

# HBOS Group Money Purchase Scheme

Trustees' Report and Auditors' Statement  
for the year ended 31 March 2005

Pension Schemes Registry Number: 10245492







## HBOS Group Money Purchase Scheme

Dear Scheme Member

On behalf of the trustees, I am pleased to present the Trustees' Report and Auditors' Statement for the year ended 31 March 2005.

In this year's Report we explain a number of developments regarding your pension scheme, including some important legislative changes. We have also included a summary of the Scheme's membership and assets. In addition, the Independent Auditors' Statement gives details of the contributions made to the Scheme during the year.

At a time when pensions are much discussed in the media, it is encouraging to see that a growing number of HBOS colleagues are taking positive steps to provide for their future by contributing to the HBOS Group Money Purchase Scheme.

I hope you find this report informative but if you have any queries about the Scheme please do not hesitate to contact the Group Pensions team. Contact details are on page 11.

Yours



**Mike Wooderson**  
Chairman of the Trustees

## about the trustees

The Scheme is managed on your behalf by the trustees.

The trustees meet at least four times a year to review the management of the Scheme and to make decisions. Where appropriate, they take advice from a number of specialist advisors.

The trustees are also responsible for the Scheme's investments and other assets, and these are held separately from those of HBOS.

### Management Trustees



**Mike Wooderson (Chairman)**

Chief Executive Europe & North America,  
Strategy & International



**Jonathan Kennedy**

Head of GT - Distributed & Telecoms  
Appointed as a trustee 10 September 2004



**David Latto**

Head of Specialist Finance, Corporate  
Chair of Communication & Administration  
Committee



**John Veale**

Director Legal Services,  
HBOS Financial Services



**Dan Watkins**

Head of Risk, Retail  
Chair of Investment Committee

### Member Trustees



**Sandra Chatburn**

Customer Service Manager,  
Clerical Medical  
Appointed as a trustee 5 September 2005



**Neil Chandler**

Head of Combined Services,  
Operations & IT Card Services  
Appointed as a trustee 5 October 2005



**Gerald McLarnon**

Head of Customer Strategy, Retail  
Appointed as a trustee 5 October 2005



**Glenn Miller**

Lead Change Manager, GT Change  
Management



## Other Trustees During the Year ended 31 March 2005.

**Jeremy Tovey** Customer Services Assistant, Leeds RCC. Retired as a trustee 5 October 2005.

**Ann Riley** HR Consultant, Leeds RCC. Retired as a trustee 5 September 2005.

**Ian Scott-Collier** Area Manager, Halifax Estate Agencies. Retired as a trustee 5 October 2005.

**Hugh McKay** Head of HR, Group Policy and Services. Retired as a trustee 10 September 2004.

## Appointment of Trustees

During August 2005 Scheme members were consulted and agreed to new arrangements for selecting and appointing member trustees.

The new arrangements require three member trustees to be selected through consultation between HBOS and the two unions ACCORD, and Amicus. Sandra Chatburn, Neil Chandler and Gerald McLarnon were appointed as member trustees. The other existing member trustee is Glenn Miller, who has gained experience as a member trustee elsewhere in the group.

The five management trustees remain in place.

Final responsibility for appointing and removing trustees lies with the principal employer, HBOS plc.

## scheme advisors

The following advisors provided specialist services and advice to the trustees during the year ended 31 March 2005:

### Auditors

KPMG LLP  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

### Scheme Managers and Administrators

Group Pensions  
HBOS plc  
Trinity Road  
Halifax HX1 2RG

Clerical Medical Investment Group Ltd  
Narrow Plain  
Bristol BS2 0JH

### Legal Advisors

Allen & Overy LLP  
One New Change  
London EC4M 9QQ

### Investment/Actuarial Advisors

Watson Wyatt Limited  
1 Wellington Place  
Wellington Street  
Leeds LS1 4AP

### Trustee Contact Details

The Trustees  
c/o The Secretary  
HBOS plc  
The Mound  
Edinburgh EH1 1YZ



# trustees summary of the year ended 31st March 2005

## **Administrative and Control Arrangements**

During the period the trustees and HBOS plc agreed new administrative arrangements for the HBOS Group Money Purchase Scheme in a document called the Record of Arrangement. This defines how the Scheme should be operated and describes a number of administration services and standards. It also summarises the operational responsibilities of the trustees and the employer.

During the year the trustees also agreed a new Risk & Control Framework for the Scheme. This defines the controls within HBOS Group Pensions department to ensure that the administration, investment and financing processes of the Scheme comply with statutory and other requirements.

## **Trustee Sub-Committees**

The Trustee body has two sub-committees, the Investment Committee and the Communication Committee, which deal with detailed matters relating to the Scheme. Whilst the sub-committees are delegated to review issues and to make recommendations, the trustees retain overall responsibility for the Scheme.

The sub-committees regularly review their specific responsibilities and report their findings to the trustee body. During the year the role of the Communication Committee was extended to include the administrative aspects of the Scheme and was re-named to be the Communication and Administration Committee.

## **HBOS UK plc**

On 21 March 2005 all employees of HBOS UK plc were transferred to become employees of HBOS plc. As a result, HBOS UK plc is no longer a participating employer of the Scheme. HBOS plc remains as the principal employer of the Scheme.

## **Scheme Constitution**

The HBOS Group Money Purchase Scheme is established under irrevocable trust and is approved as an 'exempt approved scheme' under the Income and Corporation Taxes Act 1988. This brings tax advantages for both the members and the employer.

The scheme is not contracted out of the earnings-related part of the state pension scheme, as permitted by the Pension Schemes Act 1993.





# trustees' legislative report

## Changes In The Law Which Will Affect Your Pension

The Government is currently introducing some important changes to the way pension schemes are run. The trustees are continuing to discuss with the Company how these changes should be implemented.

In the meantime, we have summarised below the main legislative changes and how these may affect you.

### Background

In recent years there have been a number of important reports on pensions. The Myners review on institutional investment in the UK was followed by the Pickering report on simplifying pensions, and the Sandler report on the individual savings and investment industry.

In 2002 the Government included many proposals from the Pickering and Sandler reports in a Green Paper, together with some far reaching proposals on the tax treatment of pensions. This was followed, in June 2003, by the Government's 'Action Plan' to protect members of occupational pension schemes which are discontinued.

In 2004 there were some further major developments in legislation:

- In the March 2004 budget the Government confirmed its plans to simplify tax arrangements for pensions and later passed the Finance Act 2004 to incorporate these changes.
- The Pensions Act 2004 was passed to improve member protection, to make pension provision easier for employers and to help employees plan for retirement.

These new laws will be introduced on a phased basis and will bring significant changes to UK pension schemes, as explained below.

### Finance Act 2004

The Finance Act 2004 becomes effective from 6 April 2006 and introduces a single tax regime for all occupational and personal pension schemes in the UK. This will simplify pension arrangements for the majority of Scheme members. The key features of the Act are:

- The minimum early retirement age will rise to 55 by April 2010 – except for ill health retirement.
- You will be able to pay pension contributions to more than one scheme at the same time.
- The amount of tax free cash that may be taken from a registered scheme is to be simplified and in most cases increased to become 25% of your fund.
- Spouses' pensions may be paid as lump sums.
- You may be able to take your pension benefits without retiring from employment.
- The new Lifetime Allowance (LTA) will be introduced which allows an individual to build up tax approved pension funds worth a maximum of £1.5m (for 2006). This new allowance is likely to affect only a small number of colleagues.
- You and your Employer may contribute up to 100% of your earnings to a pension scheme in a scheme like the HBOS Group Money Purchase Scheme. This limit will be initially capped at £215,000 and will increase each year. Any contributions over this amount will attract an additional tax charge for the Scheme member.

As a result of the above changes, previous limits - such as contributions being limited to 15% of your salary, the earnings cap and the maximum pension of 2/3rds of salary - have been removed.



## Pensions Act 2004

### Changes Effective From April 2005

The Act changed the benefit you receive if you choose to delay taking your State Pension. You can either:

- Receive an enhancement to your pension of 10.4% for each year of deferral or
- Receive interest at 2% above base rate for the period of deferment and then take your missed pension as a lump sum.
- Pension benefits should now be provided during paid adoption and paternity leave. (NB: the HBOS Group Money Purchase Scheme already provided for this).
- A new Pensions Regulator was created with wider powers. The Pensions Regulator provides practical guidance to trustees and gathers detailed information on pension schemes and the employers that offer them. It is expected that the new Regulator will take a more co-operative approach to managing pension schemes in general.
- There is a Pension Protection Fund (PPF) to pay compensation to pension scheme members where an employer becomes insolvent and leaves behind a pension scheme that is not fully funded. The PPF is funded by a levy on defined benefit pension schemes and therefore, as a defined contribution scheme, the HBOS Group Money Purchase Scheme does not have to contribute to the PPF.
- Occupational Pensions now fall within the remit of TUPE (Transfer of Undertakings Protection of Employment) legislation. This means that, where there is a TUPE transfer and an employee had access to an employer-contributed occupational pension scheme, the new employer must offer transferring employees a defined level of pension provision.

### Changes Effective From September 2005

- The Minimum Funding Requirement (MFR), which is a funding measure applicable to defined benefit pension schemes, will be removed. It will be replaced by a requirement for all defined benefit schemes to comply with a Scheme Specific Funding Objective. This is not relevant to the HBOS Group Money Purchase Scheme.
- Rules will be relaxed to encourage cross border pension provision across Europe. Should employers wish to adopt this measure, non-UK nationals will be able to join UK schemes and vice versa.

### Changes Effective From April 2006 and Beyond

- Pension scheme members with less than two years' but more than three months' service will be able to transfer their pension rights to another scheme if they wish.
- Trustees will no longer be required to offer Additional Voluntary Contribution (AVC) facilities though they may choose to do so.
- All schemes will be required to issue annual pension statements showing both accrued and prospective benefits. This is already a legal requirement for the trustees of the HBOS Group Money Purchase Scheme.
- Employers will have to consult with employees over major pension scheme changes.
- There will be changes to the selection process and the minimum numbers of member-nominated trustees.
- Employers not providing pension schemes to a specified level will be required to provide financial advice in the workplace.

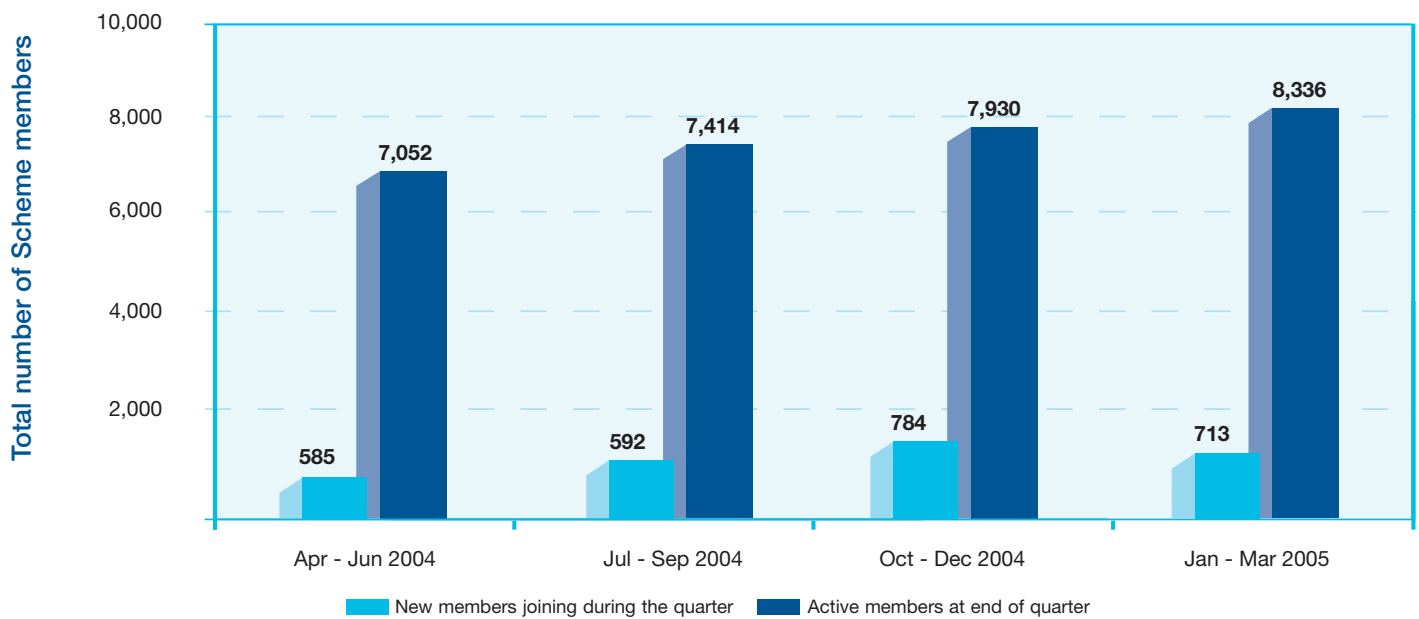
The trustees will share further information about legislation changes with Scheme members as appropriate. It is clear, however, that the Pensions Act will introduce some important changes to the way that pension schemes are run.

# scheme facts and figures

## Scheme Membership

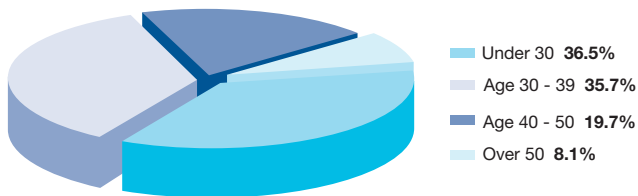
	As at 31 March 2005
Active members of the Scheme	8,336
Members with deferred benefits at end of Scheme period who had not already attained normal retirement date	1,479
<b>Total</b>	<b>9,815</b>

## New Members Joining the Scheme During the Period

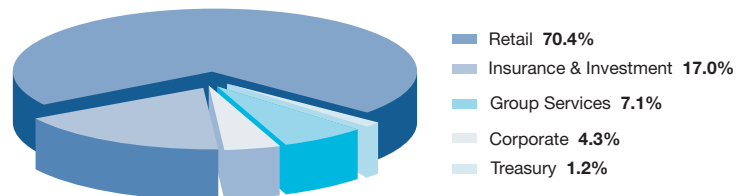




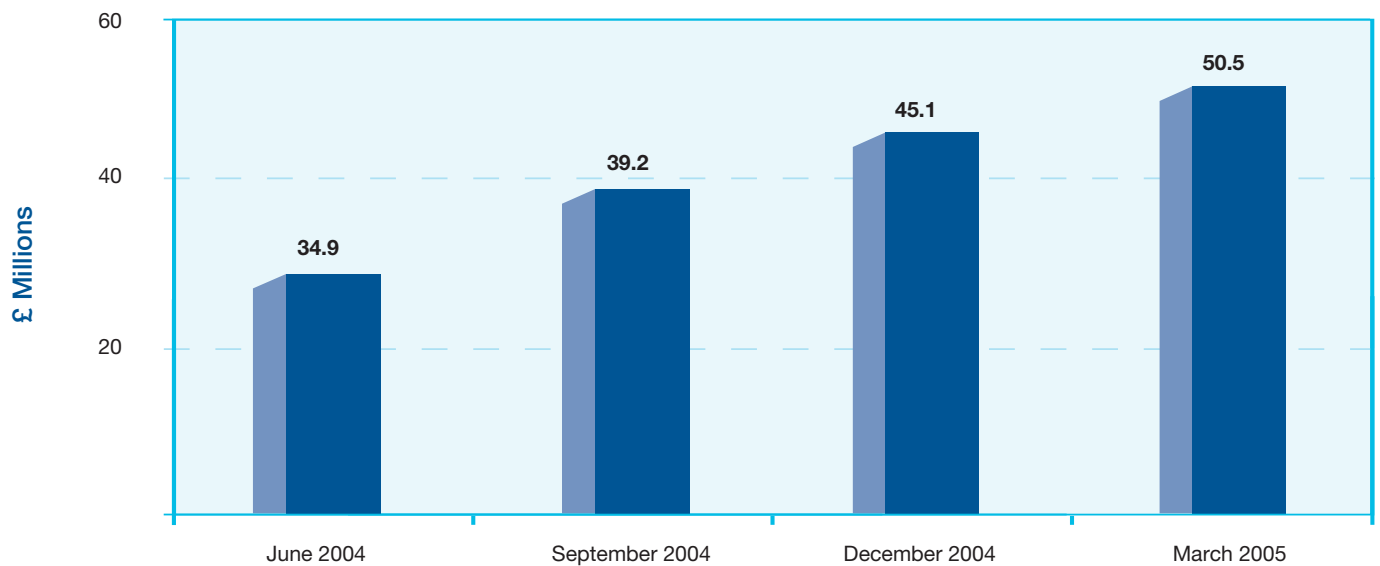
### The Age Profile of Active Members at 31 March 2005



### Membership Profile of the Scheme by Division at 31 March 2005



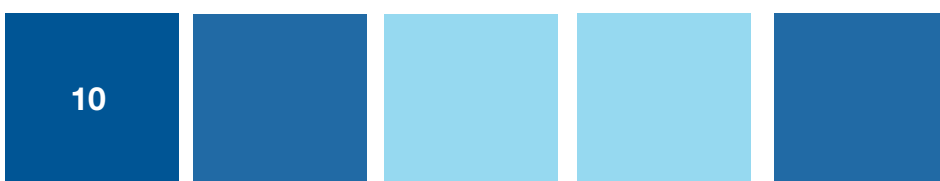
### Scheme Assets



Over the year to 31 March 2005, the total value of the Scheme Assets increased from £31.8m to £50.5m.

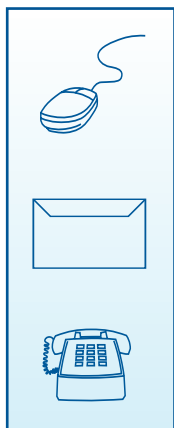
### Scheme Contributions

- The majority of new contributions into the Scheme are invested in the **UK Equity Fund** and the **International Fund**.
- Total contributions over the year to 31 March 2005 were **£17.22m**.



## scheme contact details

If you have any queries about the Scheme please contact Group Pensions:



**email:** [\\$hbosgmpps](#) (internal) or [hbosgmpps@hbosplc.com](mailto:hbosgmpps@hbosplc.com) (external)

**post:** Group Pensions, Trinity Road, Halifax, HX1 2RG

**telephone:** Money Purchase Helpline on **01422 334656**

Trustees Report, signed on behalf of the Trustees



**Mike Wooderson**  
Chairman of the Trustees

27 October 2005



# Auditors Report

## Independent Auditors' Statement about Contributions, under Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustees of the HBOS Group Money Purchase Scheme.

We have examined the summary of contributions payable under the Payment Schedule to the HBOS Group Money Purchase Scheme in respect of the scheme year ended 31 March 2005 which is set out on page 13.

This statement is made solely to the scheme's trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the scheme's trustees those matters we are required to state to them in an auditors' 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 scheme's trustees as a body, for our work, for this statement, or for the opinions we have formed.

### Respective responsibilities of Trustees and Auditors

As described on page 13, the scheme's trustees are responsible, under the Pensions Act 1995, for ensuring that there is prepared, maintained and from time to time revised a Payment Schedule which sets out the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustees have a general responsibility for procuring that contributions are made to the scheme in accordance with the Payment Schedule.

It is our responsibility to provide a statement about contributions paid to the scheme and to report our opinion to you.

We read the trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

### Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the relevant requirements. For this purpose, the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments. Our statement about contributions is required to refer to those exceptions which come to our attention in the course of our work. Our work did not constitute an audit of the financial transactions and net assets of the scheme and was performed solely for the purposes of making this statement about contributions.

### Statement about contributions payable under the schedule

In our opinion contributions for the scheme year ended 31 March 2005 as reported in the summary of contributions and payable under the schedule have been paid in accordance with the Payment Schedule dated 13 May 2003.



KPMG LLP  
Chartered Accountants  
1 The Embankment  
Neville Street  
Leeds LS1 4DW

28 October 2005

### Statement of trustees' responsibilities in respect of contributions

The scheme's trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time a revised Payment Schedule showing the rates of contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid. The scheme's trustees are also responsible for keeping records of contributions received in respect of any active member of the scheme and for procuring that contributions are made to the scheme in accordance with the schedule.

### Trustees' Summary of Contributions payable under the schedule in respect of the scheme year ended 31 March 2005

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the trustees. It sets out the employer and member contributions payable to the scheme under the Payment Schedule dated 13 May 2003 in respect of the scheme year ended 31 March 2005. The scheme auditor reports on contributions payable under the schedule in the Auditor's Statement about Contributions.

Contributions payable under the Schedule in respect of the Scheme year	£'s
Employer: normal contributions	9,093,000
Member: normal contributions	4,781,903
<b>Contributions payable under the Schedule (as reported on by the Scheme auditor)</b>	<b>13,874,903</b>

### Reconciliation of contributions

Reconciliation of contributions payable under the schedule to total contributions payable to the scheme in respect of the scheme year.

	£'s
Contributions payable under the Schedule (as above)	13,874,903
Contributions payable in addition to those due under the Schedule (and not reported on by the scheme auditor):	
Employer additional voluntary contributions	1,194,681
Member additional voluntary contributions	2,029,235
Employer special contributions	125,042
<b>Total contributions payable to the Scheme</b>	<b>17,223,861</b>

Signed on behalf of the Trustees



Chairman of the Trustees

27 October 2005



## other information

The following independent bodies have been set up to help pension scheme members who may have problems regarding administrators or trustees of their scheme:

### **The Pension Tracing Service**

The Pension Tracing Service (previously called the Pensions Registry) provides a tracing service for pension scheme members and their dependants who have lost touch with previous employers and trustees. The information provided by Pensions Tracing Service includes the address details of Scheme trustees.

If you need to trace a former employer's pension scheme, address your enquiry to:

The Pension Tracing Service  
The Pension Service  
Tyneview Park  
Whitley Road  
Newcastle Upon Tyne  
NE98 1BA

Their website [www.pensionservice.gov.uk](http://www.pensionservice.gov.uk) includes on-line access to the Pension Tracing Service.

The HBOS Group Money Purchase Scheme is registered with the Pension Tracing Service.

### **The Pensions Advisory Service**

If you have any concerns about the HBOS Group Money Purchase Scheme, these should first be directed to the Secretary who will try to resolve the matter as quickly as possible.

If your concerns remain unresolved, you can approach the Pensions Advisory Service for help. A local advisor can usually be contacted through the Citizen's Advice Bureau.

Alternatively the Pensions Advisory Service can be contacted direct at:

The Pensions Advisory Service  
11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0845 6012923    [www.opas.org.uk](http://www.opas.org.uk)





## Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, even after the intervention of the Pensions Advisory Service, an application can be made to the Pensions Ombudsman. The Pensions Ombudsman investigates and determines complaints or disputes of fact or law involving occupational pension schemes.

The Ombudsman is located at the same address as the Pensions Advisory Service, but note that telephone and website details are different:

The Pensions Ombudsman  
11 Belgrave Road  
London  
SW1V 1RB

Telephone: 0207 834 9144    [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

