Yorkshire and Clydesdale Bank Pension Scheme

Scheme Registration Number: I0003237

Trustee’s Annual Report and Financial Statements

For the Year Ended 30 September 2020

CONFIDENTIAL

Contents

Trustee and its Advisers 2
Trustee's Report 6
Scheme Management 6
Investment Matters 16
Compliance Matters 24
Statement of Trustee's Responsibilities 25
Contact for further Information 26
Report of Actuarial Liabilities 27
Approval of the Trustee's Report 28
Actuary's Certification of the Schedule of Contributions dated 20 March 2018 29
Actuary's Certification of the Schedule of Contributions dated 17 January 2020 30
Actuary's Certification of the Schedule of Contributions dated 31 July 2020 31
Schedule of Contributions 32
Independent Auditor's Report 34
Independent Auditor's Statement about Contributions 37
Fund Account 38
Statement of Net Assets available for Benefits 39
Notes to the Financial Statements 40
Annual Implementation Statement – Scheme year ending 30 September 2020 60

Trustee and its Advisers

The Trustee

Yorkshire and Clydesdale Bank Pension Trustee Limited is the Corporate Trustee ("the Trustee") of the Yorkshire and Clydesdale Bank Pension Scheme ("the Scheme"). Registration Number: SC150005.

The names of the Directors who served during the year and post year end changes are set out below.

Directors of the Corporate Trustee

Independent Directors:

The Law Debenture Pension Trust Corporation PLC, Independent Trustee, represented by Inder Dhingra throughout the year and as Chair of the Trustee Board until 30.09.2020.

I Dhingra retired from Law Debenture with effect from 30.09.2020 and was appointed as an Independent Director and Chair of the Trustee Board from 14.10.2020.

Jane Beverley was appointed as the Law Debenture representative to the Trustee Board on 01.10.2020 after having been a member of the Audit and Risk and GMP sub-committees since 26.02.2020.

Gavin Hill

Elected by the members:

Alan Duncan

John Hurst

John Laird

Nominated by the employer:

Dan Moore
Jeremy Sillett (resigned 14.10.2020)
Simon Wright
Sarah Green (appointed 14.10.2020)

Secretary of the Corporate Trustee
Stuart Stephen

Principal and Participating Employer
Clydesdale Bank PLC (“the Bank”)
30 St Vincent Place
Glasgow
G1 2HL

Trustee and its Advisers (continued)

Investment Managers

BlackRock Investment Management (UK) Limited
12 Throgmorton Avenue
London
EC2N 2DL

Towers Watson Investment Management Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Legal & General Investment Management (LGIM)
One Coleman Street
London
EC2R5AA

CB Richard Ellis Global Investors Limited (CBREGI)
Third Floor
One New Change
London
EC4M 9AF

Oak Hill Advisers LLP
1114 Avenue of the Americas
27th Floor
New York
NY10036
USA

Knight Frank Investment Management
Sanne Fiduciary Services Limited
13 Castle Street
St. Helier
Jersey
JE4 5UT

Pramerica Investment Managers
MUFG Jersey Management Co Ltd
1st Floor, 2 Hill Street
St Helier
Jersey
JE1 4FS

Alpha Real Capital LLP
338 Euston Road
London
NW1 3BG

Brigade Credit Offshore Fund II Ltd
16th Floors
399 Park Avenue
New York
New York 10022
United States of America

Greencoat Solar 11 LLP
41 Lothbury
London
EC2R 7HF

Northern Trust Corporation
50 Bank Street
Canary Wharf
London
E14 SNT

Aberdeen Standard Investments *(from 29.04.2020)*
Bow Bells House
1 Bread Street
London
EC4M 9HH

Trustee and its Advisers (continued)

AVC Providers

Utmost Life and Pensions
Walton Street
Aylesbury
Bucks
HP21 7QW

The Phoenix Group
Standard Life House
30 Lothian Road
Edinburgh
ED1 2DH

Prudential Assurance Company Limited
142 Holborn Bars
London
EC1N 2NH

Aviva Plc
PO Box 520
Norwich
NR1 3WG

The AVCS held with The Equitable Life Assurance Society were transferred to Utmost Life and Pensions with effect from 1 January 2020.

Advisers

The advisers to the Trustee during the year and at the date of approval of the report are set out below.

Actuary
Arthur Zegleman, FFA *(resigned 10/12/19)*
Nicola MacKay, FFA *(appointed 10/12/19)*
Willis Towers Watson Plc
2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA

Investment Advisers
Willis Towers Watson Plc
London Road
Reigate
Surrey
RH2 9PQ

Legal Advisers
Sacker & Partners LLP
20 Gresham Street
London
EC2V 7JE

Independent Auditor
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG 1YE

Administrator
Capita Employee Solutions
48 Finnieston Square
Skypark 6
Glasgow
G3 8ET

Bankers
Yorkshire Bank
94-96 Briggate
Leeds
LS1 6NP

Trustee and its Advisers (continued)

Global Custodian
Northern Trust Corporation
50 Bank Street
Canary Wharf
London
E14 SNT

Property Performance
Investment Property Databank
7/8 Greenland Place
London
NW1 0AP

Employer Covenant Adviser
KPMG LLP
15 Canada Square
London
E14 5GL

Scheme Accountant
Capita Employee Solutions
Hartshead House
2 Cutlers Gate
Sheffield
S4 7TL

Property Solicitor
Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

Property Valuer
Avison Young (formerly GVA Grimley LLP)
3 Brindley Place
Birmingham
B1 2JB

Communications Adviser
Quietroom
4th Floor
40 Bowling Green Lane
London
EC1R 0NE

Trustee's Report

The Trustee presents its annual report and audited financial statements of the Yorkshire and Clydesdale Bank Pension Scheme for the year ended 30 September 2020.

The Scheme was established under a Trust Deed and registration has been granted by Her Majesty's Revenue & Customs under the terms of the Finance Act 2004.

On 31 July 2017 the Scheme closed to future accrual for most active members, and as a result the majority of the membership is made up of deferred and pensioner members.

Scheme Management

Directors of the Corporate Trustee

The Scheme is managed by a corporate Trustee, Yorkshire and Clydesdale Bank Trustee Limited.

During 2019/20 Scheme Year, the Board of Yorkshire and Clydesdale Bank Pension Trustee Limited comprised of three Member Nominated Trustee Directors (MNDs), three Employer Nominated Trustee Directors (ENDs) and two Independent Directors, one of whom is Chair. There has been an unfilled vacancy for a Member Nominated Director since 11 July 2019. At a meeting held on 14 October 2020, the Board ratified approval of changes to the Articles of Association of the Corporate Trustee to enable an interim increase in the Board to ten Trustee Directors, comprising of three Independent Directors, three ENDs and four MNDs. Further amendments to the Articles of Association of the Corporate Trustee were approved by the Trustee Board at their meeting on 15 December 2020 reverting back to three MNDs, and a Trustee Appointment Protocol was agreed, which included the following key changes:

- The appointment of a Deputy Chair. The Trustee Board agreed at their meeting on 15 December 2020 to appoint G Hill (Independent Director) to this role.
- The introduction of terms of office of up to four years, for all Trustee Directors, and eligibility for reappointment for a further term of office (up to a maximum of two four year terms), unless the Bank and the Trustee Board agree otherwise. To ensure continuity of knowledge and experience, and as the current ENDs were appointed without any specific terms of office, the Trustee Board has agreed to stagger the dates from which these new arrangements will apply for each of the current Trustee Directors.
- The member constituencies from which the MNDs will be appointed in the future are expected to be as follows:
  - One MND selected from and selected by Clydesdale Bank pensioner members
  - One MND selected from and selected by Yorkshire Bank pensioner members
  - One MND selected from and selected by the active members and the deferred members still in active employment with the Bank

The quorum required for Trustee meetings will continue to be four Trustee Directors and will be made up of one END, one MND, one Independent Director and a further Trustee Director from any of these Director categories.

The power of appointment and removal of the Corporate Trustee is exercisable by the Principal Employer, subject to restrictions set out in the Scheme's Trust Deed and Rules and the Corporate Trustee's Articles of Association.

The power of appointment and removal of the Directors of the Corporate Trustee is exercisable under the Memorandum and Articles of Association of the Corporate Trustee.

Trustee’s Report (continued)

Scheme Management (continued)

Changes in and other matters relating to the Directors of the Trustee

Inder Dhingra, a representative of Law Debenture and Chair of the Trustee Board during the Scheme year, resigned from Law Debenture on 30 September 2020. Jane Beverley, who had represented Law Debenture on two Sub-Committees of the Trustee Board from 26 February 2020, replaced Inder as Law Debenture’s representative on the Trustee Board with effect from 1 October 2020.

Following the change to the Articles of Association for the Trustee Company noted above, Inder Dhingra was then reappointed as an additional Independent Director with effect from 14 October 2020 and was appointed as Chair of the Trustee Board with effect from the same date. Jeremy Sillett resigned from the Trustee Board with effect from 14 October 2020 and was replaced as an Employer Nominated Director by Sarah Green.

Corporate Trustee Meetings

The Directors of the Corporate Trustee meet at least quarterly and otherwise as necessary to consider matters relating to the operation and administration of the Scheme. From March 2020, additional meetings were held as appropriate in order to more closely manage the potential impact of COVID-19 on the operation of the Scheme.

At their meeting on 8 October 2019, the Board resolved to form a new sub-committee known as the GMP Sub-Committee, the purpose of which is to consider the actions required in relation to the reconciliation, rectification and equalisation of Guaranteed Minimum Pensions under the Scheme and to make appropriate recommendations to the Board.

The following five Board sub-committees, comprising Board members, meet at least quarterly (other than the Valuation Sub-Committee) and report thereafter to the Board either for information or with recommended actions.

In addition to the Board and its sub-committees, Board members also meet with the Principal Employer to discuss issues relating to the Scheme.

Audit & Risk Sub-Committee (ARSC)

The ARSC liaises with the Scheme's administrator in the production of the Scheme's annual and statutory financial statements.

It regularly reviews the risks borne by the Scheme and recommends mitigation or controlling actions. This includes monitoring the Scheme's employer covenant, providing updates on the formal covenant review to the Board, and monitoring and advising the Board on compliance, regulatory and legislative matters.

The ARSC is responsible for reviewing the Scheme's Annual Business Plan and Budget and recommending them to the Board for approval.

The ARSC is also responsible for reviewing the overall governance structure of the Scheme and to make recommendations to the Board.

Administration Sub-Committee (ASC)

The ASC is responsible for regularly monitoring the delivery of administration services to the Scheme by the Scheme’s administrator and the Group Pensions Department.

It monitors and authorises discretionary benefits, including incapacity pension payments and ill-health pension payments.

It reviews communications with Scheme members and beneficiaries.

It reviews and manages items raised under the Scheme's Dispute Resolution Procedure (DRP) and ensures that matters are reported to the Board as required.

Trustee's Report (continued)

Scheme Management (continued)

Valuation Sub-Committee (VSC)

The VSC is responsible for carrying out detailed discussions with the Bank and Advisers in relation to Tri-ennial Actuarial Valuations and bringing recommendations to the Board for approval. It also reviews the Scheme's funding strategy and Statement of Funding Principles (SFP). During the Scheme year, the VSC led the discussions with the Bank in relation to the triennial valuation of the Scheme as at 30 September 2019.

Investment Sub-Committee (ISC)

The ISC is responsible for reviewing the Scheme's investment strategy and Statement of Investment Principles (SIP) and recommending any changes to the Board.

The Trustee delegates the monitoring of its investment managers to the ISC. The ISC meets at least quarterly to monitor the performance of the Scheme's investment managers, and the performance of the Scheme's assets as a whole. The monitoring process involves the comparison of managers' performance against appropriate benchmarks, both over the short and longer term, using performance data provided by the Trustee's investment adviser, to understand the primary drivers of that performance. Any breaches of the guidelines in place for these managers, where the managers have reported such a breach or where such a breach has been identified, would be discussed as part of that review of performance.

On an annual basis the ISC also reviews the managers' (and custodian's) internal control reports which highlight any exceptions reported by the relevant auditors and considers the managers' responses to any such exceptions.

The ISC also reviews and makes recommendations to the Board on Environmental, Social and Governance (ESG) matters.

Finally, the Trustee's investment advisers provide the Trustee with an annual letter confirming that the investments of the Scheme are satisfactory* in the context of the Scheme's SIP and investment regulations** on the suitability of investments.

*" satisfactory" is meant in the light of the Pensions Act 1995, as amended by section 245 of Pensions Act 2004 and regulations made under that section.

** https://www.legislation.gov.uk/uksi/2005/3378/regulation/4/made

GMP Sub-Committee (GMPSC)

The GMPSC is a new sub-committee formed in October 2019 and meets monthly to consider the actions required in relation to the reconciliation, rectification and equalisation of Guaranteed Minimum Pensions (GMPs) under the Scheme and to make appropriate recommendations to the Trustee Board with regard to any decisions required. The GMPSC maintains a project plan of the actions required, manages the data requirements of the project, liaises with the Bank and considers the timing, content and format of communications to members in relation to GMP matters.

An important aspect of the GMPSC's remit is to consider the implications for the Scheme of the Lloyds Banking Group High Court judgement in October 2018, which ruled that pension schemes are required to equalise pension benefits between men and women for the effect of GMPs accrued during employment that was contracted out of the state additional pension scheme between 17 May 1990 and 5 April 1997. This involves considering the methods of equalisation available, the costs of each method, the impact on members' benefits and the administration thereof.

A second judgement involving the Lloyds Banking Group's defined benefit pension schemes, on 20 November 2020, concluded that defined benefit (DB) schemes that provide GMPs must revisit and, where necessary, top-up historic cash equivalent transfer values (CETVs) that have been calculated on an unequal basis. The Trustee of the Scheme is aware that this issue will have an impact on the Scheme, however at this stage it is not in a position to obtain a reliable estimate of the financial impact. Any related additional liability will be recognised in the financial statements once the Trustee is able to provide a reliable estimate.

Trustee's Report (continued)

Scheme Management (continued)

Going Concern

During 2017 the Scheme sponsor, Clydesdale Bank plc, and the Trustee, entered into a contingent security arrangement. This arrangement provides additional support to the Scheme by underpinning recovery plan contributions and some investment risk. The security is in the form of a pre-agreed maximum level of assets set aside for the benefit of the Scheme in certain trigger events.

In producing the financial statements and as part of the ongoing business of the Trustee, checks are made in relation to the ability of the Scheme and the Sponsor to operate as a going concern.

Ensuring that the operation is able to continue over the longer term involves an assessment of the solvency and liquidity risks that both the Bank and the Yorkshire and Clydesdale Bank Pension Scheme face. This is supported by advice from the Scheme Actuary, the Scheme Investment Consultant, the Scheme Lawyers as well as the appointed independent Covenant Adviser.

During the period, the Trustee continued to have discussions with the Bank and received reports from its independent Covenant Adviser in relation to the Bank's merger activity following its acquisition of Virgin Money. The Trustee and Bank also completed the actuarial valuation of the Scheme as at 30 September 2019. The Trustee having agreed to the deferral of deficit contributions due under the 31 January 2018 Schedule of Contributions (SoC) falling due in the period 1 January – 31 December 2020, have agreed with the Bank their re-inclusion in the new SoC dated 31 July 2020.

The Trustee continues to monitor progress with relation to the Bank's past conduct charges and continues to be in discussions with the Sponsor regarding possible future actions. While this is a matter the Trustee will keep under review, it is not anticipated to impact the Sponsor's ability to operate as a going concern for the foreseeable future.

Consideration of these items and the impact they may have on the Scheme are recorded through the Risk Register which is discussed at each of the quarterly meetings both at Board and Sub Committee level.

In addition, the Trustee discusses with the Bank the investment strategy it adopts, the level of risk and how this may impact an agreed journey plan (which includes agreed and scheduled deficit recovery payments).

In setting the investment strategy, the Trustee ensures adequate liquidity within the investment portfolio, considering:

- The requirement to pay ongoing pensions to retired members
- Upcoming retirements and the potential increase to the monthly payments associated with this
- The ongoing high level of transfer values being paid from the assets'
- The potential collateral calls under its swap and REPO agreements

Impact of COVID-19

There has been significant volatility in markets as a result of the Coronavirus (COVID-19) pandemic.

Despite this, the Scheme's investment strategy contains assets that move broadly in line with the liabilities and hence the Trustee would expect the funding position to fluctuate less than the markets in which it is invested.

The current events are clearly concerning at a macro level, but it isn't possible to precisely quantify their likely impact on the principal employer. The Trustee has been in discussion with the employer who confirmed that it has a sound capital position and reaffirmed its going concern statement.

The Trustee's external administrations have coped well during the COVID outbreak and we have not seen any reduction in service levels or adverse reaction from members.

Trustee's Report (continued)

Scheme Management (continued)

Investment risk

Following an improvement in the Scheme's funding position due to strong investment markets over 2019 and the early part of 2020, the Trustee, in consultation with the Bank, decided to reduce the level of investment risk by disinvesting approximately 4% of scheme assets from equities, including listed infrastructure, during early 2020. This action, together with the diversified portfolio of assets, the high level of interest rate hedging and the Scheme's equity options, have mitigated the deterioration in funding level arising from the adverse movements in investment markets.

Despite a decline in the Scheme's funding level during March 2020 as a result of the impact of COVID-19, as at 30 September 2020, the self- sufficiency funding level had recovered to 92%, compared to 90% as at the 30 September 2019 valuation date. The technical provisions funding level was 104% as at 30 September 2020 (103% as at 30 September 2019).

The Trustee continues to monitor the operational impact of the developments and has no significant concerns regarding the Scheme's ongoing ability to fulfil its operational, cashflow or benefit payment requirements. All the Scheme's suppliers have had in place arrangements to provide working from home facilities for their staff and there has been minimal impact on normal service levels.

Having given due consideration of the above and having discussed with the principal employer, the Trustee considers that the Scheme remains a going concern.

Administration and Investment Management Expenses

All costs associated with the administration and investment management of the Scheme are borne directly by the Scheme. The Bank reimbursed £6.0m to cover administrative expenses and insurance premiums. The Bank also reimburses the Scheme for the PPF Levy.

Financial Review

The net assets of the Scheme as at 30 September 2020 amounted to £4,695.8m (2019: £4,723.7m) representing a decrease in net assets of £27.9m (2019 – increase of £737.6m). The decrease comprises net outflows from dealings with members of £173.7m (2019: £148.8m) and a return on investments of £145.8m (2019: £886.4m).

The financial statements, which have been prepared and audited in accordance with regulations made under section 41 (1) and (6) of the Pensions Act 1995, are set out from page 38 to 59 and the investment report is set out from page 16 of this report.

Actuarial Position

The most recent formal actuarial valuation of the assets and liabilities of the Scheme was made as at 30 September 2019 and the results are set out in the Actuary's formal report dated 31 July 2020. Details of this and the assumptions used can be found in the Report of Actuarial Liabilities on page 27 of this report. The actuarial certification made for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005 is set out on pages 29, 30 and 31 of this report. The funding position on a technical provisions basis at 30 September 2019 was 103%.

Trustee's Report (continued)

Scheme Management (continued)

Scheme membership

The number of members and beneficiaries of the Scheme as at 30 September 2020 was as follows:

Members	Active	Deferred	Pensioner	Total
Members at start of year	**38**	**14,882**	**8,613**	**23,533**
Adjustments *	(1)	(36)	18	**(19)**
Revised opening membership	**37**	**14,846**	**8,631**	**23,514**
Leavers	(2)	2	-	-
Commutations	-	(125)	(1)	(126)
Retired	(4)	(460)	464	-
Deaths	-	(12)	(170)	(182)
Transfers out	-	(247)	-	(247)
Suspension and reinstatements	-	-	(4)	(4)
New dependants	-	-	74	74
Ineligible children	-	-	(7)	(7)
Members at end of year	**31**	**14,004**	**8,987**	**23,022**

*The adjustments to the opening balance are caused by recording prior year member events within the reporting period. The main reasons for the adjustments are:

- Deferred members retire but a delay occurs in the return of the completed paperwork. The event is recorded on completion, noting the earlier effective date. This also covers the full commutation of benefits at retirement.
- Members pass away prior to the reporting period, but the administrator is not advised until a later date. Again, the event is recorded following notification, but is based on the date the member passed away.
- Child pensioners became ineligible to receive payments, but notification is not received immediately. The event is recorded following notification but based on the date the child became ineligible.
- Update to the members record is processed post year end and not the period in which the event originally occurred.

The Scheme was closed to new joiners with effect from 1 January 2004.

Trustee's Report (continued)

Scheme Management (continued)

Changes to the Scheme Rules

A deed was executed on 25 and 31 July 2017 to give effect to the closure of the Scheme to future accrual for most active members, and to increase the member contribution rate for certain remaining active members. A small number of members opted to pay increased contributions, and to continue accruing benefits as active members. A further deed was executed on 5 and 10 October 2017 to make ancillary changes associated with these future service changes.

A deed was executed on 20 December 2019 to amend the definition of Statutory Pension Age which applies to the deduction of the abatement for Clydesdale members who left the Scheme prior to 1 August 1995.

Industry Wide Code of Good Practice ("the Code") for Incentive Exercises

A Pension Increase Exchange (PIE) option is offered to certain members at retirement. A PIE at retirement does not need to comply with the industry wide voluntary Code of Good Practice. However, the Trustee and Bank have agreed to adhere to the Code where it is appropriate to do so. In particular, independent financial advice is made available for members wishing to pursue this option.

Pension increases

Pensions in payment (apart from the Guaranteed Minimum Pension (GMP) once it is in payment) are subject to an annual review by the Principal Employer and the Trustee. The majority of pensions increase at the following rates (though some historic pensions in payment receive different increases, in line with requirements set out in the Scheme Rules).

- Pensions attributable to service pre 6 April 1997 for Clydesdale members are increased at each review by the rise in the Retail Prices Index, or 2.5% whichever is lower.
- Pensions attributable to service pre 6 April 1997 for Yorkshire members are increased at each review by the rise in the Retail Prices Index, or 5% whichever is lower.
- Pensions attributable to service from 6 April 1997 to 31 March 2006 are increased at each review by the rise in the Retail Prices Index, or 5% whichever is lower.
- Pensions attributable to service from 1 April 2006 are increased at each review by the rise in the Retail Prices Index, or 2.5% whichever is lower.

The increases below and overleaf have been awarded to pensions in payment in excess of GMP during the last nine years.

Clydesdale members

Year	Increase to Pension earned to 5 April 1997	Increase to Pension Earned from 6 April 1997 to 31 March 2006	Increase to Pension Earned after 31 March 2006
2020	2.4%	2.4%	2.4%
2019	2.5%	3.3%	2.5%
2018	2.5%	3.9%	2.5%

Pension increases are paid in January, based on the preceding September RPI.

Trustee's Report (continued)

Scheme Management (continued)

Yorkshire members

Year	Increase to Pension earned to 5 April 1997	Increase to Pension Earned from 6 April 1997 to 31 March 2006	Increase to Pension Earned after 31 March 2006
2020	2.4%	2.4%	2.4%
2019	2.7%	2.7%	2.5%
2018	4.1%	4.1%	2.5%

Pension increases are paid in April, based on the preceding December RPI.

It is normal practice to review pensions in payment and deferment each year with a view to increasing pensions.

Deferred pensions not yet in payment were revalued during the year by the level determined by statutory and Scheme requirements.

Calculation of Transfer Values

All transfer values paid during the year were calculated and verified in accordance with regulations made under the Pension Scheme Act 1993.

Transfer value calculations for Clydesdale members (who left before 1 January 2015 and were not former members of the NAB Plan) include an allowance for discretionary deferred revaluation.

Allowance has been made in our current transfer value basis to recognize the requirement of the Lloyds GMP case.

Taxation Status

The Scheme is a Registered Pension Scheme under the provisions of Schedule 36 of the Finance Act 2004. Accordingly, under the provisions of sections 186 and 187 of the Finance Act 2004 its income and investment gains are free of taxation. However, income from a trading activity is not investment income and so will be assessed to tax in the normal way.

Changes in and other matters relating to the Corporate Trustee Advisers

Arthur Zegleman resigned as the Scheme Actuary and was replaced by Nicola MacKay on 10 December 2019. Arthur has confirmed in his letter of resignation that he is not aware of any circumstances connected with his resignation, which, in his opinion significantly affected the interests of members or prospective members of, or beneficiaries under the Scheme.

Trustee's Report (continued)

Scheme Management (continued)

Contributions

There are three schedules of contributions (and associated actuarial certificates) applicable in the year.

- The first version (signed 20 March 2018) was in force over the year ending 30 September 2019 but was superseded on 17 January 2020.
- The second version (signed 17 January 2020) was in force from 17 January 2020 but was superseded on 30 July 2020.
- The third version (signed 31 July 2020) is the current schedule of contributions which was agreed following the 30 September 2019 actuarial valuation of the Scheme. As the Scheme was in a surplus position the deficit contributions are not required to be paid, however additional contributions of £1.8m per month are to be paid from December 2020 to March 2023.

Clydesdale Bank plc, the Scheme sponsor, made a formal request to the Trustee at the Trustee's valuation strategy meeting on the 28 October 2019 to defer payment of the deficit repair contributions due to be paid under the Schedule of Contributions for the period January 2020 to December 2020 (amounting to £50m). The Trustee formed a sub-group to examine the proposal in depth, take forward discussions with the Bank and commission appropriate advice from the Scheme's advisers.

Having taken advice, the Trustee agreed at its subsequent Board meeting on 10 December 2019 to the Bank's proposal on the following basis:

- Deferred contributions will recommence in December 2020, together with the payment of the deferred amount of £50m and will be paid in equal monthly instalments over the remaining period of the current Schedule of Contributions (i.e. until March 2023 payment due in April 2023).
- The Trustee was concerned that if the Bank's proposal to defer was agreed, the valuation results could mean that no further contributions or at most minimal ongoing contributions would be due to the Scheme. As the Trustee did not want to lose the value of the agreed deferred contributions, a condition to the Trustee's agreement was that the deferred contributions would be made good via a contractual agreement sitting outside of the Schedule of Contributions. The point being the deferred contributions would not be lost as part of the valuation discussions.
- To ensure that the Scheme is not disadvantaged before the value of the deferred contributions have been paid into the Scheme, agreement has been reached so that if the Group wishes to pay a dividend before those contributions have been paid, the outstanding balance of the deferred contributions will be paid immediately. This is one of the provisions of the contractual agreement referred to above.

A letter was also submitted to the Pension Regulator to inform them on the agreement reached.

The Bank have now reinstated the monthly recovery contribution of £1.8m and the first contribution was received in January 2021.

Trustee's Report (continued)

Scheme Management (continued)

Summary of contributions

During the year ended 30 September 2020, the contributions payable to the Scheme were as follows:

	£'000
Employer normal contributions*	**400**
Deficit funding	**8,333**
Insurance premiums, expenses and PPF levies	**6,365**
Employee normal contributions	**115**
Total contributions payable under the schedules of contributions	**15,213**
Employee additional voluntary contributions	**1**
Additional payments**	**15,247**
Total contributions per note 4 of the financial statements	**30,461**

*Included within the Employer normal contributions are Employee salary sacrifice contributions of £0.2m.

**During the year additional payments of £15.2m (2019: £6.9m) were made by the employer to fund the purchase of equity options, entered for the purpose of reducing risk.

Trustee’s Report (continued)

Investment Matters

Overview

The Trustee, with the assistance of its appointed investment adviser, determines the overall investment strategy for the Scheme and sets out the broad policy to be adopted by each of the appointed fund managers.

Investment managers

The names of those who have managed the Scheme’s investments during the year are listed on page 3. The Trustee has delegated the day-to-day management of investment to its appointed fund managers. A written agreement between the Trustee and each manager sets out the terms on which the manager will act.

The Trustee appoints a number of different managers and mandates to implement its investment policies. The Trustee ensures that, in aggregate, its portfolio is consistent with the policies set out in the Statement of Investment Principles (SIP), in particular those required under regulation 2(3)(b) of the Occupational Pension Schemes (Investment) Regulations (2005). The Trustee will also ensure that the investment objectives and guidelines of any particular pooled vehicle are consistent with its policies, where relevant to the mandate in question. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with the Trustee’s policies, where relevant to the mandate.

To maintain alignment between management of the Scheme’s assets and the Trustee’s own policies and objectives, managers are provided with the most recent version of the Scheme’s Statement of Investment Principles on an annual basis and are required to comment on whether the management of assets is consistent with those policies relevant to the mandate in question. The Trustee reviews the responses provided by the managers.

The Trustee is not involved in the investment managers' day-to-day method of operation and does not seek to influence attainment of their performance targets. The Trustee will maintain processes to ensure that performance is assessed on a regular basis against a measurable objective for each manager, consistent with the achievement of the Scheme's long term objectives. The Trustee will also periodically review the suitability of the Scheme’s mandates in the context of the Scheme’s wider investment strategy, including considering whether the balance between different kinds of investments remains appropriate, the expected return on the investments, the risks to which the Scheme is exposed and manager remuneration and fees. As part of this process, the Trustee has delegated the detailed monitoring of the Scheme’s investment managers to the ISC and its Investment Adviser.

The Trustee considers portfolio turnover when appointing investment managers and monitors the Scheme’s managers to ensure they are managing assets in a way which is consistent with expected turnover. The Trustee will be putting in place a process to more closely monitor portfolio turnover and the costs related to this.

Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.

It is the Trustee’s view that fees linked to investment performance increase complexity and in most cases do not materially improve alignment with the Trustee’s long-term objectives. Such fee structures are therefore only used in a limited number of cases.

Trustee's Report (continued)

Investment Matters (continued)

Investment principles

In accordance with Section 35 of the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles (SIP) which includes the Trustee's policy relating to environmental, social and governance investment and the exercise of the rights attaching to investments. Any member may request a copy. This Statement may change from time to time as the Trustee decides to alter its policy.

The Trustee considers sustainable investment factors, such as (but not limited to) those arising from Environmental, Social and Governance (ESG) considerations, including climate change, in the context of this broader risk management framework.

The Trustee takes account of all financially material risks and opportunities in consultation with its advisers. All risks and opportunities are considered for materiality and impact within an integrated risk management framework, which takes account of the Scheme's journey plan and funding time horizon. The Trustee's time horizon reflects the time horizon of the Sponsor's business and the Scheme's maturing liability profile.

The Trustee's policy is the implementation of the mandate and day-to-day decisions relating to the investment of Scheme assets, including the consideration of environmental, social and governance issues and their impact on the portfolio, is left to the discretion of its investment managers. The Trustee, with advice from its investment advisers, monitor these issues with its managers to understand how they exercise these duties in practice.

The Trustee policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee recognised the UK Stewardship Code 2020 as best practice and encourages its investment managers to comply with the UK Stewardship Code 2020 or explain where they do not adhere to this policy.

When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisers, looks to take account of the approach taken by investment managers with respect to sustainable investing. This includes considering voting policies and engagement on relevant matters (i.e. the capital structure of investee companies, actual and potential conflicts of interest and other stakeholders), as well as how managers take account of ESG-related risks in their management of the Scheme's assets, and the consistency of this approach with the Trustee's own beliefs.

Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager's appointment will be terminated and the manager replaced.

For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as significant change in business structure or the investment team.

Trustee's Report (continued)

Investment Matters (continued)

Departures from investment principles

To the best of its knowledge, the Trustee can report that there has not been any departure from the SIP by the Scheme's investment managers during the year ended 30 September 2020. Further details, together with a description of the Scheme's voting behaviour is shown in an Implementation Statement at the back of this report.

The current asset allocation does differ from the strategic asset allocation, in part due to the impact of falling bond yields (increasing the value of the Scheme's bond assets relative to other assets) and also as a result of the time required to build up the allocation to Secure Income Assets (SIA). This is due to the time taken to identify and draw down this type of investment and, in the meantime, the funds earmarked for SIA investment are being held in Liability Driven Investments.

Custodial arrangement

All segregated investments in the Yorkshire and Clydesdale Bank Pension Scheme, with the exception of directly held property, are held by Northern Trust, the custodian appointed by the Board of the Yorkshire and Clydesdale Bank Pension Trustee Limited. For the directly held properties within the Scheme, the Scheme's property Solicitor (Pinsent Masons) holds the title deeds and all the properties have registered title at the Land Registry. Non-segregated investments are held by the Investment Managers' appointed custodian.

Employer-related investments

As at 30 September 2020, the Scheme had employer related investments within the meaning of section 40 (2) of the Pensions Act 1995, totaling £2.4million. Details of these investments have been provided on page 58 of this report.

Trustee's Report (continued)

Investment Matters (continued)

Asset allocation and performance

	Market Value	12 months (%)			3 years (%)			5 years (%)		
	(£m)	Fund	Bench Mark	+/-	Fund	Bench Mark	+/-	Fund	Bench Mark	+/-
Total Scheme	**4,677.3**	**3.3**	**3.7**	**-0.4**	**9.5**	**10.1**	**-0.6**	**10.0**	**10.5**	**-0.5**
Return-seeking										
BlackRock Passive Equities*	**430.5**	**6.0**	**5.8**	**0.2**	**9.0**	**8.9**	**0.1**	**14.4**	**14.4**	**0.0**
Property										
CB Richard Ellis Investors	**142.7**	**-2.2**	**5.0**	**-7.2**	**4.3**	**6.2**	**-1.9**	**5.3**	**6.5**	**-1.2**
Listed Infrastructure										
LGIM Magellan*	**94.1**	**-5.9**	**-5.9**	**0.0**	**4.9**	**4.8**	**0.1**	**8.0**	**7.9**	**0.1**
Credit										
LGIM UK Corporate Bonds	**490.6**	**3.9**	**3.9**	**0.0**	**5.0**	**5.0**	**0.0**	**5.6**	**5.6**	**0.0**
BlackRock Bonds – Cash and derivatives	**7.3**	**4.8**	**4.4**	**0.4**	**5.1**	**5.0**	**0.1**	**5.6**	**5.5**	**0.1**
ASI Corporate Bonds	**641.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Oak Hill Diversified Credit Strategies*	**104.9**	**-2.3**	**1.0**	**-3.3**	**4.6**	**7.6**	**-3.0**	**-**	**-**	**-**
TWIM Alternative Credit Fund*	**176.7**	**-6.3**	**1.0**	**-7.3**	**3.7**	**7.6**	**-3.0**	**-**	**-**	**-**
Brigade Alternative Credit	**100.4**	**-5.7**	**1.0**	**-6.7**	**-**	**-**	**-**	**-**	**-**	**-**
LDI Portfolio										
LGIM LDI Portfolio+	**1,982.2**	**4.1**	**4.1**	**0.0**	**16.4**	**16.4**	**0.0**	**14.4**	**14.4**	**0.0**
Secure Income Alternatives										
LGIM LPI*	**117.4**	**5.2**	**4.1**	**1.1**	**6.8**	**5.3**	**1.5**	**6.5**	**5.5**	**1.0**
Pramerica UK Ground Lease*	**64.2**	**0.6**	**2.4**	**-1.8**	**2.8**	**10.4**	**7.6**	**-**	**-**	**-**
KFIM Long Income Property Fund*	**145.7**	**1.4**	**4.1**	**-2.7**	**4.1**	**5.3**	**-1.2**	**-**	**-**	**-**
Alpha Real	**51.1**	**5.9**	**4.1**	**1.8**	**4.1**	**5.3**	**-1.2**	**-**	**-**	**-**
Greencoat	**77.8**	**-1.0**	**4.1**	**-5.1**	**-**	**-**	**-**	**-**	**-**	**-**
Other assets										
Equity options	**6.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash/Currency overlay	**44.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Source: Northern Trust

Values may not sum due to rounding

AVC investments of £4.3m are excluded from the above table.

*These funds are disclosed within pooled investment vehicles in the notes to the accounts.

+ This fund is disclosed within fixed interest and index linked securities, derivatives and cash within the notes to the accounts

Notes: Performance of asset types held during the last year five years, but no longer held, is reflected in the five year fund performance.

Some investments don't have performance numbers because either they haven't been funded for the relevant period, or because the performance measurer, Northern Trust don't measure performance (equity options & cash/currency overlay)

The values used in the table above include cash in each of the mandates and as a result may be higher than the values disclosed elsewhere in the notes to the accounts.

Trustee’s Report (continued)

Investment Matters (continued)

Market Review

Summary

The global economy has suffered an unprecedented challenge this year while all major regions faced Coronavirus pandemic from January 2020 onwards, with UK GDP declining by 20.4% in Q2 2020. In response to the pandemic, the Fed announced an unprecedented support package over March and April, including a $700 billion round of quantitative easing and cutting interest rates to a range of 0-0.25%.

The Bank of England also announced its response to the pandemic, through cutting interest rates to an all time low of 0.1% in March, provision of an asset purchase programme and the Government’s furlough scheme, as well as supporting lending streams to impacted businesses (the Covid Corporate Finance Facility).

Credit spreads widened significantly in March and April, though much of this has since reversed. Both UK and US 10-year Government Bond yields hit record lows in August, reaching 0.07% pa and 0.5% pa respectively. Corporate bonds had a positive quarter to 30 September due to the expansionary policy measures in place globally.

The Federal Reserve (Fed) announced its inflation targeting regime would change in August, in order to target an average 2% inflation rate, and thereby allowing temporary overshoots of inflation. A result of the low bond yields has been real interest rates reaching negative levels, in the US reaching -1.1%.

UK Equities (FTSE All-Share Index) have been significantly impacted by the pandemic, with returns over the last 12 months to 30 September 2020 being -16.6%. US equities (FTSE North America Index), in contrast, have fared better and had a 12 month return of 10.5%. Europe (excluding UK) has recovered much of the losses from earlier in the year and ended the Scheme year with a 12 month return of 0.7%. The most notable positive performance was in China (MSCI China Index) returning 27.3% over the year. Returns on UK Gilts were positive across all major indices. The FTSE A-Gilts All-Stocks index returned 3.4% over the year. The corresponding index-linked gilts index had a positive return of 0.4%. The IPD Monthly Index for Commercial UK Property shows that this market has suffered through the pandemic, with a 12 month return of -2.6%.

Over the 12 months to 30 September 2020 sterling weakened against the Euro, from 1.128 to 1.097. Against the dollar, sterling closed the year around where it opened, a move from 1.229 to 1.287.

The recovery seen in many markets has largely been stalled since 30 September 2020 with the threat of a second peak in Coronavirus cases and a further UK national lockdown being announced, though news around vaccines has gained public attention since. The elections in the US brought material uncertainty in equity markets through to the Scheme year end, although the announcement of Biden being appointed president-elect post year-end, combined with positive news on vaccine development, resulted in an increase in the values of more risky asset classes.

Trustee's Report (continued)

Investment Matters (continued)

Investment Strategy

The Trustee agreed a number of changes to the Scheme's strategic asset allocation over the year, partly in response to decisions to reduce the Scheme's allocation to equities and also a desire to transition towards a more corporate bond-focussed strategy. As a result the strategic allocation to:

- Equity, including listed infrastructure has decreased from 19.0% to 10.0%
- investment grade corporate bonds increased from 17.0% to 27.0%

The Scheme's allocation to Secure Income Assets remains underweight. The Scheme's commitments have been gradually invested over the year, but this has been more than offset by the impact of falling bond yields on the LDI portfolio (which increased in value significantly over the year). Of this total commitment there are undrawn / outstanding commitments of £72.1m as at 30 September 2020. The Trustee made the decision over the year to transition its property holdings into secure income asset investments, with the implementation of this delayed in part by the COVID-19 outbreak. The underweight allocation to Secure Income Assets and the overweight allocation to UK Property are therefore seen by the Trustee as offsetting to some extent.

The strategic asset allocation is shown below.

	Strategic Allocation	**Actual**
	%	**%**
	2020	
Total Matching Assets	**80.0**	**76.6**
Liability Driven Investment	37.0	42.4
Bonds	27.0	24.4
Secure Income Assets	16.0	9.8
Total Return Seeking Assets	**20.0**	**23.4**
Equities including listed infrastructure	10.0	11.2
Property	0.0	3.0
Alternative Credit	10.0	8.2
Other	0.0	1.0
Total	**100.0**	**100.0**

Trustee's Report (continued)

Investment Matters (continued)

Investment Strategy (continued)

The present value of the Scheme's liabilities is sensitive to changes in interest rates and inflation expectations. In line with the Trustee's decision to match liabilities more closely, the Scheme uses exposure to gilts (including gilts acquired using repurchase agreements), interest-rate derivatives and inflation derivatives to limit the risk that changes in interest-rate and inflation expectations could worsen the funding position. These investments are referred to collectively as "Liability Driven Investment Solutions" (LDI). The sensitivity of the Scheme's assets to changes in interest rates (inflation) expectations, as a percentage of the sensitivity of the liabilities is known as the interest rate (inflation) hedge ratio. Higher hedge ratios mean that more risk has been removed. The hedge ratios at 30 September 2020 were estimated to be around 92% for interest rate exposure and 81% for inflation exposure, as a percentage of self-sufficiency liabilities (liabilities valued using a discount rate of gilts + 0.25%). These hedge ratios are calculated based on exposures from the Scheme's LDI portfolio, UK Corporate Bond Funds and the Scheme's Secure Income Assets.

The Scheme's Equity holdings are invested in passive strategies. Where an efficient passive option is unavailable (such as in Property or Alternative Credit) or sub-optimal (such as Investment Grade Credit), active or "semi-passive" strategies will be used.

The Scheme continues to implement an Equity Options programme, initiated in September 2013 and funded by the Bank to offer some protection from severe falls in equity markets. The programme consists of a set of put options, which, although not protecting the Scheme from the first 20% fall in markets from the market level prevailing when the option contracts were executed, offset losses arising from a further 20% fall in markets.

As at 30 September 2020 the Trustee has remaining commitments to Greencoat Solar II LLP and to Alpha Real Wind Renewables Income Fund. These funds derive their income by purchasing wind and solar energy farms, and by selling the energy generated to power companies. The remaining Greencoat commitment is £21.0m of a total £100m and the remaining Alpha Real Capital commitment is £1.1m of a total £50m. During the year there were drawdowns of £40.7m by Greencoat and £34.4m by Alpha Real. The Trustee has, since 30 September 2020, agreed a further £20m commitment to the Alpha Real fund.

During the year the Trustee committed a further £50m to the Knight Frank Investment Management Long Income Property Unit Trust which is still to be drawn. This fund derives its income by investing in UK property assets and receiving rental income over the long term.

Since 30 September 2020 the Trustee has also agreed to invest a further £150m to the LGIM Buy and Maintain mandate, and agreed to a new investment of $130m in the BlackRock Global Renewable Power III Fund.

Trustee's Report (continued)

Investment Matters (continued)

Redemptions

Over the year the Scheme has made a number of disinvestments, as follows:

- Partial disinvestments from the BlackRock equity portfolio – two de-risks occurred in 2020, the first due to a de-risking trigger and the second following the conclusion of the triennial actuarial valuation. The allocation was also reduced to meet benefit payments in Q4 2019.
- Partial disinvestments from the Magellan Listed Infrastructure fund – several partial disinvestments due to de-risking and rebalancing
- Full disinvestments from BlackRock's corporate and sovereign bond funds
- Ongoing partial disinvestments from the LGIM LDI mandate in order to meet the Scheme's cash outflows (including commitments to new funds, pension payments to members and transfers out from the Scheme), as well as inflows to the fund as a result of de-risking actions

Investment performance

The total Scheme absolute returns achieved by the Scheme for each 12-month period since 2016 can be seen below:

Year to September	Absolute return (%)
2016	25.3
2017	-1.9
2018	3.0
2019	23.1
2020	3.3

The Trustee regularly monitors the returns of the assets relative to changes in the Scheme's liabilities. A full Actuarial Valuation of the Scheme was carried out as at 30 September 2019, reviewing both the funding principles and the liabilities of the Scheme, allowing for up-to-date membership information. The next valuation will be completed as at 30 September 2022.

Legal & General have discretion, within the LDI portfolio, to use swaps to manage the Scheme's interest rate and inflation risk. In order to mitigate the counterparty risk and to optimise the risk/return profile of the assets held in the portfolio, the Scheme's swap exposures are all centrally cleared.

Investment risk disclosures

Investment risks are disclosed in note 22 on pages 53 to 57.

Compliance Matters

The purpose of the following paragraphs are to provide information, which is required to be disclosed in accordance with Schedule 3 of The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 or voluntarily by the Trustee. The information deals with matters of administrative routine.

Transfer Values

Transfer values are calculated and verified as required under the provisions of the Pension Schemes Act 1993.

Taxation

The Scheme is a registered pension scheme under Chapter 2 of part 4 of the Finance Act 2004.

Related Party Transactions

The Principal Employer has paid the majority of the costs of administering the Scheme for the year, through an annual administration contribution of £6.0m

Further details of related party transactions are given in note 26 to the financial statements.

Pension Tracing

A pension tracing service is available from the Department for Work and Pensions. The Pension Tracing Service can be contacted at The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU.

Internal Disputes Resolution Procedure

A disputes resolution procedure has been agreed by the Trustee to resolve any queries raised by members, beneficiaries or potential beneficiaries of the Scheme. Details of this can be obtained by writing to The Secretary to the Trustee, Clydesdale Bank plc, Human Resources, CBHO Complex, 40 St Vincent Place, Glasgow, G1 2HL.

The Pensions Advisery Service ("TPAS")

TPAS is available to assist members and beneficiaries of the Scheme on pension matters.

TPAS may be contacted at Money and Pensions Service, 120 Holborn, London, EC1N 2TD

Telephone: 0800 011 3797

Pensions Ombudsman

The Pensions Ombudsman will assist members and beneficiaries of the Scheme in connection with difficulties which they have failed to resolve with the Trustee or Administrator of the Scheme and may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme.

The Pensions Ombudsman may be contacted at 1st Floor, 10 South Colonnade, Canary Wharf, London E14 4PU

Telephone: 0800 917 4487 Early resolution email: helpline@pensions-ombudsman.org.uk Email: enquiries@pensions-ombudsman.org.uk

Pensions Regulator

The Pensions Regulator is able to intervene in the running of schemes where trustees, Employers or Professional Advisers have failed in their duties.

The Pensions Regulator may be contacted at Napier House, Trafalgar Place, Brighton, BN1 4DW.

Telephone: 0345 600 7060

Statement of Trustee's Responsibilities

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Scheme will not be wound up.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions 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 Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the schedule of contributions.

Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

Contact for Further Information

Any enquiries or complaints about the Scheme, including requests from individuals for information about their benefits or for a copy of Scheme documentation, should be sent to:

YCB Pensions Administration
Capita Employee Solutions
48 Finnieston Square
Skypark 6
Glasgow
G3 8ET

Telephone: 0345 120 0556

E-Mail: ycb.administration@capita.co.uk

Report of Actuarial Liabilities

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date, assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 30 September 2019. This showed that on that date:

The value of the Technical Provisions was:	£4,575 million
The value of the assets at that date was:	£4,719 million

The method and significant actuarial assumptions used to determine the technical provisions were as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount rate: a term-dependant approach, using the gilt curve plus a margin of 1.35% per annum until 2031 and 0.25% per annum thereafter, applied based on the duration of each cashflow.

Future Retail Price Index (RPI) inflation: weighted average term related assumption derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

Future Consumer Price index (CPI) inflation: derived from the assumption for future retail price inflation less an adjustment equal to 0.85% per annum until 2030 and 0.35% per annum thereafter to reflect differences between the RPI and CPI indices.

Pension increases: derived from future retail price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme’s rules.

Mortality: for the period in retirement, standard tables SAPS S3 normal health middle tables, with a scaling factor of 90.5% for male members and 96.5% for female members. Future improvements are in line with the CMI Core Projections Model (2019), with long term improvements of 1.5% per year, the core smoothing parameter of 7.0 and an initial addition parameter of 0.5% per year.

Approval of the Trustee’s Report

The Trustee’s Report was approved by the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme on 23 March 2021 and is signed on its behalf by:

.... **Date:** ....

Trustee Director

.... **Date:** ....

Trustee Director

Schedule of Contributions (continued)

Actuarial Certificate of Schedule of Contributions dated 20 March 2018

Schedule of Contributions (continued)

Actuarial Certificate of Schedule of Contributions dated 17 January 2020

Yorkshire and Clydesdale Bank Pension Scheme

Adequacy of rates of contributions

1. I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2016 to be met by the end of the period specified in the recovery plan dated 10 January 2020.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion. this schedule of contributions is consistent with the Statement of Funding Principles dated 31 July 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Nicola MacKay
Fellow of the Institute and Faculty of Actuaries

Date 17 JANUARY 2020

Towers Watson Limited
2 Lochrin Square
96 Fountainbridge
Edinburgh EH3 9QA
UK

Authorised and regulated by the Financial Conduct Authority

Schedule of Contributions (continued)

Actuarial Certificate of Schedule of Contributions dates 31 July 2020

Yorkshire and Clydesdale Bank Pension Scheme

Adequacy of rates of contributions

1. I hereby certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 30 September 2019 to continue to be met during the period of this Schedule.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion. this schedule of contributions is consistent with the Statement of Funding Principles dated 30 July 2020.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Nicola MacKay
Fellow of the Institute and Faculty of Actuaries

Date 31 July 2020

Towers Watson Limited
2 Lochrin Square
96 Fountainbridge
Edinburgh EH3 9QA
UK

Authorised and regulated by the Financial Conduct Authority

Schedules of Contributions (continued)

Schedule of Contributions dated 31 July 2020

This schedule of contributions has been prepared by the Yorkshire and Clydesdale Bank Pension Trustee Limited (the "Trustee"), the trustee of the Yorkshire and Clydesdale Bank Pension Scheme (the "Scheme") after obtaining the advice of the Scheme Actuary, Nicola MacKay FIA. The Trustee has discussed and agreed this schedule with the Principal Employer, Clydesdale Bank PLC (the "Bank").

This schedule has been prepared following the 30 September 2019 actuarial valuation of the Scheme and is dated 31 July 2020. This applies for reference purposes only and the schedule becomes effective from the date of its actuarial certification. The schedule specifies the amounts and due dates of the Bank and member contributions to the Scheme for the five-year period commencing from the date of actuarial certification of this schedule.

1. Employer contributions

The Bank shall contribute at least the following rates to the Scheme:

In respect of future accrual of benefits and expenses and insurance premiums:

- 73.4% of pensionable salaries for those members who remain active within the Scheme and elect an accrual rate of 1/60th * (less estimated member contributions for non-salary sacrifice members), plus
- 57.1% of pensionable salaries for those members who remain active within the Scheme and elect an accrual rate of 1/80th * (less estimated member contributions for non-salary sacrifice members),
- £6.0 million per annum to provide for expenses and insurance premiums.

These contributions are to be paid annually on each 1 October and will be determined based on the Scheme's pensionable salary roll (where relevant) at the preceding 30 June.

** Note that this amount includes notional member contributions in respect of members who elect for Scheme membership via the SMART salary sacrifice arrangement.*

PPF levy

The Bank will also pay a contribution each year in respect of the amount invoiced for the PPF levy for the Scheme.

Additional contributions

In addition to the contributions above, in accordance with the Deed of Agreement between the Trustee and the Bank dated 17 January 2020, the Bank will pay the amounts set out below:

Contributions of £22.1m per annum, relating to the period between 1 December 2020 and 31 March 2023.

These contributions will be paid to the Scheme as equal monthly instalments, no later than 19 days after the end of the calendar month to which they relate.

These contributions form part of a separate contractual commitment between the Bank and the Trustee. The full amount of all unpaid contributions under this section will be accelerated and become payable immediately if the Bank's parent company pays any dividend prior to 19 April 2023.

The Bank may elect to pay contributions in advance of the due dates set out above and may make further payments as agreed from time to time.

2. Employee contributions

Employees who remain active within the Scheme shall contribute during the period covered by the Schedule at the rates set out in the Rules.

Employee contributions will normally be paid to the Scheme monthly no later than 19 days after the end of the calendar month to which they relate.

This Schedule of Contributions may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of this Schedule of Contributions.

Independent Auditor's Report to the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme

Opinion

We have audited the financial statements of the Yorkshire and Clydesdale Bank Pension Scheme for the year ended 30 September 2020 which comprise the Fund Account, the Statement of Net Assets and the related notes 1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2020, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor’s Report to the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme (continued)

Other information

The other information comprises the information included in the Trustee’s Annual Report and Financial Statements set out from pages 1 to 74, other than the Financial Statements, our Auditor’s Report thereon and our auditor’s Statement about Contributions. The Trustee is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Trustee

As explained more fully in the statement of Trustee’s Responsibilities set out on page 25, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements the Trustee is responsible for assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme or to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsreponsibilities. This description forms part of our auditor’s report.

Independent Auditor's Report to the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme (continued)

Use of our report

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

Ernst & Young LLP
Statutory Auditor
Reading

Date:

Notes:

1. The maintenance and integrity of the Yorkshire and Clydesdale Bank Pension Scheme web site is the responsibility of the Trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Statement about Contributions to the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme

We have examined the summary of contributions to the Yorkshire and Clydesdale Bank Pension Scheme for the Scheme year ended 30 September 2020 which is set out in the Trustee's Report on page 15.

In our opinion contributions for the Scheme year ended 30 September 2020, as reported in the summary of contributions and payable under the schedules of contributions have, in all material respects been paid at least in accordance with the schedules of contributions certified by the Scheme actuary on 20 March 2018, 17 January 2020 and 31 July 2020.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 15 have in all material respects been paid at least in accordance with the schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the schedules of contributions.

Respective responsibilities of the Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, schedules of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schedules of contributions.

It is our responsibility to provide a Statement about Contributions paid under the schedules of contributions and to report our opinion to you.

Use of our Statement

This Statement is made solely to the Scheme's Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement 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 Trustee as a body, for our work, for this Statement, or the opinions we have formed.

Ernst & Young LLP
Statutory Auditor
Reading

Date:

Fund Account for the year ended 30 September 2020

	Note	2020 £'000	2019 £'000
Contributions and benefits			
Employer contributions		**30,345**	63,878
Employee contributions		**116**	150
Total contributions	4	**30,461**	64,028
Other income	5	**11**	25
		30,472	64,053
Benefits paid or payable	6	**(105,065)**	(95,652)
Payment to and on account of leavers	7	**(93,572)**	(112,071)
Administration expenses	8	**(5,522)**	(5,122)
		(204,159)	(212,845)
Net withdrawals from dealings with Members		**(173,687)**	(148,792)
Returns on investments			
Investment income	9	**76,267**	60,032
Interest payable on repurchase agreements	10	**(5,926)**	(6,422)
Change in market value of investments	11	**85,348**	838,079
Investment management expenses	16	**(9,877)**	(5,301)
Net returns on investments		**145,812**	886,388
Net (decrease) / increase in the fund during the year		**(27,875)**	737,596
Net assets of the Scheme at 1 October		**4,723,722**	3,986,126
Net assets of the Scheme at 30 September		**4,695,847**	4,723,722

The accompanying notes on pages 40 to 59 are an integral part of these financial statements.

Statement of Net Assets available for Benefits

As at 30 September 2020

	Note	2020 £'000	2019 £'000
Investment assets:			
Bonds	11	**4,320,159**	2,913,281
Pooled investment vehicles	17	**1,384,343**	2,012,234
Derivatives	18	**131,658**	239,477
Property	19	**121,070**	129,075
AVC investments	20	**4,346**	5,101
Cash deposits	11	**210,786**	118,109
Other investment balances	12	**20,584**	12,118
Amounts receivable on reverse repurchase agreements	13	**363,853**	87,739
		6,556,799	5,517,134
Investment liabilities:			
Derivatives	18	**(42,479)**	(10,258)
Other investment balances	12	**(443,962)**	(247,532)
Amounts payable on repurchase agreements	13	**(1,388,842)**	(541,166)
		(1,875,283)	(798,956)
Total net investments		**4,681,516**	4,718,178
Current assets	23	**21,619**	18,724
Current liabilities	24	**(7,288)**	(13,180)
Net assets of the Scheme as at 30 September		**4,695,847**	4,723,722

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations are dealt with in the Report of Actuarial Liabilities on page 27 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 40 to 59 form an integral part of these financial statements.

These financial statements were approved by the Trustee on:

Director: **Director:**

Date: **Date:**

Notes to the Financial Statements

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with guidance set out in the Statement of Recommended Practice (the SORP).

This is the first set of financial statements in which Scheme Trustee has applied the revised 2018 SORP. The adoption of the revised SORP has had no material impact on the financial statements.

2. Identification of the financial statements

The Scheme is established as a Trust under English Law. The Registered address of the Scheme is at 30 St Vincent Place, Glasgow, G1 2HL.

3. Accounting policies

The principal accounting policies of the Scheme, which have been consistently applied, are as follows:

Presentation currency

The Scheme functional and presentation currency is pounds sterling. Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

Contributions

Employee contributions, including AVCs, are accounted for by the Trustee on an accruals basis in accordance with the Schedule of Contributions under which they are paid.

Employer normal contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions under which they are paid.

Deficit contributions are accounted for on the due dates on which they are payable or when received in accordance with the Schedule of Contributions under which they are paid.

Contributions to provide for insurance premiums, expenses and PPF levies are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions under which they are paid.

Employer augmentation contributions are paid from time to time by the employer to fund benefit improvements on terms agreed with the Trustee. These contributions are accounted for on an accruals basis in accordance with the agreement under which they are payable.

Additional payments are paid from time to time by the employer to fund the purchase of equity options entered into for the purpose of reducing risk. These are accounted for on an accruals basis.

Notes to the Financial Statements (continued)

3. Accounting policies (continued)

Payments to members

Benefits are accounted for on the later of the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken, and the date of retiring or leaving. If there is no member choice, benefits are accounted for on the date of retiring, leaving or notification of death.

Pensions in payment are accounted for in the period to which they relate.

Individual transfers in or out of the Scheme are accounted for when member liability is accepted or, discharged which is normally when the transfer amount is received or paid.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that members benefits receivable from the Scheme, this is shown separately within benefits.

Expenses, Investment Manager expenses and other payments

Expenses are accounted for on an accruals basis.

Investment income

Income from cash and short-term deposits is accounted for on an accruals basis.

Dividends from equities are accounted for on the ex-dividend date.

Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.

Rental income is accounted for on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Other income is accounted for on a cash basis.

Investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Investments are included at fair value as described below:

Fixed interest and index-linked securities are stated at their clean prices. Accrued interest is excluded from the market value of fixed income securities and is included in other investment balances.

Investment properties have been valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards 2017 – Global & UK (the 'Red Book'). The valuations have been carried out at 30 September 2020 by Avison Young (formerly GVA Grimley LLP), Chartered Surveyors, who have recent experience in the locations and class of the investment properties held by the Scheme.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The market values of the additional voluntary contribution (AVC) investments are included in the net assets of the Scheme as calculated by the AVC providers providing the policies and accepted by the Trustee. The AVCs are invested in a mix of with-profit policies, deposit funds, and unit-linked funds.

Over the counter (OTC) derivatives are valued using the following valuation techniques:

Notes to the Financial Statements (continued)

3. Accounting policies (continued)

Investments (continued)

Swaps – current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.

Exchange traded options are valued at their mark to market value, which is the quoted price of selling a bought option or buying a sold option at the year end.

Forward foreign exchange (Forward FX) – the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Collateral received in the form of cash, where the Scheme has contractual rights to receive the cash flows generated, is recognised as an asset in the net asset statement with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the net asset statement, unless the counterparty defaults on its obligations under the relevant agreement.

Exchange traded futures are valued as the sum of the daily mark-to-market, which is a calculated difference between the settlement prices at the reporting date and the inception date.

Other Investment Arrangements

Securities delivered under repurchase agreements are recognised as assets of the Scheme.

Cash received from repurchase contracts is recognised as an investment asset and an investment liability is recognised for the amount of the repurchase obligations.

The cash delivered under the reverse repurchase agreement is recognised as a receivable. Securities received under reverse repurchase agreements are not recognised as assets of the Scheme and are disclosed as collateral supporting this receivable, unless sold. The obligation to buy back the securities sold is recognised as a liability.

Taxation

The Scheme is registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Notes to the Financial Statements (continued)

4. Contributions

	2020 £'000	2019 £'000
Employer contributions		
Normal	**400**	500
Deficit	**8,333**	50,000
Augmentation	**-**	59
Insurance premiums, expenses and PPF levies	**6,365**	6,460
Additional payments	**15,247**	6,859
	30,345	63,878
Employee contributions		
Normal	**115**	149
Additional voluntary contributions	**1**	1
	116	150
	30,461	64,028

Employer normal contributions include £0.2m in respect of members contributing by salary sacrifice (2019: £0.25m).

In line with the Schedules of Contributions, the Employer paid £6.0m to cover expenses and insurance premiums during the year and will also reimburse the actual fee paid for the PPF Levy separately; this is the additional payment of £0.365m which is included within the Insurance premiums, expenses and PPF levies shown above.

In line with the Schedule of contributions signed on the 17 January 2020 the Trustee and the Bank entered an agreement to defer the deficit contributions due over the calendar year 2020. The Schedule of Contributions signed 31 July 2020 notes the payment of additional contributions at the new agreed rate of £22.1m per annum to be paid in equal monthly instalments for the period 1 December 2020 through to 31 March 2023.

Augmentations represent payments by the employer to augment the benefits of certain members.

During the year additional payments of £15.2m (2019: £6.9m) were made by the employer to fund the purchase of equity options, entered into for the purpose of reducing risk.

The Scheme closed to future accrual for the majority of active membership on 31 July 2017.

Notes to the Financial Statements (continued)

5. Other income

	2020 £'000	2019 £'000
Claims on insured death benefits	**-**	5
Other income	**11**	20
	11	25

6. Benefits paid or payable

	2020 £'000	2019 £'000
Pensions	**87,267**	84,080
Commutations of pensions and lump sum retirement benefits	**17,758**	11,551
Purchase of annuities	**33**	4
Death benefits	**7**	17
	105,065	95,652

7. Payments to and on account of leavers

	2020 £'000	2019 £'000
Refunds in respect of non-vested leavers	**-**	64
Individual transfers out to other schemes	**93,572**	112,007
	93,572	112,071

8. Administration expenses

	2020 £'000	2019 £'000
Administration and processing	**2,074**	1,842
Actuarial and consultancy fees	**2,147**	1,852
Audit fees	**97**	74
Legal fees	**660**	251
Pension Protection Fund	**151**	661
Other fees and expenses	**393**	442
	5,522	5,122

The increase in legal fees is due to the work undertaken by Sackers resulting from the Bank's request to defer contributions due in 2020, the PPF Levy has decreased due to the Actuarial valuation being completed and submitted prior to the 31 March 2020.

The Scheme bears all costs of administration.

Notes to the Financial Statements (continued)

9. Investment income

	2020 £'000	2019 £'000
Net rents from properties	**6,061**	4,955
Income from pooled investment vehicles	**28,222**	20,436
Interest on cash deposits	**747**	1,223
Income from bonds	**41,237**	33,418
	76,267	60,032

Net rents from properties is stated after deducting £1.9m (2019: £0.6m) of property related expenses. The increase in PIV investment income is due to the grossing up of income and accounting for the investment manager fees incurred on certain funds. Previously the net income was recorded.

10. Interest payable on repurchase agreements

	2020 £'000	2019 £'000
Interest payable on repurchase agreements	**(5,926)**	(6,422)

The Scheme incurs interest at money market rates payable on monies advanced to it under repurchase agreement contracts. These advances are secured on the Scheme's existing bond portfolio.

11. Investments held at the beginning and end of the year

	Value at 1 October 2019 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 30 September 2020 £'000
Bonds	2,913,281	**1,517,184**	**(160,782)**	**50,476**	**4,320,159**
Pooled investment vehicles	2,012,234	**121,508**	**(762,654)**	**13,255**	**1,384,343**
Property	129,075	**-**	**-**	**(8,005)**	**121,070**
Derivatives	229,219	**85,890**	**(252,362)**	**26,433**	**89,179**
AVC investments	5,101	**1**	**(746)**	**(10)**	**4,346**
	5,288,910	**1,724,582**	**(1,176,544)**	**82,149**	**5,919,097**
Cash and cash equivalents	118,109				**210,786**
Repurchase and Reverse repurchase agreements	(453,427)				**(1,024,989)**
Other investment balances	(235,414)			3,199	**(423,378)**
	4,718,178			**85,348**	**4,681,516**

The change in market value of £3.2m on other investment balances represents the unrealised gain arising on the outstanding obligation of £352m to buy back the bonds received under reverse repurchase agreements and sold.

Notes to the Financial Statements (continued)

12. Other investment balances

	2020 £'000	2019 £'000
Accrued income	**20,584**	12,118
Other investment assets	**20,584**	12,118
Interest payable on repurchase agreements	**(4,301)**	(2,329)
Amounts due to brokers	**(439,661)**	(245,203)
Other investment liabilities	**(443,962)**	(247,532)
Net other investment balances	**(423,378)**	(235,414))

As at 30 September 2020, amounts due to brokers includes £352m (2019 - £87m) as an obligation to buy back bonds received as collateral assets under reverse repurchase agreements that were sold by the Scheme. The obligation thus exposes the Scheme to changes in value of these collateral assets for the duration of the repurchase agreement.

At 30 September 2020, cash variation margin of £85m (2019 - £158m) had been received relating to the increase in value of centrally cleared swaps. On the sale of these swaps, the sale proceeds would exclude the variation margin previously received. Hence, £85m (2019 - £158m) is shown within amounts due to brokers.

13. Repurchase Agreements

	2020 £'000	2019 £'000
Amounts receivable under reverse repurchase agreements	**363,853**	87,739
Amounts payable under repurchase agreements	**(1,388,842)**	(541,166)
Net repurchase agreements	**(1,024,989)**	(453,427)

The Scheme uses gilt repurchase agreements ('repo') and reverse repurchase agreements ('reverse repo') as part of the management of its LDI portfolio. These can allow the Scheme to maintain its target level of interest rate and inflation hedging on better terms than via derivative instruments.

Repurchase agreements – Against amounts payable by the Scheme of £1,389m (2019: £541m), the Scheme had delivered bonds which had a value at 30 September 2020 of £1,409m (2019: £598m). These are included within 'bonds' in note 11.

Reverse repurchase agreements – Against amounts due to the Scheme of £364m (2019: £88m), the Scheme had received pledged bonds with a value at 30 September 2020 of £359m (2019: £87m). Of the bonds received, bonds with a value at 30 September 2020 of £352m (2019: £87m) had been sold. The liability to buy these back in order to return them under the reverse repurchase agreement is included in note 12.

Notes to the Financial Statements (continued)

13. Repurchase Agreements (continued)

Collateral is payable / deliverable as the value of bonds changes under both repurchase and reverse repurchase agreements. As at 30 September 2020, the Scheme had received additional collateral valued at £19m (2019: £54m) from REPO counterparties.

14. Concentration of investments

The Scheme's investments over 5% of net assets are as follows:

	2020	2020	2019	2019
	£'000	%	£'000	%
BlackRock Aquila World ex UK Fund	**367,500**	**7.8**	502,871	10.6
Legal & General – Infrastructure Equity Fund	**94,071**	**2.0**	305,420	6.5

The UK Government bonds were disclosed in the prior year but aren't disclosed in the current year as SORP does not require the disclosure of Gilts.

15. Transaction costs

Transaction costs are included in the cost of purchases and sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty.

Transaction costs related to fees incurred on property transactions amounted to £NIL (2019: £0.04m).

In addition to the property transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

16. Investment management expenses

	2020 £'000	2019 £'000
Administration, management and custody	**9,877**	**5,301**

The increase in the investment manager fees relates to certain investment managers recovering expenses through the income generated by that fund. This is a new approach this year as previously the income was recorded net of fees.

17. Pooled investment vehicles

The Scheme's investments in pooled investment vehicles at the year-end comprised:

	2020 £'000	2019 £'000
Equity	**524,565**	889,958
Bonds	**-**	302,238
Property and Infrastructure	**477,811**	409,083
Alternative Credit	**381,967**	410,955
	1,384,343	2,012,234

Notes to the Financial Statements (continued)

18. Derivatives

At the year end the Scheme held the following derivatives:

	Asset value at year end	Liability value at year end	Asset value at year end	Liability value at year end
	2020	**2020**	**2019**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Swaps	**113,979**	**(36,350)**	233,472	(2,917)
Forward exchange contracts	**8,131**	**(2,275)**	498	(6,485)
Options	**8,634**	**(2,459)**	5,507	(856)
Futures	**915**	**(1,396)**	-	-
	131,659	**(42,480)**	239,477	(10,258)

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of their investment strategy for the Scheme as follows:

Swaps – the Trustee's aim is to match as far as possible the Liability Driven Investment (LDI) portfolio to the Scheme's long-term liabilities, in relation to their sensitivities to interest and inflation rate movements. The Trustee has entered into OTC interest and inflation rate swaps that increase the duration and inflation sensitivity of the fixed income portfolio to better match the long-term liabilities of the Scheme.

Forward FX – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in GBP, a currency hedging programme, using forward FX contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

Options – Equity option contracts have been entered into in order to allow the Scheme to benefit from potentially greater returns from equities whilst minimising the risk of loss through adverse market movements.

Futures – Where cash is held for short-term liquidity, the Trustee has entered into index-based contracts of equivalent economic value to avoid being 'out-of-the-market'.

Notes to the Financial Statements (continued)

18. Derivatives (continued)

Objectives and policies (continued)

(i) Swaps

Contract	Expiration	Nature of swap	Notional Amount £'000	Asset value at year end 2020 £'000	Liability value at year end 2020 £'000	Asset value at year end 2019 £'000	Liability value at year end 2019 £'000
IR swap	1-10 years	Pay floating	**284,000**	**3,709**	**-**	11,992	-
IR swap	11-20 years	Pay floating	**128,800**	**18,707**	**-**	45,881	-
IR swap	21-30 years	Pay floating	**143,000**	**19,269**	**-**	86,281	-
IR swap	21-30 years	Pay fixed	**40,000**	**-**	**11,324**	-	-
IR swap	31-40 years	Pay floating	**115,000**	**36,965**	**-**	42,157	-
RI swap	41-50 years	Pay floating	**35,000**	**2,520**	**-**	24,053	-
RPI swap	1-10 years	Pay fixed	**510,700**	**876**	**18,891**	3,128	1,775
RPI swap	11-20 years	Pay fixed	**90,100**	**600**	**6,135**	-	1,142
RPI swap	31-40 years	Pay RPI	**38,710**	**21,130**	**-**	13,126	-
RPI swap	41-50 years	Pay RPI	**11,140**	**10,203**	**-**	6,854	
				113,979	**36,350**	233,472	2,917

At the end of the year the Scheme held collateral of £8.8 million in respect of OTC Swaps, which is constituted of £7.7 million of cash and £1.2 million of bonds. In addition, there was pledged collateral of £65.6 million comprised of bonds.

(ii) Forward Foreign Exchange Contracts outstanding (FX)

	Settlement date	Currency bought 2020 £'000	Currency sold 2020 £'000	Asset value at year end 2020 £'000	Liability value at year end 2020 £'000	Asset value at year end 2019 £'000	Liability value at year end 2019 £'000
Forward OTCs	<3 months	£87,810	€(97,264)	**15**	**(483)**	**498**	**-**
Forward OTCs	<3 months	€10,961	£(9,982)	**-**	**(34)**	**-**	**-**
Forward OTCs	<3 months	£31,707	¥(4,310,080)	**108**	**-**	**-**	**(333)**
Forward OTCs	<3 months	£611,810	$(782,315)	**7,890**	**(1,092)**	**-**	**(6,152)**
Forward OTCs	<3 months	$79,625	£(62,060)	**118**	**(599)**	**-**	**-**
Forward OTCs	<3 months	¥1,076,884	£(7,962)	**-**	**(67)**	**-**	**-**
				8,131	**(2,275)**	**498**	**(6,485)**

Notes to the Financial Statements (continued)

18. Derivatives (continued)

(iii) Options

Type of options	Expiration	Asset value at year end 2020 £'000	Liability value at year end 2020 £'000	Asset value at year end 2019 £'000	Liability value at year end 2019 £'000
Put Options	<3 months	**359**	**(48)**	39	(1)
Put Options	<6 months	**457**	**(142)**	891	(101)
Put Options	<9 months	**7,818**	**(2,269)**	3,195	(493)
Put Options	<12 months	**-**	**-**	1,382	(261)
		8,634	**(2,459)**	5,507	(856)

The underlying investments for all put options are global equity market indices.

(iv) Futures

Nature	Duration	Asset value at year end 2020 £'000	Liability value at year end 2020 £'000	Asset value at year end 2019 £'000	Liability value at year end 2019 £'000
EUREX Euro-Buxl futures sold	Dec-20	**-**	**(134)**	-	-
EUREX Euro-Bond futures sold	Dec-20	**-**	**(193)**	-	-
EUREX Euro-Bobl futures sold	Dec-20	**-**	**(5)**	-	-
LIFFE Long Gilt futures sold	Dec-20	**-**	**(1,053)**	-	-
CME Ultra T-Bonds futures sold	Dec-20	**788**	**-**	-	-
US T-Bonds futures sold	Dec-20	**127**	**(11)**	-	-
		915	**(1,396)**	-	-

19. Property

	2020 £'000	2019 £'000
Freehold Property	**107,410**	103,065
Leasehold Property	**13,660**	26,010
Total	**121,070**	129,075

Notes to the Financial Statements (continued)

20. AVC investments

The Trustee holds assets invested separately from the main Defined Benefit Section investments to secure additional benefits on a money purchase basis for those Defined Benefit Section members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2020 £'000	2019 £'000
Prudential Assurance Company Limited	**32**	31
Standard Life Aberdeen (part of Pheonix group)	**31**	31
Utmost Life and Pensions	**377**	361
Aviva Plc	**3,906**	4,678
	4,346	5,101

On 1 January 2020, AVC investment policies held with Equitable Life Assurance Society were wholly transferred to Utmost Life and Pensions Limited under an insurance business transfer scheme.

Notes to the Financial Statements (continued)

21. Fair value determination

The fair value of financial instruments has been disclosed using the following fair value hierarchy:

Level 1	The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the assessment date.
Level 2	Inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
Level 3	Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities fall within the above hierarchy levels as follows:

As at 30 September 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Bonds	-	4,320,159	-	4,320,159
Pooled investment vehicles	-	524,565	859,778	1,384,343
Property	-	-	121,070	121,070
Derivatives	-	-	89,179	89,179
AVC investments	-	-	4,346	4,346
Cash	210,786	-	-	210,786
Other investment balances	(87,208)	(336,170)	-	(423,378)
Repurchase and reverse repurchase agreements	(1,024,989)	-	-	(1,024,989)
	(901,411)	4,508,554	1,074,373	4,681,516

Notes to the Financial Statements (continued)

21. Fair value determination (continued)

As at 30 September 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Bonds	-	2,913,281	-	2,913,281
Pooled investment vehicles	-	1,192,196	820,038	2,012,234
Property	-	-	129,075	129,075
Derivatives	-	-	229,219	229,219
AVC investments	-	-	5,101	5,101
Cash	118,109	-	-	118,109
Other investment balances	(157,717)	(77,697)	-	(235,414)
Repurchase and reverse repurchase agreements	(453,427)	-	-	(453,427)
	(493,035)	4,027,780	1,183,433	4,718,178

Bonds sold short in the amount of £87,486k, which are part of Other investment balances, have been reclassified from Level 1 to Level 2, to be consistent with the classification of the Bond investment assets.

22. Investment risk disclosures

Types of risk relating to investment

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

The Scheme has exposure to the above risks because of the investments it makes to implement the investment strategies. The Trustee considers its investment risks when setting the Scheme's strategic investment objectives. These investment objectives and the overall level of risk are implemented through investments in pooled investment vehicles and segregated investment mandates with investment managers, are monitored by the Trustee through regular reviews of the investment portfolio. The investment objectives of the Scheme are further detailed in the Statement of Investment Principles.

Investment strategy

The Trustee is responsible for determining the Scheme's investment strategy.

The principal objectives for the Trustee are to ensure that:

a the Scheme is able to provide the benefits set out in the Trust Deed and Rules through investing in a diversified portfolio of assets, that are sufficiently liquid, having taken account of the Scheme's liabilities and considering its risk tolerance in the context of the Trustee's evaluation of the Employer covenant; and

b the investment return targeted from time to time is appropriate, having regard to the funding position from time to time, the Trustee's funding objective and the Trustee's assessment of the Employer covenant.

In seeking to achieve these objectives, the Trustee is mindful of the need to:

- take account of current market conditions when positioning the portfolio at any time
- limit the risk of the assets failing to meet the liabilities over the long term, noting that asset growth is expected to be made up of investment returns plus future contributions.
- establish the Scheme's asset allocation and manager structure. The Trustee receives advice from the Investment Consultant and will consider the risk and return assumptions of particular asset classes / investment opportunities and how this will affect the risk and return characteristics of the Scheme's assets as a whole.

Credit risk

The Scheme is subject to two main types of credit risk:

- Direct credit risk represents the Scheme's exposure to the credit risk of counterparties, and arises through the Scheme's investment in pooled investment vehicles, and through segregated mandates that are exposed to credit risk (comprising of the Scheme's holding in its LDI, UK corporate bond mandates managed by LGIM and more recently the mandate managed by Aberdeen Standard Investments (ASI), equity options mandate with LGIM and its holdings in the CBREGI Property and Northern Trust cash accounts).
- Indirect credit risk arises as a result of the credit risk of underlying investments held in pooled investment vehicles, where relevant.

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

Investment strategy (continued)

Direct credit risk

As at 30 September 2020, £1,363m (2019: £1,989m) of the Scheme's investments were held in pooled investment vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

Direct cash holdings provide a source of credit risk. This cash balance is maintained within the Trustee bank account and with an institution that is investment grade rated.

Direct credit risk also arises in relation to underlying investments held in segregated investment mandates. The Scheme is exposed to direct credit risk in this way through its investments in UK Corporate Bonds (managed by LGIM and ASI), the Scheme's LDI Portfolio, currency hedging portfolio and equity options fund (all managed by LGIM) and the UK property fund (managed by CBREGI).

Direct credit risk in these segregated mandate funds is managed by the Scheme's managers using several methods. In relation to the UK Corporate Bond mandates, LGIM and ASI undertake credit analysis and diversify the portfolio across a range of high-quality securities. With respect to the LGIM hedging portfolio, LGIM manage credit risk for derivative holdings using collateral arrangements to back the portfolio and diversifying such derivative exposure across a range of investment grade rated bank counterparties and the use of centrally cleared swaps with a clearing house. CBREGI undertakes credit analysis by managing investments across a range of counterparties.

A summary of pooled investment vehicles by type of arrangements is as follows:

	2020 £'m	**2019 £'m**
Unit linked insurance contracts	**641.9**	1,308.0
Authorised unit trusts	**282.6**	254.5
Shares of limited liability partnerships	**77.8**	39.5
Open ended investment companies	**382.0**	410.2
	1,384.3	2,012.2

Indirect credit risk

The total exposure to indirect credit risk at 30 September 2020 was £932m (2019: £1,404m).

The Scheme's pooled fund holdings which result in an exposure to indirect investment credit risk are as follows:

- Fixed interest securities issued by companies which, compared to bonds issued or guaranteed by governments, are exposed to greater risk of default in the repayment of the capital provided to the company or interest payments due. The Scheme disinvested from its pooled fund of global investment grade corporate bonds during the year (2019: £184.5m).

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

Indirect credit risk (continued)

- Bonds issued or guaranteed by governments also provide indirect credit risk, as cash flows may be impaired in the event of a sovereign default, however this risk is typically considered less than corporate default for the majority of developed countries. The Scheme had no target exposure to government bonds through its pooled investments (2019: £117.7m).
- The Scheme also invests funds in three 'alternative credit' pooled funds managed by Towers Watson Investment Management (TWIM), Oak Hill Advisers and Brigade Capital Management. These pooled funds invest in a range of loans and higher yielding bonds and other instruments. TWIM invests in these assets indirectly, by investing funds with a range of underlying managers who directly invest the monies.
- Securities issued by pooled property and infrastructure investments also provide indirect credit risk, as income may be impaired in the event of a market downturn. The Scheme's pooled exposure to such investments is via investments with Legal and General Investment Management (LGIM), Knight Frank Investment Management (KFIM), Pramerica, Alpha Real Capital and Greencoat.

This risk is mitigated by ensuring that the range of investments across the screened bond and pooled property and infrastructure funds is well diversified.

Currency risk

Investments priced in foreign currencies are subject to direct risks whereas the sterling priced investments with underlying foreign currency priced holdings are subject to indirect risk.

The Scheme is subject to indirect currency risk because some of its sterling investments are held in overseas equity and bond markets. LGIM manages the Scheme's currency hedging arrangements via a currency overlay. The Trustee agreed to retain the Scheme's level of currency hedging and to target a currency hedge ratio at the total portfolio level. The Scheme aims to hedge 70% of US dollar, 75% of Japanese Yen and 75% Euro exposure. As at 30 September 2020, £1,606m (2019: £1,641m) of the Scheme's investments were subject to currency risk.

The Trustee recognises the risk that fluctuations in foreign exchange rates may reduce the returns on these investments. The Scheme invests in a sterling hedged share class for one of its investments: the LGIM Magellan infrastructure equity fund which aims to protect the Scheme against currency movements.

Interest rate risk

The Scheme holds a number of investments that are subject to direct interest rate risk:

- In the case of the segregated LDI mandate, this investment is held to offset in part the impact of changes in interest rates on the value placed on the Scheme's liabilities. If interest rates fall, the value of the interest rate sensitive assets will rise to offset some of the increase in actuarial liabilities from a fall in the discount rate. Similarly, if interest rates rise, the investments will fall in value as will actuarial liabilities because of an increase in the discount rate.
- In the case of the UK corporate bond mandates and alternative credit mandates these investments are held because they are expected to deliver a long term rate of return in excess of the Scheme's liabilities. The value of these assets is sensitive to changes in interest rates.

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

- The Scheme invests in a UK property mandate segregated with CBRE that has a direct interest rate risk and five pooled Secure Income Asset investments; managed by LGIM, Pramerica, Knight Frank Investment Management, Alpha Real Capital and Greencoat with an indirect interest rate risk. The Scheme also invests in a listed infrastructure equity pooled fund with LGIM with an indirect interest rate risk. All of these investments are subject to interest rate risk and are expected to provide a return in excess of the return on liabilities over the long term.

Cash holdings are also exposed to interest rate risk. The total value of the Scheme's assets subject to interest rate risk was £4,247m (2019: £4,128m).

Other price risk

The Scheme has investments held in both return seeking and liability matching assets that are exposed to other indirect price risk, which include global equities as well as property, infrastructure, secure income assets and alternative credit investments. The total value of the Scheme's assets subject to other price risk was £3,538m (2019: £3,938m). The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. The Scheme also invests in equity option derivatives to limit the risk of a fall in equity markets on the funding position.

Aberdeen Standard Investments Buy and Maintain portfolio – Risks identified

The new mandate managed by ASI forms part of the Scheme's corporate bond allocation alongside the LGIM mandate. The ASI mandate, like the LGIM mandate, has direct credit risk due to its nature of holding corporate loans which rely on another party fulfilling their obligation to repay. It also has interest rate risk since the future cash flows (coupons) may fluctuate in value as the interest rate changes. Further, since the corporate bonds are global the mandate also has currency risk.

A summary of the Scheme's risk exposures is as follows:

	Risk Categorisation				
			Market Risk		
Fund	*Indirect Credit*	*Direct Credit*	*Currency*	*Interest Rate*	*Other Price Risk*
Blackrock Passive Equities		✓	✓		✓
CBREGI Property		✓		✓	✓
KFIM Long Income Property	✓	✓		✓	✓
LGIM Magellan Listed Infrastructure	✓	✓	✓	✓	✓
LGIM UK Corporate Bonds		✓		✓	
ASI Corporate Bonds		✓	✓	✓	
BlackRock Cash		✓	✓	✓	
LGIM LDI portfolio		✓		✓	✓
LGIM LPI Property Fund	✓	✓		✓	✓
LGIM Equity Options		✓	✓	✓	✓
Cash/Currency Overlay (Northern Trust)		✓	✓	✓	✓
Pramerica UK Ground Lease Fund	✓	✓		✓	✓
Oak Hill Diversified Credit Strategies	✓	✓	✓	✓	✓
TWIM Alternative Credit	✓	✓	✓	✓	✓
Brigade Alternative Credit	✓	✓	✓	✓	✓
Greencoat Solar II Fund	✓	✓		✓	✓
Alpha Real Wind Renewables	✓	✓		✓	✓

Notes to the Financial Statements (continued)

23. Current assets

	2020 £'000	2019 £'000
Due from employer	**365**	5,904
Cash balances	**18,159**	10,118
Pre-payments & other debtors	**1,891**	1,703
Property debtor	**1,204**	999
	21,619	18,724

The above contributions due from the employer at the year-end were received after the year-end in accordance with the Schedule of Contributions. Balance Due from employer above, represents the reimbursement of the PPF Levy.

Other debtors are in respect of investment income receivable on the Knight Frank portfolio.

24. Current liabilities

	2020 £'000	2019 £'000
Accrued expenses	**3,095**	9,131
Property Creditor	**2,977**	3,037
Unpaid benefits	**205**	122
HMRC - PAYE	**1,011**	890
	7,288	13,180

25. Self-investment

The Occupational Pension Schemes (Investment) Regulations 2005 provides that the proportion of the current market value of a pension scheme's resources that may at any time be invested in employer-related investments must not exceed 5%. As at 30 September 2020, the Scheme had self-investments totaling £2,372,693 (i.e. Less than 0.1% of total assets (2019: £2,357,768, less than 0.1% of total assets). These investments were as follows:

	Value of Assets (£m)	
	2020	2019
Equities (pooled passive)	**0.01**	0.02
Other pooled investment vehicles	**2.37**	2.34

The self-investment values above do not account for cash held in the Trustee bank accounts.

Notes to the Financial Statements (continued)

26. Related party transactions

The Scheme uses Yorkshire Bank, an associate of the principal employer, as its banker. The Scheme received £15,869 of interest on bank accounts during the year (2019: £59,717). This is included within interest on cash deposits in note 9.

Payments made to the Employer for administration expenses amount to £129,214 (2019: £146,493). This is included in administration and processing expenses in note 8.

Trustee services fees paid to Law Debenture in respect of the year amounted to £343,806 (2019: £166,660). This is included in actuarial and consultancy fees in note 8.

Pensioner member nominated Trustee Directors were paid fees as follows, which were also included in note 8:

A Duncan	£25,000	(2019: £13,145)
J Hurst	£20,000	(2019: £15,833)

All of the above named Trustee Directors also receive pensions from the Scheme.

All of the above transactions were made in accordance with the Scheme Rules.

27. Capital commitments

As at 30 September 2020, the Trustee had remaining commitments to Greencoat Solar II LLP and to Alpha Real Wind Renewables Income Fund. These funds derive their income by purchasing wind and solar energy farms, and by selling the energy generated to power companies. The remaining Greencoat commitment is £21.0m of a total £100m, the remaining Alpha Real Capital commitment is £1.1m of a total £50m, although the Trustee has committed a further £20m to Alpha Real since the year end. During the year there were drawdowns of £40.7m by Greencoat and £34.4m by Alpha Real.

During the year the Trustee committed a further £50m to the Knight Frank Investment Management Long Income Property Unit Trust which is still to be drawn.

28. GMP Equalisation

As explained on page 8 of the Trustee's report, on 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and is considering this at current and future meetings and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on the initial assessment of the likely backdated amounts and related interest, the Trustee does not expect these amounts to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

A second judgement involving the Lloyds Banking Group's defined benefit pension schemes, on 20 November 2020, concluded that defined benefit (DB) schemes that provide GMPs must revisit and, where necessary, top-up historic cash equivalent transfer values (CETVs) that have been calculated on an unequal basis. The Trustee of the Scheme is aware that this issue will have an impact on the Scheme, however at this stage it is not in a position to obtain a reliable estimate of the financial impact. Any related additional liability will be recognised in the financial statements once the Trustee is able to provide a reliable estimate.

Annual Implementation Statement – Scheme year ending 30 September 2020

Table of Contents

Section 1: Introduction 61
Section 2: How the Trustee has adhered to its engagement and voting policies 62
Section 3: Voting information 64
Section 4: Conclusion 72
Appendix 1: BlackRock's voting policy 73
Appendix 2: LGIM's voting policy 74

Section 1: Introduction

This document is the Annual Implementation Statement ("the statement") prepared by the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme ("the Scheme") covering the Scheme year ("the year") from 1 October 2019 to 30 September 2020.

The purpose of this statement is to set out:

- Details of how and the extent to which, in the opinion of the Trustee, the Trustee's policies on engagement and voting (as set out in the Statement of Investment Principles (the "SIP")) have been adhered to during the year; and
- A description of voting behaviour (including the most significant votes made on behalf of the Trustee) and any use of a proxy voter during the year.

The SIP is a document which outlines the Trustee's policies with respect to various aspects related to investing and managing the Scheme's assets including but not limited to: investment managers, portfolio construction and risks.

The latest version of the SIP can be found online here

This statement reflects the Scheme year 1 October 2019 to September 2020. The SIP linked above reflects the latest version of the SIP which is dated September 2020. Prior to this version, the SIP which covered the majority of Scheme year was dated July 2019.

Following a review of the July 2019 SIP in 2020, the Trustee made the following changes which are reflected in the September 2020 version:

- Included a new policy to send all of the Scheme's underlying investment managers a version of the SIP annually and to require the managers to comment on the consistency of their management of the assets with the relevant policies.
- Included a new policy to monitor the level of portfolio turnover of the Scheme's underlying investment funds and related costs.
- Highlighted the Trustee's general approach to investment management fee structures and how these align with the long-term objectives of the Scheme.
- Highlighted the Trustee's use of a covenant adviser to assess and manage the relationship and dialogue between the Trustee and the Principal Employer.
- Revised the documentation of the Trustee's policies with respect to Environmental, Social and Governance ('ESG') risk.

Section 2: How the Trustee has adhered to its engagement and voting policies

The Trustee's policies on voting and engagement, as stated in the SIP are:

- The Trustee policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Trustee recognises the UK Stewardship Code 2020 as best practice and encourages its investment managers to comply with the UK Stewardship Code 2020 or explain where they do not adhere to this policy.

- When considering the appointment of new managers, and reviewing existing managers, the Trustee, together with its investment advisers, looks to take account of the approach taken by managers with respect to sustainable investing. This includes considering voting policies and engagement on relevant matters (i.e. the capital structure of investee companies, actual and potential conflicts of interest and other stakeholders), as well as how managers take account of ESG-related risks in their management of the Scheme's assets, and the consistency of this approach with the Trustee's own beliefs.

- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes, but is not limited to, specific consideration of the sustainable investment/ESG characteristics of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

- For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates is determined in the context of the Scheme's overall objectives.

- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.

As the investment managers of pooled funds, in which the Scheme is invested, are generally responsible for exercising voting rights and as the Trustee otherwise delegates responsibility for the exercising of voting rights to the Scheme's investment managers, it is the responsibility of the Trustee to monitor, review and engage with investment managers with respect to how they have undertaken these activities.

The same policy applies to corporate engagement with the management of companies the Scheme is invested in. Corporate engagement is the responsibility of the managers of pooled funds and is otherwise delegated to the Scheme's investment managers because the Trustee believes that those managers are best placed to manage this engagement. The Trustee monitors, reviews and engages with the managers on how they have undertaken these activities.

Over the year, the Trustee has undertaken a number of actions in line with these policies as set out below:

- Throughout the year, the Trustee met with a number of the Scheme's investment managers (details below).

- The Trustee's investment adviser produces sustainable investment reports for the Scheme's managers which include information on how the investment managers consider environmental, social and governance factors in their investment process. The reports also include information on the voting and engagement practices of the managers. At each of these meetings, the Trustee reviewed the managers' sustainable investment report ahead of the manager presentation and subsequently discussed relevant topics with managers.

Since the Scheme year end, the Trustee has undertaken a full review of the sustainable investment reports produced by the Trustee's investment adviser for all of the Scheme's pooled investment funds.

- In April 2020, the SIP was sent to all of the Scheme's investment managers. The Trustee highlighted its policies with respect to Sustainable Investing and Voting and Engagement, and asked the investment managers to set out their approach to sustainable investment, including voting and engagement, and to highlight any areas where they believed their fund's approach to be inconsistent with the Trustee's policies.

  All of the Scheme's managers provided a response. The Trustee reviewed the managers responses at a meeting in July 2020. Following the review, the Trustee concluded that they were satisfied that there were no obvious misalignments between managers' policies and the Trustee's policies.

- Since the year end in October 2020, the Trustee received a training session on Sustainable Investment. At this session, the Scheme's Sponsor presented a session explaining the sustainable investment targets they have in place. The Trustee agreed to consider the Sponsor's policies when determining further actions they wish to take with respect to the Scheme.

  The Scheme's investment adviser also presented a session on Sustainable Investment which covered training on the voting process that investment managers undertake, considerations around climate change and investment, and regulation around sustainable investment for UK pension schemes.

  In addition to the actions above the Trustee's investment adviser provides ratings for each of the Scheme's investment managers. These ratings are reviewed (and updated where necessary) on a quarterly basis and include considerations relating to sustainable investment. Any changes in these ratings or the investment adviser's opinion of a fund is communicated to the Trustee.

As set out in section 4, the Trustee believes that the Scheme's engagement policy as outlined in the SIP has been adhered to over the Scheme year and will continue to monitor the investment managers' stewardship practices on an ongoing basis.

Section 3: Voting information

The Scheme is invested in a diverse range of asset classes. However, this document focusses on the equity investments which have voting rights attached.

The Scheme's equity holdings as at the end of the year are held in pooled investment funds and are managed on a passive basis relative to a defined index. Therefore, the voting entitlements in these funds lie with the investment managers.

The Scheme's equity holdings are invested with two investment managers, BlackRock and Legal & General Investment Management ("LGIM"), in the following pooled investment funds:

- **BlackRock Aquila Life UK Equity Fund**: pooled fund that invests in listed UK equities and tracks a market capitalisation-based index.

- **BlackRock Aquila Life World ex UK Equity Fund**: pooled fund that invests in listed World ex UK equities and tracks a market capitalisation based index.

- **BlackRock iShares Emerging Market Equity Fund**: pooled investment fund which invests in Emerging Market listed equities and tracks a market capitalisation based index.

- **LGIM Infrastructure Equity MFG Fund**: pooled investment fund which invests in listed equities of infrastructure companies globally and tracks a bespoke index determined by Magellan.

As set out in the SIP, the Trustee's policy is to delegate the exercising of rights (including voting and stewardship) and the integration of ESG considerations in day-to-day decisions to the Scheme's investment managers. This section sets out the voting activities of the Scheme's equity investment managers over the year, including details of the investment managers' use of proxy voting.

BlackRock and LGIM have their own voting policies that determine their approach to voting and the principles they follow when voting on investors' behalf. Both investment managers also use voting proxy advisers which aid in their decision-making when voting. Details are summarised in the table below:

Manager	Use or proxy adviser services:
BlackRock	BlackRock subscribes to research from the proxy advisery firms Institutional Shareholder Services (ISS) and Glass Lewis which contribute to, but do not determine, BlackRock's voting decisions which are made by the BlackRock internal stewardship team. BlackRock primarily uses proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that their investment stewardship team can readily identify and prioritise those companies where BlackRock's own additional research and engagement would be beneficial. They do not follow any single proxy research firm's recommendations.
LGIM	LGIM's Investment Stewardship team uses Institutional Shareholder Services' (ISS) electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decision. LGIM use ISS recommendations to augment their own research. LGIM's internal investment stewardship team also use research reports of Institutional Voting

	Information Services (IVIS) to supplement the research reports that they receive from ISS for UK companies when making specific voting decisions. LGIM have a custom voting policy in place which includes specific voting instructions which apply to all markets globally. LGIM have the ability to override any vote decisions which are based on this custom voting policy if they see fit.

As outlined in the SIP, the Trustee recognises the UK Stewardship Code 2020 and monitors the Scheme's investment managers adherence to the Code. BlackRock and LGIM are both signatories to the code. Their latest statement of compliance can be found via the links below:

BlackRock: https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-statementoncompliance-uk-stewardshipcode.pdf

LGIM: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/uk-stewardship-code.pdf

The below table sets out the voting activity of the Scheme's equity investment managers, on behalf of the Trustee, over the year:

Manager and strategy	Portfolio structure	Voting activity
BlackRock UK Equity (0.4% of assets at year end)	Pooled equity fund	Number of meetings at which the manager was eligible to vote: 1,140 Number of resolutions on which manager was eligible to vote: 15,414 Number of votes cast: 14,974 Percentage of eligible votes cast: 97% Percentage of votes with management: 92% Percentage of votes against management: 6% Percentage of votes abstained from: 2%
BlackRock World ex-UK Equity (7.8% of assets at year end)	Pooled equity fund	Number of meetings at which the manager was eligible to vote: 2,158 Number of resolutions on which manager was eligible to vote: 26,685 Number of votes cast: 25,119 Percentage of eligible votes cast: 94% Percentage of votes with management: 93% Percentage of votes against management: 6% Percentage of votes abstained from: 0%
BlackRock Emerging Markets Equity (0.9% of assets at year end)	Pooled equity fund	Number of meetings at which the manager was eligible to vote: 2,325 Number of resolutions on which manager was eligible to vote: 21,808 Number of votes cast: 21,138 Percentage of eligible votes cast: 97% Percentage of votes with management: 88% Percentage of votes against management: 9%

		Percentage of votes abstained from: 3%
LGIM Infrastructure Equity MFG Fund (2.0% of assets at year end)	Pooled listed infrastructure fund	Number of meetings at which the manager was eligible to vote: 83 Number of resolutions on which manager was eligible to vote: 1,071 Number of votes cast: 1,037 Percentage of eligible votes cast: 97% Percentage of votes with management: 85% Percentage of votes against management: 15% Percentage of votes abstained from: 0% Of the meetings the manager was eligible to attend, the percentage where the manager voted at least once against management: 79% Of the resolutions where the manager voted, the percentage where the manager voted contrary to the recommendation of the proxy adviser: 12%

*Voting statistics are out of total eligible votes and are sourced from the investment managers BlackRock and LGIM

The following table outlines a number of significant votes cast by the Scheme's investment managers on the Trustee's behalf. The commentary set out below is based on detail in the relevant manager's reports on the votes cast:

- LGIM did not report any significant votes cast within the LGIM Infrastructure Equity MFG Fund over the year to 30 September 2020.

- BlackRock reported on the most significant votes cast within the funds managed on behalf of the Scheme over the year to 30 September 2020, including the rationale for the voting decision and the outcome of the vote. A number of these key votes is set out below. The votes shown were chosen taking account of the size of the allocations to the companies affected as a percentage of each pooled fund, whether the votes were against management resolutions and whether the votes were in respect of shareholder resolutions.

Significant votes cast	Coverage in portfolio
<u>Company: Alphabet Inc</u> <u>Meeting date: 3 June 2020</u> Company summary: Alphabet is a collection of businesses, the largest of which is Google. Google is a global technology platform for advertisers, agencies, and publishers to power their digital marketing offerings. Google diversifies its revenues beyond advertising through other businesses including Google Cloud, Google Play, hardware, and YouTube. Alphabet reports all non-Google entities collectively as 'Other Bets', which are emerging businesses at various stages of development, ranging from those in the research and development phase to those that are in the beginning stages of commercialisation. **1.** Management resolution: 1.8 Elect Director Ann Mather Company management recommendation: For How the manager voted: Against Rationale: BlackRock expect non-CEO directors to serve on a total of no more than four public company boards. Since Ms. Mather sits on five public boards, BlackRock consider her overcommitted and therefore voted against her re-election to the Board of Directors. **2.** Shareholder Resolution: To approve recapitalisation plan for all stock to have one-vote per share Company management recommendation: Against How the manager voted: For Rationale: BlackRock strongly prefer a 'one vote for one share' capital structure for publicly traded companies as this structure provides control proportionate to shareholders' capital at risk and therefore is more aligned with BlackRock's clients' interests. BlackRock recognise the potential benefits of dual class shares to newly public companies as they establish themselves but believe that these structures should have a specific and limited duration for well-established public companies such as Alphabet.	BlackRock World-ex UK Equity
<u>Company: Amazon</u> <u>Meeting date: 23 May 2020</u> Company summary: Amazon serves consumers, sellers, developers, enterprises and content creators across multiple platforms and products. The company has approximately 800,000 full-time and part-time employees. Shareholder resolutions: multiple (12): Item 5: Create a report on effects of food waste Item 6: Create a report on customer use of certain technologies Item 7: Report on potential customer misuse of certain technologies Item 8: Report on efforts to restrict certain products Item 9: Request for a mandatory independent board chair policy Item 10: Create an alternative report on gender/racial pay Item 11: Report on certain community impacts Item Item 12: Report on viewpoint discrimination Item 13: Create a report on promotion data Item 14: Request for a reduction in threshold for calling special shareholder meetings	BlackRock World-ex UK Equity

Item 15: Request for a specific supply chain report format Item Item 16: Request for additional reporting on lobbying Company management recommendation: Against all shareholder resolutions How the manager voted: Against all shareholder resolutions Rationale: After thorough review of the company's existing disclosures, along with insights gleaned from multiple engagements, BlackRock determined that Amazon is actively addressing the material issues raised by the various shareholder proposals. Some of the proposals were too prescriptive in their request for additional information, such as requesting an alternative report on gender/racial pay in addition to the one the company already publishes. For a subset of the proposals, including the request for a report on customer use of certain technologies and an additional report on lobbying, the company is already meeting the best practices guidelines. BlackRock's engagements with Amazon include a range of material issues including the topics raised in the shareholder proposals. Amazon has demonstrated a commitment to adopting best practices in corporate governance (e.g. 90% board independence, 50% board gender diversity, and balanced board tenure) and included plans to improve disclosure on food waste and food diversion management, efforts to monitor the use of certain technologies and enforce compliance with its product policies.	
<u>Company: The Boeing Company</u> <u>Meeting date: 27 April 2020</u> Company summary: The Boeing Company is an American aerospace company which manufactures commercial aeroplanes and defence, space and security systems such as military aircrafts and weapon systems. Management resolution: Re-election of 4 directors: Arthur D. Collins Jr, Edmund P. Giambastiani Jr, Susan C. Schwab and Ronald A. Williams Company management recommendation: For How the manager voted: Against Rationale: BlackRock voted against the re-election of the four board members due to the board's failure to exercise sufficient oversight of management strategy and corporate culture, which contributed to the fatal 737 MAX crashes in 2018 and 2019 which resulted in the deaths of 346 people. An investigative report issued by the U.S. House Committee on Transportation and Infrastructure identified several central themes from the accidents, including a problematic "culture of concealment" that led Boeing to withhold crucial information from pilots, airlines, and the Federal Airline Association (FAA) and downplay safety precautions. These directors were on the board at the time of the strategic decision to amend the 737 to the 737 MAX in August 2011. While the company has created oversight structures that aim to mitigate risks that resulted in the crisis, BlackRock hold these directors accountable for board decisions and their failure to exercise sufficient risk oversight of management strategy and corporate culture, which contributed to the crashes and had significant adverse, material impact on the company and, consequently, its shareholders. BlackRock believe that voting against these directors is warranted for the aforementioned reasons, and that doing so may help to promote a culture of accountability at the board level. Since the crisis, changes have been made to the board and senior management, including the addition of three new board members, a new CEO, and a new independent non-executive chair of the board. In addition to the board and management changes, a series of structural changes were made to emphasise central reporting and enhanced focus on safety and design, including a permanent safety oversight committee of the board.	BlackRock World-ex UK Equity

<u>Company: Exxon Mobil Corporation</u> <u>Meeting date: 27 May 2020</u> Company summary: Exxon Mobil Corporation is an American multinational oil and gas corporation and is engaged in the exploration, development and distribution of oil, gas and petroleum products. **1.** Management resolution: Re-election of Directors Angela F. Braly and Kenneth C. Frazie Company management recommendation: For How the manager voted: Against Rationale: BlackRock voted against the re-election of Angela F. Braly for insufficient progress on Taskforce for Climate-related Financial Disclosures ('TCFD') reporting and related action. BlackRock voted against the re-election of Kenneth C. Frazie for insufficient progress on TCFD reporting and for the failure to provide investors with confidence that the board is composed of the appropriate mix of skill sets and can exercise sufficient independence from the management team to effectively guide the company in assessing material risks to the business. **2.** Shareholder resolution: Require Independent Board Chair Company management recommendation: Against How the manager voted: For Rationale: The shareholder proposal requests that the company establish an Independent Board Chair position in place of the present Lead Independent Director structure by appointing one of the independent members of the board to the Chair position. Mr Frazier, Chair of the Nominating and Governance Committee, stepped into the Lead Independent Director Role this year however BlackRock have concerns regarding the board's responsiveness to shareholder feedback and concerns regarding climate risk management. BlackRock do not have confidence that this enhanced role on paper will lead to a demonstrable increase in independent leadership. BlackRock's governance and voting guidelines do not normally necessitate an Independent Chair however BlackRock believe that the board would benefit from a more robust independent leadership structure hence the vote *For* the shareholder proposal.	BlackRock World-ex UK Equity
<u>Company: Barclays Plc</u> <u>Meeting date: 7 May 2020</u> Company summary: Barclays is a British universal bank operating as two divisions, Barclays UK and Barclays International, supported by its service company, Barclays Execution Services. Its businesses include consumer banking, payments operations around the world, and a full service global corporate and investment bank. 1. Management resolution: Approve Barclays' commitment to tackling climate change Company management recommendation: For How the manager voted: For 2. Shareholder resolution: Approve ShareAction requisitioned resolution Company management recommendation: Against How the manager voted: Against Rationale: In January 2020, a coalition of investors filed a shareholder resolution asking Barclays to set and disclose targets to phase out the provision of financial services to the energy sector, as well as electric and gas utility companies that are not aligned with articles 2.1(a) and 4.1 of the Paris Agreement (the shareholder resolution). Following engagement with its shareholders and other stakeholders, including BlackRock, Barclays announced on 30th March 2020 updated ambitions with respect to tackling climate change.	BlackRock UK Equity

Barclays proposed its own resolution (the management resolution) at its annual general meeting (AGM) to commit the company to a strategy, with targets, for alignment of its entire financing portfolio to the goals of the Paris Agreement. Barclays has committed to provide further details of the strategy by the end of the year.	
<u>Company: BHP Group Plc/Limited</u> <u>Meeting date: 14 October 2020 (BHP Group Plc) and 15 October 2020 (BHP Limited)</u> Company summary: BHP engages in the exploration, development, production and processing of iron ore, metallurgical coal, copper, oil and natural gas. BHP is headquartered in Melbourne, Australia, and operates under a dual-listed company structure with two parent companies (BHP Group Limited and BHP Group Plc), but functions as a single economic entity. 1.Shareholder resolution: Amend constitution of BHP Group Limited as required under Australian voting rules Company management recommendation: Against How the manager voted: Against Rationale: The resolution calls for an amendment to the company's constitution is first necessary to allow for the subsequent non-binding resolution to be voted upon. A group of shareholders owning 5% of voting shares or 100 shareholders (with no minimum holding size or length of holding period) may file a resolution. BlackRock is not generally supportive of this type of constitutional amendment resolution, as the relative ease of the filing process increases the risk that these types of proposals are potentially distracting, time-consuming or are submitted by shareholders whose interests may not be necessarily aligned with those of the broader shareholder base. 2.Shareholder resolution: Approve review of advocacy activities and suspension of memberships of industry associations where COVID-19 related advocacy is inconsistent with Paris Agreement Goals Company management recommendation: Against How the manager voted: For Rationale: The proposal asks the company to be rigorous in its assessment of the policy positions of industry associations of which it is a member, encouraging it to develop and further enhance its "climate leadership" strategy. Given the global pandemic and resulting economic uncertainty, this is increasingly an important matter for companies' resilience and long-term financial performance. BlackRock has previously highlighted BHP as an 'industry leader' on climate-related issues and this view remains unchanged. The company's climate standards go beyond the Paris Agreement Goals. BlackRock supported the shareholder proposal to signal the importance of the opportunity for BHP to continue to use its leadership position to constructively influence its trade associations to further advance the global energy transition. BlackRock highlight that support for this resolution is not a signal of dissatisfaction with BHP and their management of material ESG issues.	BlackRock World-ex UK Equity BlackRock UK Equity

<u>Company: Royal Dutch Shell Plc</u> <u>Meeting date: 19 May 2020</u> Company summary: Royal Dutch Shell plc (Shell) is an energy company based in the Netherlands and is dual-listed in the United Kingdom and the Netherlands. Shareholder resolution: Request Shell to set and publish targets for greenhouse gas (‘GHG’) emissions Company management recommendation: Against How the manager voted: Against Rationale: The shareholder proposal requested that Shell set and publish targets across scope 1, 2 and 3 emissions, aligned with the Paris Agreement. The proponent argued that Shell’s ambition to reduce its net carbon intensity by 50% by 2050 in a growing energy system would not ultimately lead to the level of absolute emissions reduction necessary to achieve the goals of the Paris Agreement. The proponent asked for more “aspirational” targets. BlackRock believe Shell is a leader among its peers regarding existing disclosures. The company makes comprehensive climate-related disclosures in a dedicated climate report. BlackRock reviewed these disclosures and they were consistent with expectations. Since the submission of the shareholder proposal, Shell has updated its climate commitments to more aggressively reduce its carbon footprint, and to become a “net-zero emissions energy business” by 2050 or sooner which includes targets across scope 1,2 and 3 emissions.	BlackRock UK Equity
<u>Company: Yanzhou Coal Mining Company</u> <u>Meeting date: 9 December 2020</u> Company summary: Yanzhou Coal Mining Company (Yanzhou Coal) is primarily engaged in the coal mining, coal railway transportation and coal chemical businesses, with coal mining accounting for 95% of its pre-tax earnings in 2019. The company is 56.01% controlled by its state-owned parent Yankuang Group and is dual listed in Shanghai and Hong Kong. Management resolution: To consider and approve equity interests and assets transfer agreement between Yankuang Group Company Limited and Yanzhou Coal Mining Company Limited and to approve the transactions contemplated thereunder Company management recommendation: For How the manager voted: Against Rationale: Yanzhou Coal’s rationale for making the acquisition, namely to expand its coal chemical business and to extend the industrial chain for profit enhancement, is noted by BlackRock however, BlackRock believes it is in their clients’ best long-term economic interests to vote against the proposed acquisition due to two primary concerns: 1. The underlying valuation for the terms of the transaction – BlackRock question the methodology used to value coal mining rights and believe the company’s valuation method does not take into account evolving coal market dynamics including potential regulatory developments and China’s aspiration to become carbon neutral by 2060. 2. Management’s oversight of potential stranded asset risks – Yanzhou Coal is a state owned enterprise and did not articulate how the acquisition of coal related assets align to China’s goals in relation to carbon exposure.	BlackRock iShares Emerging Markets Equity

Section 4: Conclusion

The Trustee believes that the Scheme’s engagement policy as outlined in the SIP has been adhered to over the Scheme year.

Following monitoring of the Scheme’s investment managers over the year, and reviewing the voting information outlined in this statement, the Trustee is satisfied that BlackRock and LGIM are acting in the Scheme members’ best interests and are effective stewards of the Scheme’s assets.

The Trustee will continue to monitor the investment managers’ stewardship practices on an ongoing basis.

Appendix 1: BlackRock's voting policy

Overview of voting process for deciding how to vote

- BlackRock's approach to corporate governance and stewardship is explained in their Global Corporate Governance and Engagement Principles. These high-level Principles are the framework for their, market-specific voting guidelines, which are published on the BlackRock website. The Principles describe BlackRock's philosophy on stewardship (including how they monitor and engage with companies), their voting policy, their approach to stewardship matters and how BlackRock deal with conflicts of interest.

- These apply across relevant asset classes and products as permitted by investment strategies. BlackRock reviews our Global Corporate Governance & Engagement Principles annually and updates them as necessary to reflect in market standards, evolving governance practice and insights gained from engagement over the prior year.

- BlackRock's Global Corporate Governance & Engagement Principles available on their website: https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf

BlackRock proxy voting decision process

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team (BIS), which consists of three regional teams – Americas ("AMRS"), Asia-Pacific ("APAC"), and Europe, Middle East and Africa ("EMEA") - located in seven offices around the world.

Analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines.

While BlackRock subscribe to research from the proxy advisery firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into our vote analysis process, and BlackRock do not blindly follow their recommendations on how to vote.

BlackRock primarily use proxy research firms to synthesise corporate governance information and analysis into a concise, easily reviewable format so that our investment stewardship analysts can readily identify and prioritise those companies where our own additional research and engagement would be beneficial. Other sources of information we use include the company's own reporting (such as the proxy statement and the website), engagement and voting history with the company, and the views of our active investors, public information and ESG research.

BlackRock's third-party platform for vote execution

We use Institutional Shareholder Services' (ISS) electronic platform to execute our vote instructions, manage client accounts in relation to voting and facilitate client reporting on voting. In certain markets, BlackRock work with proxy research firms who apply our proxy voting guidelines to filter out routine or non-contentious proposals and refer to us any meetings where additional research and possibly engagement might be required to inform our voting decision.

Appendix 2: LGIM’s voting policy

Policy on consulting clients:

LGIM’s voting and engagement activities are driven by ESG professionals and their assessment of the requirements in these areas seeks to achieve the best outcome for all our clients. Our voting policies are reviewed annually and take into account feedback from our clients.

Every year, LGIM holds a stakeholder roundtable event where clients and other stakeholders (civil society, academia, the private sector and fellow investors) are invited to express their views directly to the members of the Investment Stewardship team. The views expressed by attendees during this event form a key consideration as we continue to develop our voting and engagement policies and define strategic priorities in the years ahead. We also take into account client feedback received at regular meetings and/ or ad-hoc comments or enquiries.

Process for deciding how to vote:

All decisions are made by LGIM’s Investment Stewardship team and in accordance with our relevant Corporate Governance & Responsible Investment and Conflicts of Interest policy documents which are reviewed annually. Each member of the team is allocated a specific sector globally so that the voting is undertaken by the same individuals who engage with the relevant company. This ensures our stewardship approach flows smoothly throughout the engagement and voting process and that engagement is fully integrated into the vote decision process, therefore sending consistent messaging to companies.

Use of proxy voting services:

LGIM’s Investment Stewardship team uses ISS’s ‘Proxy Exchange’ electronic voting platform to electronically vote clients’ shares. All voting decisions are made by LGIM and we do not outsource any part of the strategic decisions. Our use of ISS recommendations is purely to augment our own research and proprietary ESG assessment tools. The Investment Stewardship team also uses the research reports of Institutional Voting Information Services (IVIS) to supplement the research reports that we receive from ISS for UK companies when making specific voting decisions

To ensure our proxy provider votes in accordance with our position on ESG, we have put in place a custom voting policy with specific voting instructions. These instructions apply to all markets globally and seek to uphold what we consider are minimum best practice standards which we believe all companies globally should observe, irrespective of local regulation or practice.

We retain the ability in all markets to override any vote decisions, which are based on our custom voting policy. This may happen where engagement with a specific company has provided additional information (for example from direct engagement, or explanation in the annual report) that allows us to apply a qualitative overlay to our voting judgement. We have strict monitoring controls to ensure our votes are fully and effectively executed in accordance with our voting policies by our service provider. This includes a regular manual check of the votes input into the platform, and an electronic alert service to inform us of rejected votes which require further action.