)	Assets	£2,931m	1
	Technical provisions liabilities	£2,968m	
	Surplus / (Deficit)	(£37m)	
	Funding level	99%	

Secondary funding objective (2FO)	Assets	£2,931m	1
	2FO liabilities	£3,577m	
	Surplus / (Deficit)	(£646m)	
	Funding level	82%	

Wind-up	Assets	£2,803m	2
	Estimated cost of winding up the Scheme	£4,136m	
	Surplus / (Deficit)	£1,333m	
	Funding level	68%	

Changes since previous valuation	The deficit on the secondary funding objective basis has decreased from £732m to £646m since the effective date of the previous valuation. The reasons for this are summarised in section 3 of this report.	3

Risks	Sponsor covenant	4
	Investment and economic	
	Longevity	
	Others	

Post valuation events	Since the valuation date, the funding position has improved such that there was no technical provisions deficit at the time of signing off the valuation.	5

1 The results of the valuation

Funding objectives

The Trustee is required to adopt a ‘statutory funding objective’. The statutory funding objective is that the Kingfisher Pension Scheme (‘the Scheme’) must have ‘sufficient and appropriate’ assets to meet the expected cost of providing members’ past service benefits, which we refer to as ‘technical provisions’.

In addition to the statutory funding objective, the Kingfisher Pension Trustee Limited (‘the Trustee’) and Kingfisher plc (‘the Sponsor’) have a secondary funding objective (2FO) which is to reach full funding on a gilts basis[1] by 2030. This is intended to be a proxy for the level of funding at which the Scheme will have sufficient assets for the Trustee to have the option to transfer assets and liabilities to an insurer.

Summary of results

I carried out an actuarial valuation of the Scheme as at 31 March 2016 (‘the valuation date’) and this is my report on the results of the valuation. This report details the financial position of the final salary section of the Scheme. The value of funds held in respect of the money purchase section and members’ additional voluntary contributions (AVCs) have been excluded from the assets and liabilities.

<table>
<tr><th colspan="2">Technical provisions</th><th></th></tr>
<tr><td>Assets (excluding AVCs & money purchase funds)
See the Trustees Report and Accounts as at the valuation date for further details</td><td>£2,931m</td><td rowspan="9">The key factors which have contributed to the change in funding levels are:

• Lower real gilt yields and the change to the longevity improvements assumptions which result in higher assumed life expectancies have acted to increase the deficits.

• This has been offset by actual investment returns (largely from the Scheme’s LDI portfolio), inflation being lower than assumed at the 2013 valuation, beneficial membership experience/data cleansing and sponsor contributions.

• Further details on the change in the funding position can be found in section 3 of this report ‘Changes since the previous valuation.’

The assets include the expected value of the payments due from the Scheme’s special purpose vehicle and the value of the annuity policy with Legal & General (L&G).</td></tr>
<tr><td>Technical provisions
An estimate of the amount needed to pay benefits, using the assumptions specified by the Trustee (see appendices A and B)</td><td>£2,968m</td></tr>
<tr><td>Deficit
Technical provisions less assets</td><td>£37m</td></tr>
<tr><td>Funding level
Assets divided by technical provisions</td><td>99%</td></tr>
<tr><th colspan="2">2FO</th></tr>
<tr><td>Assets (excluding AVCs & money purchase funds)
See the Trustees Report and Accounts as at the valuation date for further details</td><td>£2,931m</td></tr>
<tr><td>2FO liability
An estimate of the amount needed to pay benefits on a gilts basis</td><td>£3,577m</td></tr>
<tr><td>Deficit
2FO liability less assets</td><td>£646m</td></tr>
<tr><td>Funding level
Assets divided by 2FO liability</td><td>82%</td></tr>
</table>

[1] The liabilities are calculated using a discount rate derived with reference to fixed interest gilt yields with no allowance for asset outperformance.

Summary of contributions

The Trustee and the Sponsor have agreed the following contributions towards improving the 2FO funding position.

- From 1 August 2016 to 31 March 2017: £2,916,666.67 per month which includes the contributions received from the Scheme's special purpose vehicle (SPV), plus £0.5m to meet the estimated section 75 debt in respect of Castorama Russia. The section 75 debt is expected to be less than £0.5m and any difference between the certified section 75 debt and £0.5m will be paid as contributions towards the 2FO.
- From 1 April 2017: £37m per annum which includes the contributions received from the Scheme's SPV.

The contributions (excluding the £2m in respect of life insurance premiums and money purchase incapacity costs) will be increased on 1 April 2020 to account for 3 years' worth of RPI inflation over the period 1 January 2017 to 1 January 2020. A similar increase will apply in 2023.

The Sponsor will also meet the cost of future PPF levies in respect of the Scheme.

Full details of the contribution can be found in the schedule of contributions.

2 What would happen if the Scheme was wound up?

The results in the previous section of the report were prepared on the assumption that the Scheme will continue to operate with the financial backing of the Sponsor. If the sponsor were no longer able to support the Scheme, it may then be necessary to “wind up” the pension Scheme. This would involve selling the Scheme’s investments and using the proceeds to buy annuities from an insurance company. The insurance company would then be responsible for paying pensions to members and their dependants. I have, therefore, estimated the cost of securing members’ benefits in this way, had the Scheme wound up on the valuation date.

Summary of results

<table>
<tr><th colspan="3">Solvency funding level</th></tr>
<tr><td>Assets
- Invested assets and cash
See the Trustees Report and Accounts as at the valuation date for further details.
- SPV
The latest available vacant possession value of the properties, as assessed by BNP Paribas.
- L&G annuity
The value of the annuity policy assessed using solvency assumptions.
Total assets</td><td>
£2,492m

£93m

£218m

£2,803m</td><td rowspan="4">If the assets on wind-up are insufficient to secure the benefits in full, then a statutory priority order applies. If the Scheme had commenced winding-up on the valuation date, the impact of the statutory priority order on members’ benefits would have been approximately as follows:
• Benefits up to the level of those that would be payable from the Pension Protection Fund (PPF) would be payable to members in full; and
• 9% of other defined benefits would be payable.</td></tr>
<tr><td>Solvency liabilities
Estimated cost of buying annuities from an insurance company plus expenses of winding up the Scheme</td><td>£4,136m</td></tr>
<tr><td>Deficit
Solvency liabilities less assets</td><td>£1,333m</td></tr>
<tr><td>Funding level
Assets divided by solvency liabilities</td><td>68%</td></tr>
</table>

Why are the solvency liabilities different to the technical provisions and the 2FO liabilities?

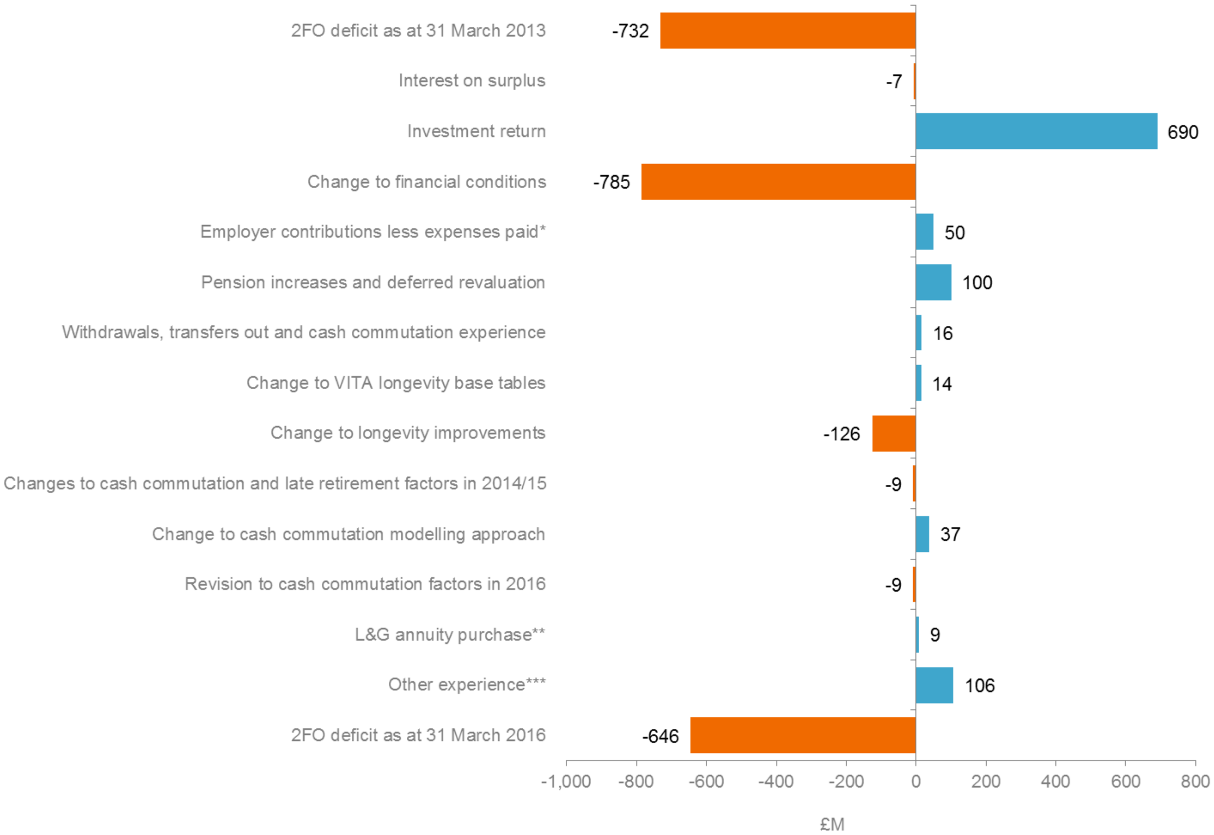
The financial assumptions used to estimate the solvency liabilities differ from those used to calculate the technical provisions and the 2FO liabilities. This is because they are intended to reflect the assumptions which would be used by an insurer to calculate the cost of the annuities they sell. I have used a basis that produces values consistent with our experience of bulk annuity quotations and the general levels of pricing in the market as at the date of valuation.

Annuities for deferred members are currently more expensive than for pensioners. All else being equal the solvency liabilities are expected to move towards the 2FO liability as members retire.

I have used broadly the same demographic assumptions as for assessing the technical provisions as these are intended to reflect the expected future experience of the Scheme’s membership; I would expect an insurer to take account of the Scheme’s demographics in a similar way.

3 Changes since the previous valuation

Since the previous actuarial valuation of the Scheme, there have been changes to the Scheme membership, the value of its investments, and to the economic environment in which the Scheme operates and the valuation assumptions. These changes have affected the Scheme's 2FO funding position as follows:



* The contributions paid exclude contributions from the special purpose vehicle (SPV) as the value of the SPV has already been included in the assets.

** The present value of the liabilities on the 2016 2FO assumptions less the premium paid, i.e. the premium paid was less than the 2FO liabilities for the members insured.

*** Other experience includes membership changes such as early, late and ill-health retirements, deaths, family details etc. Also included are the effects of data cleansing over the period as well as modelling differences compared to the last valuation.

Comments

The 2FO deficit has decreased from £732m at the last valuation to £646m at this valuation.

The key factors which led to this change were:

- Lower real gilt yields and the change to the longevity improvements assumptions acted to increase the deficit;
- This has been offset by investment returns, inflation being lower than assumed at the 2013 valuation, beneficial membership experience/data cleansing and sponsor contributions.

A similar reconciliation applies to the technical provisions funding position.

4 Risk management

Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section I discuss the key risks to the Scheme and the potential implications of the actuarial assumptions not being met in the future.

Risk	How the Trustee manages this risk
Sponsor covenant The Sponsor may not be able to continue to pay contributions or make good deficits in the future. The impact of this scenario is considered in section 2 of this report.	The Trustee monitors the covenant of the Sponsor and has commissioned an independent covenant review. The Trustee has a long term target to reduce reliance on the sponsor and reduce investment risk over time.
Investment and economic If future investment returns are lower than allowed for in the valuation assumptions, assets will not grow in value as expected, and the funding level will fall.	The Trustee has commissioned stochastic analysis as part of the valuation process to assess the effect of financial experience deviating from that assumed. There is hedging of interest and inflation rates within the Scheme's investment strategy.
Longevity If life expectancy improves in the future at a faster pace than allowed for in the valuation assumptions, then pensions will need to be paid for longer, so the liabilities will increase and the funding level will fall.	The Trustee has commissioned Club Vita analysis which will allow the Trustee to use the best available information when setting longevity assumptions. The Trustee also receives annual updates on longevity from Club Vita. By incorporating allowance for future longevity improvements in the actuarial assumptions the Trustee can lessen the future adverse impact of such improvements. The Trustee has undertaken a medically underwritten buy-in covering the highest liability pensioner members (149 members). This offers protection against adverse longevity experience for this group of members.
Member options *If fewer members than assumed exercise options on terms that are favourable to the Scheme, then the funding level will fall.*	The Trustee manages this risk by reviewing terms for member options regularly and monitoring activity.
Legislative *Legislation may be introduced that increases the level of pensions payable to members. This will reduce the funding level of the Scheme.*	The Trustee manages this risk by monitoring legislative changes in conjunction with the Scheme's lawyers.

Sensitivity of 2FO liabilities to key assumptions

The broad sensitivity of the liabilities to the key assumptions is shown below.

	-0.25% on pre retirement discount rate	-0.25% on post retirement discount rate	+0.25% on inflation	Mortality: +1 year on life expectancy
Impact on liabilities	+1.8%	+4.2%	+3.9%	+3.0%

Longer-term projection

If the actuarial assumptions were borne out over the period from the date of this valuation to the next, then, provided Sponsor contributions are paid at the rates shown in section 1 of this report, the 2FO funding level is expected (on 31 March 2016) to increase to around 85% by 31 March 2019.

5 Post valuation events

Since 31 March 2016 the Sponsor has continued to pay the contributions agreed at the last valuation towards improving the Scheme's funding position. These additional contributions and the investment return on existing assets, as well as changes in market conditions, have improved the funding position such that the statutory funding objective was met by 15 July 2016. The technical provisions funding level at this date is estimated as 101%.

29 July 2016

Appendix A: Assumptions

Financial assumptions

	2013 valuation	Indicative 2016 valuation
RPI inflation	Market implied gilt yield curve	Mark implied gilt yield curve
CPI inflation	RPI curve less 1% p.a.	RPI curve less 1% p.a.
Excess pension increases and deferred revaluation	**Technical provisions:** RPI inflation curve less 0.1% p.a. **2FO:** RPI inflation curve adjusted to reflect caps and floors	**Technical provisions:** RPI inflation curve adjusted to reflect caps and floors **2FO:** RPI inflation curve adjusted to reflect caps and floors
Pre-retirement discount rate	**Technical provisions:** financial assumptions set with reference to Willis Towers Watson's internal investment model(s). Agreed with Trustee to model as market implied gilt yield curve plus 1% p.a. **2FO:** market implied gilt yield curve	**Technical provisions:** market implied gilt yield curve plus 3% p.a. **2FO:** market implied gilt yield curve
Post-retirement discount rate	**Technical provisions:** financial assumptions set with reference to Willis Towers Watson's internal investment model(s). Agreed with Trustee to model as market implied gilt yield curve plus 1% p.a. **2FO:** market implied gilt yield curve	**Technical provisions and 2FO:** market implied gilt yield curve

Demographic assumptions

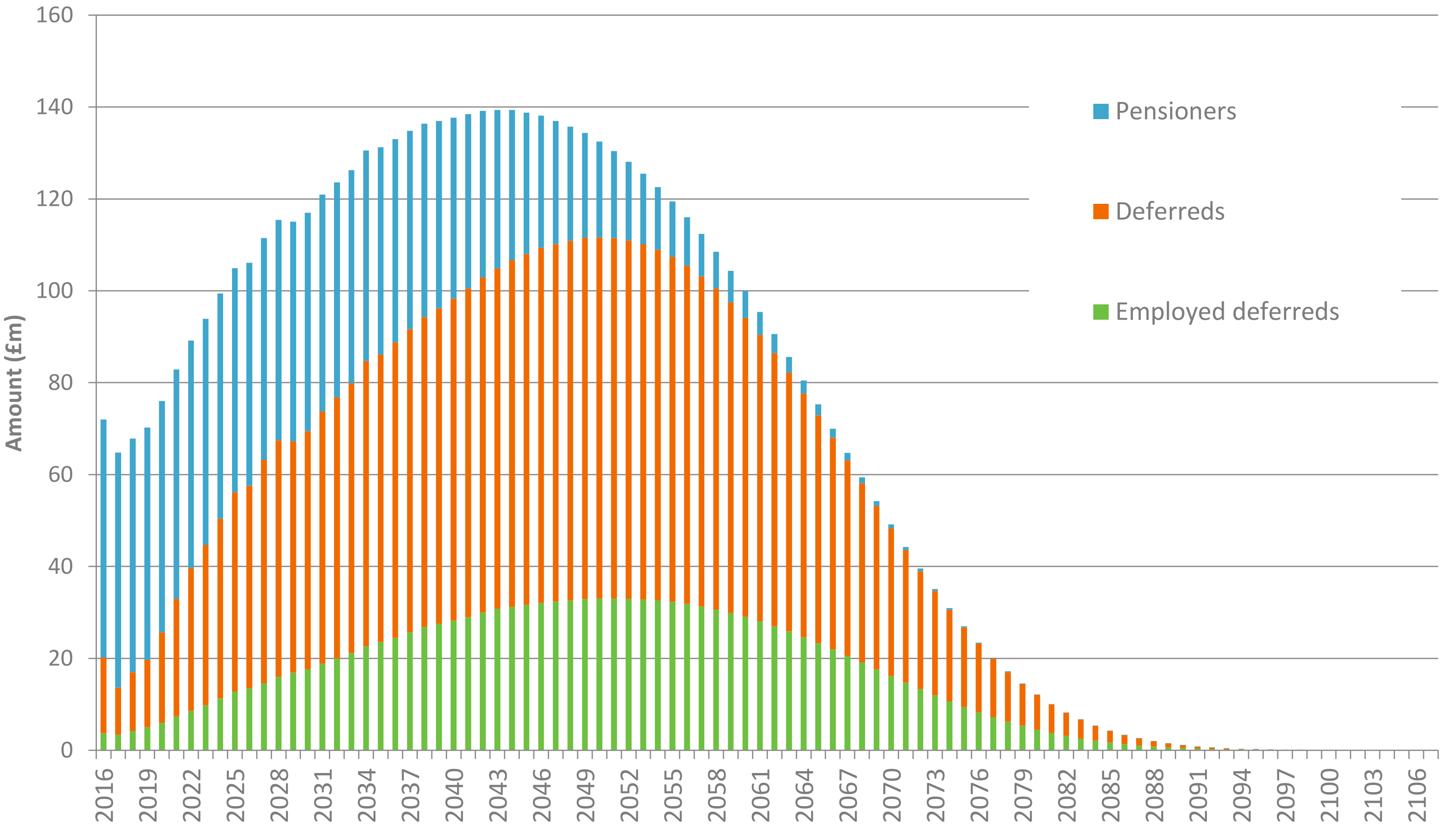
	2013 valuation	2016 valuation
Longevity base tables	Current male pensioners: 100% of SAPS All Pensioners Males Amounts Future male pensioners: 110% of SAPS All Pensioners Males Amounts Current and future female pensioners: 105% of SAPS All Pensioners Females Amounts Heavy.	2015 Club VITA base tables (individual baseline assumptions for each member specific to different affluence and lifestyle profiles)
Longevity future improvements	CMI[2] model (2012) with a long term rate of improvement of 1.5% p.a. for males and 1.0% p.a. for females assuming "peaked" short term improvements	CMI model (2013) calibrated to Club Vita experience with a long term rate of improvement of 1.5% p.a. for males and females assuming "peaked" short term improvements
Retirements in normal health	Age related allowance for retirements for employed deferred[3] members whilst they remain employed: 14.8% at age 55, phasing to 100% at age 65. All other members are assumed to draw benefits at the earliest age they can do so unreduced and without consent.	
Commutation	Employed deferred members are assumed to exchange 10% of their pension for cash at retirement. All other members are assumed to exchange 25% of their pension for cash at retirement.	
Withdrawal	Age related allowance for withdrawals from service for employed deferred members: 18% at age 20, phasing to 4.5% at age 55. No allowance is made after age 55.	
Proportion married	90% of male members and 60% of female members are assumed to have a dependant at retirement or earlier death.	
Age difference	Husbands are assumed to be 3 years older than their wife	
Ill health retirements	Age related allowance for ill health retirements for employed deferred members whilst they remain employed: 0.1% at age 40, phasing to 1.7% at age 60 for males / 1.0% at age 55 for females. No allowance is made after these ages.	

[2] Continuous Mortality Investigation

[3] Members who were active members in the Scheme when it closed to accrual on 30 June 2012 and remain employed by one of the participating employers.

Appendix B: Projected benefit payments

The chart below illustrates the benefit payments that would be made from the Scheme as at 31 March 2016 were the assumptions in appendix A borne out in practice:



Appendix C: Membership data, assets and benefits

C.1 Scheme membership

The membership data as at the valuation date is summarised below:

Category	Number	Pensions	Average age
Employed deferred members pension	3,072	£17.3m p.a.	48.5
Deferred members	17,024	£46.4m p.a.	49.9
Pensioners and dependants	15,425	£52.3m p.a.	66.9
Total	**35,521**		

The deferred pensions include revaluation to the valuation date.
Average ages are weighted by liability.
Pensioner numbers include the 149 members covered by the Legal and General annuity contract.

C.2 Scheme investments

The allocation of assets as at the valuation date was as follows:

Category	% of total
UK equities	2%
Overseas equities	10%
Property	1%
Alternative growth assets	6%
Special purpose vehicle	7%
Alternative credit and corporate bonds	26%
Medically underwritten annuity	8%
Government bonds	38%
Cash and other liquid assets	2%
Total	**100%**

Full details of the Trustee's investment strategy are contained in the Scheme's statement of investment principles. The market value of assets at the valuation date (excluding money purchase and additional voluntary contribution funds) was £2,931m as shown in the audited accounts for the Scheme for the period ending on the valuation date.

C.3 Scheme benefits

A summary of the benefits provided by the Scheme can be found in the final salary section member guide.

The Scheme rules provide for discretionary benefits to be awarded at the discretion of the Sponsor. Whilst, on occasion, discretionary benefits have been awarded in the past this is not considered to be established practice so no allowance is made in the liabilities for future discretionary benefits, with the exception of early retirement terms for employed deferred members. The sponsor has directed that employed deferred members are given preferential early retirement terms. Allowance for this discretion is made in calculating the liabilities.

I have not allowed for any changes which might be required as a result of further legislation regarding equalisation of benefits on the ground of members' age or gender.

Appendix D: Technical provisions certificate

My certification of the calculation of the technical provisions is included below. I am also required to certify the adequacy of the contribution rates set out in the schedule of contributions. That certificate is appended to the contribution schedule.

Actuarial certification of the calculation of technical provisions as required by regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Kingfisher Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the scheme's technical provisions as at 31 March 2016 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the scheme and set out in the statement of funding principles dated July 2016.

Signature	
Date	29 July 2016
Name	Crawford Taylor
Qualification	Fellow of the Institute and Faculty of Actuaries
Name of Employer	Hymans Robertson LLP
Address	20 Waterloo Street Glasgow G2 6DB

Appendix E: Reliances and limitations

Purpose of the valuation

This valuation has been carried out to comply with the statutory requirements of Part 3 of the Pensions Act 2004, which requires trustees to periodically obtain an actuarial valuation, defined as "*a written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its technical provisions*".

This report is addressed to the Trustee of the Scheme and is provided solely for their purposes in the management of the Scheme and in particular to fulfil their statutory obligations and requirements of the Scheme governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. The Trustee is obliged to pass a copy of the report to the sponsor and members (on request). Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustee unless we have expressly accepted such liability in writing.

This report complies with the specific requirements of section E.3 of the Pensions Technical Actuarial Standard (TAS) issued by the Financial Reporting Council (FRC), and the underlying actuarial work meets the relevant requirements of the FRC's Data and Modelling TASs.

Statutory funding objective

The Scheme must comply with legislation governing the funding of employer-sponsored pension arrangements in the UK. This legislation requires the Trustee to adopt a 'statutory funding objective' which is that the Scheme 'must have sufficient and appropriate assets to cover its technical provisions'. In other words, the funding objective is to build up assets to meet the expected cost of paying benefits to members of the Scheme, with the assets accumulating at the same rate as members' benefits are earned over their working lives. If the objective is met, the value of the Scheme's assets should, at any time, at least equal the estimated current cost of providing those members' benefits that have been earned to date. Further details can be found in the statement of funding principles document dated 1 August 2016.

Statement of investment principles

The statement of investment principles dated June 2014 states the policy for securing the appropriateness of the assets in relation to the statutory funding objective.

Additional voluntary contributions and money purchase section

The Scheme's overall assets include additional voluntary contributions (AVCs) and money purchase funds. At retirement, these funds are used to buy benefits for members on a money-purchase basis, with no possibility of profit or loss for the Scheme. In my valuation I have excluded these assets and the corresponding liability.