



Yorkshire and Clydesdale Bank Pension Scheme

Scheme Registration Number: I0003237

Trustee's Annual Report and Financial Statements

For the Year Ended 30 September 2023

CONFIDENTIAL

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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:

Inder Dhingra – Chair of the Trustee Board

The Law Debenture Pension Trust Corporation PLC,
Independent Trustee, represented by Jane Beverley

Gavin Hill

Elected by the members:

Alan Duncan

John Hurst

John Laird (resigned 31.12.2022)

John Lafferty (appointed 01.04.2023)

Nominated by the employer:

Claire McCormick

Chloe Stafford

Sharon Ellis (resigned 10.02.2023)

Lorna Bennie (appointed 01.12.2023)

Secretary of the Corporate Trustee

Glen Rudd

Principal and Participating Employer

Clydesdale Bank PLC ("the Bank")

177 Bothwell Street

Glasgow G2 7ER

Trustee and its Advisers (continued)

Investment Managers

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

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

Legal & General Investment Management (LGIM)
One Coleman Street
London
EC2R 5AA

Knight Frank Investment Management (Knight Frank)
Saddlers House
44 Gutter Lane
London
EC2V 6BR

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

Alpha Real Capital LLP (Alpha Real)
338 Euston Road
London
NW1 3BG

PGIM
Grand Buildings
1-3 Strand
London
WC2N 5EJ

Schroders Greencoat LLP (Greencoat)
The Peak
5 Wilton Road
London
SW1V 1AN

Brigade Capital Management (Brigade) (until 13.10.2022)
16th Floors
399 Park Avenue
New York
New York 10022
United States of America

abrdrn
Bow Bells House
1 Bread Street
London
EC4M 9HH

Towers Watson Investment Management Limited (TWIM)
(until 14.03.2023)
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Longevity Swap Counterparties

Zurich Assurance Longevity Account (from 06.04.2023)
Unity Place
1 Carfax Close
Swindon
Wiltshire
SN1 1AP

Pacific Life RE International Limited (from 06.04.2023)
Tower Bridge House
St. Katharine's Way
London
E1W 1BA

Trustee and its Advisers (continued)

AVC Providers

Utmost Life and Pensions (until 28.03.2023)

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

Advisers

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

Actuary

Nicola MacKay, FFA

WTW Plc

2 Semple Street

Edinburgh

EH3 8BL

Investment Advisers

WTW Plc

London Road

Reigate

Surrey

RH2 9PQ

Legal Advisers

Sacker & Partners LLP

20 Gresham Street

London

EC2V 7JE

Independent Auditor

Ernst & Young LLP

R+ Building

2 Blagrove Street

Reading

RG1 1AZ

Administrator

Capita Pension Solutions Limited

PO Box 555

Stead House

Darlington

DL1 9YT

Bankers

Virgin Money

94-96 Briggate

Leeds

LS1 6NP

Trustee and its Advisers (continued)

Global Custodian

Northern Trust Corporation (Northern Trust)
50 Bank Street
Canary Wharf
London
E14 SNT

Property Performance

MSCI Investment Property Databank Ltd
Ninth Floor Ten Bishops Square
London
E1 6EG

Employer Covenant Adviser

Interpath LLP
15 Canada Square
London
E14 5GL

Scheme Accountant

Capita Pension Solutions Limited
Hartshead House, 2 Cutlers Gate
Sheffield
S4 7TL

Longevity Swap Transaction Adviser

Willis Towers Watson
5 Wellington Place
Wellington Street
Leeds
LS1 4AP

Property Solicitor

Pinsent Masons LLP
3 Colmore Circus
Birmingham
B4 6BH

Property Valuer

Avison Young
65 Gresham Street
London
EC2V 7NQ

Communications Adviser

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

Financial Adviser

Origen Financial Services Ltd (from 01.02.2024)
Ascent 4
2 Gladiator Way
Farnborough
Hampshire

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 2023.

The Scheme was established under a Trust Deed and registration has been granted by His 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 Pension Trustee Limited.

The Board of Yorkshire and Clydesdale Bank Pension Trustee Limited is comprised of three Member Nominated Trustee Directors (MNDs), three Employer Nominated Trustee Directors (ENDs) and three Independent Directors. The quorum required for Trustee meetings is four Trustee Directors 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.

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

Following the resignation of John Laird on 31 December 2022, John Lafferty was appointed as Employee Nominated Director with effect from 1 April 2023. Following the resignation of Sharon Ellis on 10 February 2023, Lorna Bennie was appointed as Employer Nominated Director with effect from 1 December 2023.

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.

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

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

Trustee's Report (continued)

Scheme Management (continued)

Audit & Risk Sub-Committee (ARSC)

The ARSC liaises with the Scheme Accountant 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 making 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 Bank's 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.

GMP Sub-Committee (GMPSC)

The GMPSC met as required 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 maintained a project plan of the actions required, managed the data requirements of the project, liaised with the Bank, and considered the timing, content, and format of communications to members in relation to GMP matters.

An important aspect of the GMPSC's remit was 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 involved considering the methods of equalisation available, the costs of each method, the impact on members' benefits and the administration thereof. This work is now complete for around 99% of the pensioner population, with the remaining 1% expected to be completed during the course of 2024.

The GMPSC has also considered the implications of a second judgement involving the Lloyds Banking Group's defined benefit pension schemes, on 20 November 2020, which concluded that defined benefit (DB) schemes that provided GMPs must revisit and, where necessary, top-up historical cash equivalent transfer values (CETVs) that have been calculated on an unequal basis.

As the bulk of the GMP equalisation work has now been completed, the GMPSC is to be disbanded during 2024 with any residual GMP issues dealt with by the ASC.

Trustee's Report (continued)

Scheme Management (continued)

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 Board 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 reporting accountants 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. It is also responsible for developing and maintaining a framework for managing climate change risk and recommending metrics to the Board to be used by the ISC to monitor this risk.

Finally, the Trustee's investment adviser provides 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.

** the Occupational Pension Schemes (Investment) Regulations 2005 reg 4

Valuation Sub-Committee (VSC)

The VSC is responsible for carrying out detailed discussions with the Bank and Advisers in relation to triennial actuarial valuations and bringing recommendations to the Board for approval. It also reviews the Scheme's funding strategy and Statement of Funding Principles (SFP). The valuation as at 30 September 2022 was completed on 28 September 2023.

Trustee's Report (continued)

Scheme Management (continued)

Going Concern

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.

Investment markets experienced a difficult 2022, with significant falls in equity and bond markets. Continuing political conflict and high levels of inflation have meant bond markets have continued to be under pressure in 2023 in a backdrop of rising interest rates. In a continuing uncertain economic environment, the Trustee has ensured the Scheme's liquidity is maintained at comfortable levels and its funding level has not been significantly impacted. Additionally, the Bank has agreed to provide the Trustee with an uncommitted £75m liquidity facility in case of need.

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 and 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 strength and capital position. The Trustee continues to monitor the funding and risk position of the Scheme.

The Trustee continues to monitor progress in relation to the Bank's past conduct charges and continues to be in discussion 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 all or any of these items and the impact they may have on the Scheme are recorded through the Risk Dashboard 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.

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

The Trustee is aware of the announcement on 7 March 2024 regarding the potential acquisition of Virgin Money UK PLC by Nationwide Building Society, and the firm offer made by Nationwide Building Society on 21 March 2024. The Trustee is talking to the Bank and its advisers to assess any impact of this on the Scheme.

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

Trustee's Report (continued)

Scheme Management (continued)

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 towards 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 2023 amounted to £2,807.5m (2022: £3,222.1m) representing a decrease in net assets of £414.6m (2022 – decrease of £1,382.5m). The decrease comprises net outflows from dealings with members of £122.8m (2022: £133.3m) and a negative return on investments of £291.8m (2022: £1,249.1m). Whilst a reduction in the Scheme's net assets was experienced, this had no material impact on the funding level as the Scheme's liabilities also reduced in value.

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 36 to 55 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 2022 and the results are set out in the Actuary's formal report dated 28 September 2023. 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 page 29 of this report. The funding position on a technical provision's basis at 30 September 2022 was 109%.

Task Force on Climate-Related Financial Disclosures ("TCFD")

The Financial Stability Board ("FSB") created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change.

In March 2023, the Trustee published its first TCFD report. A copy of the report can be viewed and downloaded from

https://www.ycbps.co.uk/~media/document-libraries/ycbps/2024/ycb_tcf_d_report_iro_scheme_year_ending_30_september_2023_final_march_2024.pdf?la=en&hash=5E22CC8108AF3424A25BBF3E6D142F451B557581

Capita Cyber Incident

As reported in the 2022 financial statements, the Trustee was advised by the scheme's administrator, Capita Pension Solutions Limited ('CPSL'), on 31 March 2023 that Capita plc ('Capita') identified a cyber incident which resulted in unauthorised access to its IT systems. Upon discovery, Capita interrupted and restricted the cyber-incident promptly on 31 March 2023.

Capita investigated that incident. That investigation found that a third party, unauthorised by Capita, accessed Capita's IT systems on 22 March 2023.

Trustee's Report (continued)

Scheme Management (continued)

Capita Cyber Incident (continued)

Since that date, CPSL has advised the Trustee that it has employed internal and third party advisers to establish what data had been exfiltrated during this incident, although it confirmed that its Hartlink pension administration platforms were not affected.

CPSL wrote to the Trustee on 19 May 2023 to advise that member personal data had been exfiltrated during the cyber breach.

The Trustee has reported this breach to the Information Commissioner's Office (ICO) on 19 May 2023 and was advised that Capita has made appropriate notifications to all relevant regulators and authorities, including the ICO, and remains in regular contact with them. The ICO confirmed on 3 February 2024 that no further action was necessary against the Trustee in respect of this data breach.

The Trustee complied with the requirements and recommendations of the Pensions Regulator in relation to the cyber incident and wrote to impacted members on 26 June 2023 and 7 July 2023 to advise them of the data breach and warn them to be vigilant to any scams that might arise from the exfiltrated data potentially being publicly available. Capita offered to provide an Experian credit monitoring service free of charge for one year to members whose data was exfiltrated in the cyber incident.

The Trustee received 40 complaints from members raising concerns over the incident which were responded to individually. The Trustee also published Capita Cyber Incident FAQs which are available on the member website.

The Trustee continues to work closely with its legal and other advisers, and with Capita, to mitigate any further risk resulting from the cyber incident and to ensure that Scheme members affected are protected as far as possible. To assist members further, the Trustee has agreed to provide members that signed up for the Experian Service with a further 12 months access free of charge. Capita has engaged an independent 3rd party to undertake a review of the process and Capita advised the Trustee on 2 April 2024 that their eDiscovery experts had identified additional groups of individuals and/or categories of personal data in the data that had been exfiltrated in the above incident, which took place on or around 22 March 2023. The Trustee reported this breach to the Information Commissioner's Office (ICO) on 5 April 2024 and is following up with Capita to understand the additional number of impacted members.

Capita has advised the Trustee that it has taken extensive steps to recover and secure the data contained within the impacted servers, and also that it has no evidence that information resulting from this incident is available for sale on the dark web or otherwise. That is because Capita has appointed a third-party specialist adviser who continues to monitor the dark web to confirm that data compromised as a result of this incident is not being circulated or available for sale online. They have been appointed since the earliest days of this incident.

Trustee's Report (continued)

Scheme Management (continued)

Scheme membership

The number of members and beneficiaries of the Scheme as at 30 September 2023 was as follows:

Members	Active	Deferred	Pensioner	Total
Members at start of year	14	12,818	9,441	22,273
Adjustments *	-	(72)	51	(21)
Revised opening membership	14	12,746	9,492	22,252
Leavers	(2)	2	-	-
Commutations	-	(98)	-	(98)
Retired	(1)	(516)	517	-
Deaths	-	(15)	(159)	(174)
Transfers out	-	(35)	-	(35)
Suspension and reinstatements	-	-	(12)	(12)
New dependants	-	-	73	73
Ineligible	-	(2)	(8)	(10)
Members at end of year	11	12,082	9,903	21,996

* 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.
- The update to the member's record is processed post year end and not in 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

No changes to the Scheme Rules were made in the Scheme year to 30 September 2023.

The Trustee is aware of a high court case in June 2023 between Virgin Media Ltd vs NTL Pension Trustees regarding the formalities which needed to be satisfied when making changes to the rules of contracted out schemes before 2016 under Section 37 of the Pension Schemes Act 1993. The case is being appealed and the Trustee, having taken initial legal advice, will consider any further actions and impacts to the scheme following the outcome of the appeal, with advice from the Scheme lawyer and actuary.

Pension Increase Exchange Options

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, financial advice is made available for members, wishing to pursue this option.

Pension increases

Some 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, where the member has not exchanged future increases for a higher immediate pension, 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 three 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
2023	2.5%	5.0%	2.5%
2022	2.5%	4.9%	2.5%
2021	1.1%	1.1%	1.1%

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
2023	5.0%	5.0%	2.5%
2022	5.0%	5.0%	2.5%
2021	1.2%	1.2%	1.2%

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 were revalued during the year by the level determined by statutory and Scheme requirements.

Up to 1 January 2015, Clydesdale members who were not former members of the National Australia Bank (NAB) Plan historically received discretionary pension increases in deferment in line with the increases that were applied to pensions in payment. These increases underpin the statutory deferred revaluation requirements.

Calculation of Transfer Values

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

Transfer value calculations for Clydesdale members (who left before 1 January 2015 and were not former members of the NAB Plan) make allowance for these historic discretionary increases and in line with the Bank's stated intention, assume that all pension increases in deferment from 1 January 2015 will be statutory.

Allowance has been made in the Scheme's current transfer value basis to recognise the requirements 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.

Trustee's Report (continued)

Scheme Management (continued)

Contributions

The Schedule of Contributions dated 31 July 2020 requires an annual employer contribution of £6.2m in respect of future accrual of benefits, expenses and insurance premiums. Payment was due on 1 October 2022, however this was received on 3 October 2022 which was later than the due date set out in the Schedule of Contributions certified on 31 July 2020. This was due to the Sponsoring Employer paying the contribution later than the date requested by the Trustee. A new Schedule of Contributions was certified on 28 September 2023, allowing more flexibility in respect of the timing of contributions payments in the future. This is expected to improve the process for the timely receipt of contributions to avoid similar issues arising in future years. As noted above, the payment due on 1 October 2022 was received later than the due date set out in the Schedule of Contributions resulting in the qualified statement about Contributions detailed on page 35.

A new Schedule of Contributions was certified on 28 September 2023 following the 30 September 2022 triennial actuarial valuation of the Scheme. As the Scheme was in a surplus position, no deficit repair additional contributions were required to be paid. The Schedule of Contributions requires an annual employer contribution in respect of future accrual of benefits, expenses and insurance premiums, and the amount of £6.1m, of which £0.1m relates to ongoing accrual and £6.0m relates to expenses, due on 1 October 2023, was paid on 2 October 2023. This payment was made in line with the new Schedule of Contributions which requires payment within 19 days after each 1 October.

Summary of contributions

During the year ended 30 September 2023, the contributions payable to the Scheme were as follows:

	£'000
Employer normal contributions*	200
Insurance premiums, expenses and PPF levies	6,072
Additional	-
Employee normal contributions	49
Total contributions payable under the Schedule of Contributions	6,321
Employee additional voluntary contributions	-
Total contributions per note 4 of the financial statements	6,321

* Included within the Employer normal contributions are Employee salary sacrifice contributions of £0.01m.

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 and Sustainable Investment Policy. The investment managers are asked to set out their approach to sustainable investment, including voting and engagement, and to highlight any areas where they believe their fund's approach to be inconsistent with the Trustee's policies.

The Trustee is not involved in the investment managers' day-to-day methods 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. 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 extent to which managers' portfolio turnover levels align to Trustee expectations on an annual basis. Where turnover is not deemed to be aligned with expectations, the Trustee will engage with the manager to better understand why and to ensure the managers are managing assets in a way which is appropriate within the context of their mandate.

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 issues and the exercise of the rights attaching to investments. This document is published online. 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 that the implementation of the mandate and day-to-day decisions (relating to the investment of the Scheme assets, including the consideration of environmental, social and governance issues and their impact on the portfolio) are left to the discretion of its investment managers. The Trustee, with advice from its investment advisers, monitors these issues with its managers to understand how they exercise these duties in practice.

The Trustee's 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 Code 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, taking into consideration costs, risks and fiduciary duties, the contract with the manager will be terminated, and the manager replaced.

For most of the Scheme's investments, the Trustee expects the investment managers to invest with a long-term horizon, and to use their engagement activity to drive improved performance over this period.

The Trustee appoints its investment managers with an expectation of a long-term relationship and engagement, 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 2023. 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, primarily due to the time required to adjust the Scheme's illiquid asset holdings (including property). For example, time is required to build up the target allocation to the renewable energy infrastructure fund managed by BlackRock and to allow CBREGI a number of years to sell the Scheme's property holdings (in order to achieve the best terms on sale). The commitments to the infrastructure fund will take time to be fully drawn down as timing is dependent upon the construction of the underlying infrastructure.

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 Trustee. 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. The underlying assets of pooled investment vehicles are held by the Investment Managers' appointed custodians.

Employer-related investments

As at 30 September 2023, the Scheme had employer-related investments within the meaning of section 40 (2) of the Pensions Act 1995, totaling £2.1 million. Details of these investments have been provided on page 53 of this report.

Longevity swap

On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited (the Reinsurer) and Zurich Assurance Ltd (the Insurer) to manage longevity risk in relation to pensioner liabilities which were valued at c.£1.6bn as at that date. The arrangement provides long-term protection to the Scheme against costs resulting from pensioners, or their dependants, living longer than expected, enhancing security for members, and reducing risk for the Scheme. The fair value of the hedge instrument at 30 September 2023 was £Nil.

Trustee's Report (continued)

Investment Matters (continued)

Asset allocation and performance

	Market Value (£m)	Market value total (%)
LGIM LDI Portfolio ⁺	1,008.0	
Cash/other collateral	57.5	
Liability Driven Investment, cash and other balances	1,065.5	38.1
LGIM Buy & Maintain Portfolio	560.4	
abrdrn Buy & Maintain Bonds	530.5	
Buy and Maintain Credit	1,090.9	39.0
CB REGI property*	65.2	
BlackRock Global Renewable Infrastructure Fund III*	74.2	
LGIM LPI Property Fund*	101.7	
PGIM Real Estate UK Ground Lease Fund*	53.4	
KFIM Long Income Property Unit Trust*	175.8	
Alpha Real Wind Renewables Income Fund*	73.5	
Greencoat Solar II Fund*	94.3	
Oak Hill Diversified Credit Strategies Fund**	4.6	
Illiquids	642.7	22.9
Total Scheme	2,799.1	100

Source: Northern Trust

AVC investments of £3.5m are excluded from the above table.

Values may not sum due to rounding. 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.

* These funds are disclosed within pooled investment vehicles in the notes to the accounts (for the CB REGI property holdings £18.4m is related to pooled funds with the remainder held directly in the Trustee's name).

** This fund began liquidation proceedings in March 2023, the remaining holdings are residual cash amounts.

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

Trustee's Report (continued)

Investment Matters (continued)

Asset allocation and performance

The performance of the Scheme's assets is measured against performance of a proxy for the Scheme's liabilities, which reflects the interest rate and inflation sensitivities of the Scheme's liabilities. These are set out in the table below to 30 September 2023:

	12 months (%)	3 years (%)	5 years (%)
Total Scheme assets	-8.4	-12.7	-3.3
Liabilities	-11.7	-16.1	-5.9

In prior periods, performance was shown manager by manager with individual benchmarks for each. However, given the de-risking actions undertaken over recent years and a transition to agreeing performance objectives, but not benchmarks, with managers, for this report the total return of the Scheme's assets has been compared to a gilts-based liability comparator. This comparison between the total asset return and movement in the Scheme's liabilities is better aligned with the Trustee's current return objective and approach to risk management.

Trustee's Report (continued)

Investment Matters (continued)

Market Review – 12 months ending 30 September 2023

Summary

The Bank of England (BoE) have made a number of incremental base rate rises throughout the 12 months to September 2023:

- An increase in the base rate by 0.75% in November, the biggest rise for three decades, in a bid to combat soaring inflation.
- A further increase of 0.50% in December took the base rate to a 14 year high of 3.50% with a warning that further tightening of monetary policy was likely.
- The BoE continued to raise interest rates in the first quarter of 2023 with increases of 0.5% and 0.25% in February and March 2023 respectively. This took the base rate to a 15 year high of 4.25%.
- Further increases of 0.25% in May and 0.5% in June took the base rate to 5.0%.
- An additional increase of 0.25% in August took the UK base rate to its highest level since April 2008. BoE governor Andrew Bailey emphasised interest rates would need to stay at high levels, saying that 'in order to get inflation back to target, we are going to have to keep this stance of policy'.

The UK inflation rate, as measured by the CPI, rose by 6.7% in the 12 months to September 2023, down from 8.7% in May and from a recent peak of 11.1% in October 2022. The largest downwards contributions to the monthly change came from food and non-alcoholic beverages whilst motor fuel made the largest upwards contribution.

Over the 12 months to 30 September 2023 sterling has appreciated against the US dollar, the Euro and the Yen by 9.3%, 1.2% and 12.7% respectively.

Bond markets

UK government bond yields (which move inversely to bond price) increased over 12 months to 30 September 2023. Long maturity UK gilts have returned -12.8% over the period (as measured by FTSE Actuaries Gilts Over 15 Years Index) and UK gilts all stocks returned -2.5%.

Inflation-linked gilt yields also increased over the 12-month period. Long maturity UK index-linked gilts returned -26.6% (as measured by FTSE Actuaries Index-Linked Gilts Over 15 Years Index) and UK index-linked gilts all stocks returned -12.7%.

Alternative investment markets

Commercial UK property (as measured by the IPD Monthly Index) has returned -13.8% over the 12 months to 30 September 2023.

Trustee's Report (continued)

Investment Matters (continued)

Investment Strategy

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 mitigate 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" (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 target hedge ratios at 30 September 2023 were around 90% for interest rate exposure and 90% for inflation exposure, as a percentage of self-sufficiency liabilities (liabilities valued using a discount rate of gilts + 0.25%). These target hedge ratios are based on exposures from the Scheme's LDI portfolio, UK Corporate Bond Funds and the Scheme's Secure Income Assets.

On 6 April 2023 the Scheme entered into a longevity swap transaction, which was put in place as a risk management tool to reduce the Scheme's exposure to pensioners and their dependants living longer than expected. This transaction is expected to help to reduce the level of volatility of the funding position. As part of this transaction, the Scheme is required to be in a position to post collateral in respect of the swap. This collateral is to be managed by the Scheme's LDI manager, LGIM, with the level of collateral held changing over time due to changes in mortality experience and the payment of fees in relation to the longevity swap. Whilst the transaction alone does not change the Trustee's asset allocation, it is something that will be considered as part of future discussions regarding the investment strategy and management of risk.

As at 30 September 2023, the Trustee had a remaining commitment to BlackRock's Global Renewable Power Fund III of \$51.0m (£41.8m) out of a total \$130m (£106.5m). During the year there were drawdowns of £9.8m by Alpha Real and \$43.3m (£35.5m) by BlackRock (net of a return of drawn down capital during the year; this capital is recallable).

Redemptions

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

- A full disinvestment from the Brigade, TWIM and Oak Hill alternative credit funds. Oak Hill began liquidation proceedings over the year and has a remaining residual cash amount. This was completed following agreement to fully disinvest from alternative credit assets.
- Ongoing partial disinvestment 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). Such disinvestments and inflows did not impact the interest rate or inflation rate hedge ratios.
- Partial disinvestment in the LGIM LDI mandate to providing funding for increasing the allocation to Buy and Maintain credit.

Trustee's Report (continued)

Investment Matters (continued)

Investment performance

The total Scheme absolute returns achieved by the Scheme for each 12-month period since 2018 can be seen below:

Year to September	Absolute return* (%)
2018	3.0
2019	23.1
2020	3.3
2021	-0.2
2022	-27.6
2023	-8.4

*Absolute Return represents the change in the value of the investments adjusted for cashflows over that period, expressed as a percentage of its initial market value.

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 2022, 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 2025.

LGIM 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.

During the year, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited (the Reinsurer) and Zurich Assurance Ltd (the Insurer) to manage longevity risk in relation to pensioner liabilities which were valued at c.£1.6bn as at that date. The arrangement provides long-term protection to the Scheme against costs resulting from pensioners, or their dependants, living longer than expected, enhancing security for members, and reducing risk for the Scheme.

Investment risk disclosures

Investment risks are disclosed in note 22 on pages 49 to 52.

Trustee's Report (continued)

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 and Personal Schemes (Disclosure of Information) Regulations 2013 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

Whilst all costs associated with the administration and investment management of the Scheme are borne directly by the Scheme, the Principal Employer paid £6.0m as an annual administration contribution. The employer also paid an additional £0.07m to the Scheme in respect of the PPF levy invoices paid during the Scheme year.

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 of the YCB Pension Scheme, The Team at Virgin Money, Sunderland SR43 4JB.

The Money and Pensions Service ("MaPS")

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

MaPS may be contacted at Money and Pensions Service, Borough Hall, Cauldwell Street, Bedford, MK42 9AP.

Telephone: 0800 138 7777

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

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: Telecom House, 125-135 Preston Road, Brighton, BN1 6AF.

Telephone: 0345 600 1011

Trustee's Report (continued)

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 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.

Trustee's Report (continued)

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 Pension Solutions Limited
PO Box 555
Stead House
Darlington
DL1 9YT

Telephone: 0800 077 8250

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

Trustee's Report (continued)

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 2022. This showed that on that date:

	2022:
The value of the Technical Provisions was:	£2,962 million
The value of the assets at that date was:	£3,218 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-dependent approach, using the gilt curve plus a margin of 1.10% per annum reducing linearly to 0.25% pa from 2032 onwards, 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 0.00% 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 (2022), 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 and the core weights for data for individual years.

Trustee's Report (continued)

Approval of the Trustee's Report

The Trustee's Report was approved by the Trustee of the Yorkshire and Clydesdale Bank Pension Scheme in March 2024 and is signed on its behalf by:

Inder Dhingra

.....

Trustee Director

Date:

25-04-24 | 22:07 BST

.....

John Hurst

.....

Trustee Director

Date:

26-04-24 | 09:47 BST

.....

Actuarial Certificate of Schedule of Contributions dated 28 September 2023

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 2022 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 12 September 2023.

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
28 September 2023

Towers Watson Limited
1st Floor
2 Sempole Street
Edinburgh EH3 8BL
UK

Authorised and regulated by the Financial Conduct Authority

Schedule of Contributions

Schedule of Contributions dated 28 September 2023

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 2022 actuarial valuation of the Scheme and is dated 12 September 2023. This date 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:

- 50.2% 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
- 38.3% 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 for active members.

These contributions are to be paid annually no later than 19 days after 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

The Bank may elect to make further payments as agreed from time to time.

Schedules of Contributions (continued)

Schedule of Contributions dated 28 September 2023 (continued)

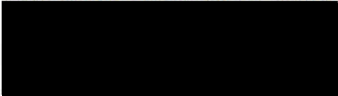
2. Employee contributions

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.

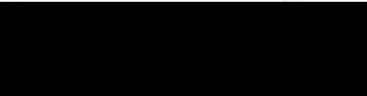
Signed and dated on behalf of Yorkshire and Clydesdale Bank Pension Trustee Limited

Name  Inder Dhingra

Position Trustee Director

Date 26-09-23 | 17:41 BST

Signed and dated on behalf of Clydesdale Bank PLC

Name  Justin Fox

Position Treasurer

Date 26-09-23 | 12:48 BST

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 2023 which comprise the Fund Account, the Statement of Net Assets available for benefits and the related notes 1 to 29, 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, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Scheme during the year ended 30 September 2023, 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; 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. 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

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of 12 months from when the Scheme's financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern.

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 annual report, 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 contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 Trustee's Responsibilities Statement 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 as a whole 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with the Trustee.

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Scheme and determined that the most significant related to pensions legislation and the financial reporting framework. These are the Pensions Act 1995 and 2004 (and regulations made thereunder), FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Statement of Recommended Practice (Financial Reports of Pension Schemes). We considered the extent to which a material misstatement of the financial statements might arise as a result of non-compliance.
- We understood how the Scheme is complying with these legal and regulatory frameworks by making enquiries of the Trustee. We corroborated our enquiries through our review of the Trustee's meeting minutes.
- We assessed the susceptibility of the Scheme's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Scheme has established to address risks identified, or that otherwise seek to prevent, deter, or detect fraud. Where this risk was considered to be higher, we performed audit procedures, including reviewing audited financial statements for the level 3 pooled investment vehicles, obtaining the Trustee's assessment of the risk of material misstatement, reviewing legal correspondence and complaints logs to address each identified fraud risk. In our assessment, we also considered the risk of management override of controls. Our audit procedures included verifying cash balances and investment balances to independent confirmations, testing manual journals on a sample basis and also those journals where there is an increased risk of override, and an assessment of segregation of duties. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the Trustee for its awareness of any non-compliance of laws or regulations, inspecting correspondence with the ICO, the Pensions Regulator and review of Trustee's minutes.
- The Scheme is required to comply with UK pensions regulations. As such, we have considered the experience and expertise of the engagement team including the use of specialists where appropriate, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Scheme with these regulations as part of our audit procedures.

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/auditorsresponsibilities>. This description forms part of our auditor's report.

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

Ernst & Young LLP
Statutory Auditor
Reading

DATE: 30 APRIL 2024

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 2023 which is set out in the Trustee's Report on page 15.

Qualified statement about contributions payable under the Schedules of Contributions

In our opinion, except for the late payment of employer contributions in October 2022, contributions for the Scheme year ended 30 September 2023, 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 31 July 2020 and 28 September 2023.

Basis for qualified statement about Contributions

As explained on page 15, the annual employer contribution in respect of the future accrual of benefits and expenses and insurance premiums amounting to £6.2m was received on 3 October 2022, which is later than the due date of 1 October 2022 as set out in the Schedule of Contributions certified on 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.

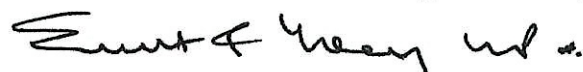
Respective responsibilities of Trustee and the auditor

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, a Schedule of Contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedule 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: 30 APRIL 2024

Fund Account for the year ended 30 September 2023

		2023 £'000	2022 £'000
Contributions and benefits			
Employer contributions		6,272	6,439
Employee contributions		49	58
Total contributions	4	<u>6,321</u>	<u>6,497</u>
Other income	5	<u>5</u>	<u>125</u>
		<u>6,326</u>	<u>6,622</u>
Benefits paid or payable	6	(114,273)	(105,724)
Payment to and on account of leavers	7	(8,649)	(28,421)
Administration expenses	8	(6,158)	(5,784)
		<u>(129,080)</u>	<u>(139,929)</u>
Net withdrawals from dealings with Members		<u>(122,754)</u>	<u>(133,307)</u>
Returns on investments			
Investment income	9	116,472	105,901
Interest payable on repurchase agreements	10	(14,862)	(6,150)
Change in market value of investments	11	(380,908)	(1,334,583)
Investment management expenses	16	(12,517)	(14,323)
Net returns on investments		<u>(291,815)</u>	<u>(1,249,155)</u>
Net decrease in the fund during the year		<u>(414,569)</u>	<u>(1,382,462)</u>
Net assets of the Scheme at 1 October 2022		<u>3,222,052</u>	<u>4,604,514</u>
Net assets of the Scheme at 30 September 2023		<u>2,807,483</u>	<u>3,222,052</u>

The accompanying notes on pages 38 to 55 are an integral part of these financial statements.

Statement of Net Assets available for Benefits

As at 30 September 2023

	Note	2023 £'000	2022 £'000
Investment assets:			
Bonds	11	2,455,350	2,896,352
Pooled investment vehicles	17	591,317	1,218,676
Derivatives	18	97,588	129,265
Longevity swap	18	-	-
Property	19	46,755	58,765
AVC investments	20	3,547	3,722
Cash deposits	11	151,206	179,180
Other investment balances	12	35,619	60,836
Amounts receivable on reverse repurchase agreements	13	82,063	341,112
		<u>3,463,445</u>	<u>4,887,908</u>
Investment liabilities:			
Derivatives	18	(52,909)	(193,010)
Other investment balances	12	(140,270)	(339,524)
Amounts payable on repurchase agreements	13	(467,679)	(1,144,435)
		<u>(660,858)</u>	<u>(1,676,969)</u>
Total net investments		<u>2,802,587</u>	<u>3,210,939</u>
Current assets	23	11,569	16,106
Current liabilities	24	(6,673)	(4,993)
Net assets of the Scheme as at 30 September 2023		<u>2,807,483</u>	<u>3,222,052</u>

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, is 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 38 to 55 form an integral part of these financial statements.

These financial statements were approved by the Trustee on:

Director: Inder Dhingra
Date: 25-04-24 | 22:07 BST

Director: John Hurst
Date: 26-04-24 | 09:47 BST

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).

2. Identification of the financial statements

The Scheme is established as a Trust under English Law. The Registered address of the Scheme is 177 Bothwell Street, Glasgow G2 7ER.

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.

Additional 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.

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

Payments to members

Benefits are accounted for on the later of the date on 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 member's benefits receivable from the Scheme, this is shown separately within benefits.

Notes to the Financial Statements (continued)

3. Accounting policies (continued)

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.

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 in accordance with the terms of the lease.

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

Other income is accounted for on an accruals 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 2023 by Avison Young, 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:

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

Forward foreign exchange (Forward FX) – the gain or loss that would arise from closing out the contract at the reporting date by entering 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 value, which is a calculated difference between the settlement prices at the reporting date and the inception date.

Notes to the Financial Statements (continued)

3. Accounting policies (continued)

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.

Longevity Swap

The fair value of the longevity swap contract is based on expected future cash flows arising under the swap, including fees, discounted using market interest rates taking into account the risk premium inherent in the contracts.

The scheme receives 100% of the insured pensions payable in respect of pensioners covered in the swap (the floating leg), and in return the scheme pays regular premiums to Pacific Life Re reflecting the future pensions that were expected to be made to the pensioners covered in the swap, based on pre-agreed assumptions (the fixed leg). In practice a net payment will be exchanged between the scheme and Pacific Life Re. In addition fees are payable to the insurer and reinsurer.

At inception, the values of the fixed leg and fees payable will be equal and opposite to the value of the floating leg of the longevity hedge and thus have a nil value. Over time, the contract value will change because the "fixed" premiums and "floating" benefits will diverge as the longevity experience in respect of the hedged population is revealed. Under the Framework Agreement, the first Annual Adjustment Date is 30 June 2024.

Taxation

The Scheme is a 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.

Critical accounting judgements and estimation uncertainty

The Trustee makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom be the same as the actual results due to uncertainty and estimation. The Trustee believes the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year relate to the valuation of the Scheme's investments and, in particular, those investments classified as level 3 in the fair value hierarchy shown on page 48. The key assumptions which support the valuation of investments are included above and within note 18 on page 45.

Notes to the Financial Statements (continued)

4. Contributions

	2023 £'000	2022 £'000
Employer contributions		
Normal	200	250
Insurance premiums, expenses and PPF levies	6,072	6,084
Additional payments	-	105
	<u>6,272</u>	<u>6,439</u>
Employee contributions		
Normal	49	56
Additional voluntary contributions	-	2
	<u>49</u>	<u>58</u>
	<u>6,321</u>	<u>6,497</u>

Employer normal contributions include £0.01m in respect of members contributing by salary sacrifice (2022: £0.02m).

In line with the Schedules of Contributions, the Employer paid £6.0m to cover expenses and insurance premiums during the year. The additional £0.07m is in respect of the PPF levy invoices paid during the Scheme year.

The Schedule of Contributions certified on 28 September 2023 notes that no additional contributions are currently payable, and the Bank may elect to make further payments as agreed from time to time.

During the year additional payments of £Nil (2022: £0.07m) were made by the employer to fund the purchase of equity options, entered into for the purpose of reducing risk. There is no intention to restart equity options and so it is not anticipated any further contributions will be payable in relation to this. The remaining amount in additional payments in the prior year relates to a severance waiver.

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

5. Other income

	2023 £'000	2022 £'000
Claims on insured death benefits	-	1
Other income	5	9
Compensation	-	115
	<u>5</u>	<u>125</u>

The compensation in the prior year relates to a payment made from the previous administrator in relation to losses arising from errors made by that administrator.

6. Benefits paid or payable

	2023 £'000	2022 £'000
Pensions	98,599	95,623
Commutations of pensions and lump sum retirement benefits	15,654	10,036
Death benefits	20	65
	<u>114,273</u>	<u>105,724</u>

Notes to the Financial Statements (continued)

7. Payments to and on account of leavers

	2023 £'000	2022 £'000
Individual transfers out to other schemes	8,649	28,421

8. Administration expenses

	2023 £'000	2022 £'000
Administration and processing	3,248	2,999
Actuarial and consultancy fees	2,251	2,282
Audit fees	146	94
Legal fees	416	208
Pension Protection Fund	80	190
Other fees and expenses	17	11
	6,158	5,784

The scheme bears all cost of administration and as detailed in Note 4 the employer pays a contribution of £6m in respect of expenses and insurance premiums.

9. Investment income

	2023 £'000	2022 £'000
Net rents from properties	3,963	4,107
Income from pooled investment vehicles	33,907	39,850
Interest on cash deposits	13,430	1,068
Income from bonds	65,172	60,876
	116,472	105,901

10. Interest payable on repurchase agreements

	2023 £'000	2022 £'000
Interest payable on repurchase agreements	(14,862)	(6,150)

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. The above amounts are net of interest receivable on monies advanced by the Scheme under reverse repurchase agreements.

Notes to the Financial Statements (continued)

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

	Value at 1 October 2022 £'000	Purchases at cost & derivative payments £'000	Sales proceeds & derivative receipts £'000	Change in market value £'000	Value at 30 September 2023 £'000
Bonds	2,896,352	623,328	(687,699)	(376,631)	2,455,350
Pooled investment vehicles	1,218,676	45,384	(592,411)	(80,332)	591,317
Property	58,765	-	(9,350)	(2,660)	46,755
Longevity swap	-	-	-	-	-
Derivatives	(63,745)	83,820	(69,618)	94,222	44,679
AVC investments	3,722	3,170	(3,512)	167	3,547
	4,113,770	755,702	(1,362,590)	(365,234)	3,141,648
Cash and cash equivalents	179,180			(7,443)	151,206
Repurchase and Reverse repurchase agreements	(803,323)			-	(385,616)
Other investment balances	(278,688)			(8,231)	(104,651)
	3,210,939			(380,908)	2,802,587

12. Other investment balances

	2023 £'000	2022 £'000
Accrued income	25,251	22,698
Pending trade sales	10,368	1,996
Amounts due from brokers	-	36,142
Other investment assets	35,619	60,836
Interest payable on repurchase agreements	(260)	(7,342)
Pending trade purchases	(3,352)	(5,608)
Amounts due to brokers	(57,038)	-
Bonds	(79,620)	(326,574)
Other investment liabilities	(140,270)	(339,524)
Net other investment balances	(104,651)	(278,688)

As at 30 September 2023, the negative value of bonds of £79.6m (2022 - £327m) represents an obligation to buy back bonds received as collateral assets under reverse repurchase agreements that were subsequently 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 2023, cash variation margin of £42.2m had been received relating to the increase in value of centrally cleared swaps and £14.8m in respect of open future contracts (£36.1m had been paid in 2022 relating to the decrease in value of centrally cleared swaps). On the sale of these swaps and futures, the sale proceeds would exclude the variation margin previously received. Hence, £57.0m is shown within amounts due to brokers (2022 £36.2m due from brokers).

Notes to the Financial Statements (continued)

13. Repurchase Agreements

	2023 £'000	2022 £'000
Amounts receivable under reverse repurchase agreements	82,063	341,112
Amounts payable under repurchase agreements	(467,679)	(1,144,435)
Net repurchase agreements	(385,616)	(803,323)

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 £468m (this includes accrued interest of £4m) (2022: £1,151m), the Scheme had delivered bonds which had a value at 30 September 2023 of £442m (2022: £919m). These are included within 'bonds' in note 11.

Reverse repurchase agreements – Against amounts due to the Scheme of £82m (2022: £342m), the Scheme had received pledged bonds with a value at 30 September 2023 of £80m (2022: £327m). Of the bonds received, bonds with a value at 30 September 2023 of £80m (2022: £327m) had been sold. The liability to buy these back in order to return them under the reverse repurchase agreement is included in note 12.

Collateral is payable/deliverable as the value of bonds changes under both repurchase and reverse repurchase agreements. As at 30 September 2023, the Scheme held collateral valued at £nil (2022: £5m) which had been received from REPO counterparties. Collateral valued at £26.2m was pledged as at 30 September 2023 for repo agreements.

14. Concentration of investments

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

	2023 £'000	2023 %	2022 £'000	2022 %
Knight Frank Long Income Property Unit Trust	175,774	6.3	201,867	6.3
TWIM Alternative Credit	-	-	195,184	6.1

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 relating to property transactions amounted to £120k (2022: £397k on property transactions). Transaction costs were also incurred on the redemption of units in a pooled investment vehicle due to the imposition of an anti-dilution levy of £3.572m.

In addition to the above 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

	2023 £'000	2022 £'000
Administration, management and custody	12,517	14,323

Notes to the Financial Statements (continued)

17. Pooled investment vehicles

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

	2023 £'000	2022 £'000
Equity	-	157,827
Property and Infrastructure	591,317	622,168
Alternative Credit	-	438,681
	591,317	1,218,676

18. Derivatives

At the year end the Scheme held the following derivatives:

	Asset value at year end 2023 £'000	Liability value at year end 2023 £'000	Asset value at year end 2022 £'000	Liability value at year end 2022 £'000
Swaps	82,760	(40,435)	109,553	(145,424)
Forward exchange contracts	-	(12,463)	326	(47,586)
Futures	14,828	(11)	19,386	-
	97,588	(52,909)	129,265	(193,010)

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its 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 (over the counter) 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.

Futures – Where foreign currency bonds have been purchased, long-term interest rate futures in the same currency have been sold to mitigate the impact of adverse interest rate movements in that currency.

Longevity Swap - On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited and Zurich Assurance Ltd to manage longevity risk in relation to c.£1.6bn of pensioner liabilities. The arrangement provides long-term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members, and reducing risk for the Scheme.

Notes to the Financial Statements (continued)

18. Derivatives (continued)

Objectives and policies (continued)

The longevity swap was entered into in April 2023, meaning the swap is early in its life with very limited membership experience to date. The valuation basis for the floating leg includes a current forecast of mortality. Given the short period between implementation and the date of the accounts, the same mortality assumptions for the valuation of the hedge as at 30 September 2023 have been adopted as used at the inception of the swap. The valuation for the Longevity Swap at 30 September 2023 is £Nil.

Under the terms of the longevity swap, the Scheme is required to pledge collateral to Pacific Life Re covering the value of a percentage of the future fees payable to the Reinsurer plus the value of the fixed leg less the value of the floating leg. The percentage at 30 September 2023 was 50%. This percentage will increase each year rising to 100% in 2028. Bonds with the value of £24.4m were pledged at the Scheme's year end and are reported within bonds in the Fund's Statement of Net Assets.

The fees to the Insurer and reinsurer for the longevity swap are paid quarterly, with an initial backdated amount paid in September 2023. These payments are disclosed in investment expenses (note 16).

(i) Swaps

Contract	Expiration	Notional Amount £'000	Asset value	Liability value	Asset value	Liability value
			at year end 2023 £'000	at year end 2023 £'000	at year end 2022 £'000	at year end 2022 £'000
IR swap	0-10 years	176,580	1,140	-	-	(24,527)
IR swap	11-20 years	83,010	-	(23,012)	-	(40,542)
IR swap	21-30 years	57,079	5,104	(17,423)	23,903	(52,689)
IR swap	31-40 years	1,961	991	-	784	(23,417)
RPI swap	0-10 years	359,270	63,328	-	62,477	-
RPI swap	11-20 years	72,100	11,404	-	17,882	-
RPI swap	21-30 years	-	-	-	-	(521)
RPI swap	31-40 years	-	-	-	-	(686)
RPI swap	41-50 years	2,937	793	-	4,507	(3,042)
			82,760	(40,435)	109,553	(145,424)

At the end of the year the Scheme had pledged £35.4m in bonds and £0.1m in cash in respect of OTC swaps.

(ii) Forward Foreign Exchange Contracts outstanding (FX)

	Settlement date	Currency	Currency	Asset value	Liability value
		bought 2023 '000	sold 2023 '000	at year end 2023 £'000	at year end 2023 £'000
Forward OTCs	<3 months	£38,831	€(44,990)	-	(246)
Forward OTCs	<3 months	£284,99	\$(362,004)	-	(12,215)
Forward OTCs	<3 months	€915	£(795)	-	(2)
				-	(12,463)

The Assets and Liabilities as at 30 September 2022 were £326k and (£47,586k) respectively.

Notes to the Financial Statements (continued)

18. Derivatives (continued)

(iii) Futures

Nature	Duration	Asset value	Liability value	Asset value	Liability value
		at year end 2023 £'000	at year end 2023 £'000	at year end 2022 £'000	at year end 2022 £'000
EUREX Euro-Buxl futures sold	Dec-23	90	-	183	-
EUREX Euro-Schatz futures sold	Dec-23	1	-	889	-
EUREX Euro-Bobl futures sold	Dec-23	229	-	500	-
EUREX Euro-BUND futures sold	Dec-23	499	-	3	-
US T-Bonds futures sold	Dec-23	13,922	(11)	17,811	-
LIFE Long Gilt futures sold	Dec-23	87	-	-	-
		14,828	(11)	19,386	-

At the end of the year the Scheme had pledged £13.4m in bonds in respect of futures.

19. Property

	2023 £'000	2022 £'000
Freehold Property	44,480	53,015
Leasehold Property	2,275	5,750
Total	46,755	58,765

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 who elected 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.

During the year, a consolidation exercise was carried out, with the bulk of the AVC investments transferred into a new policy on Aviva's My Money platform.

The aggregate amounts of AVC investments are as follows:

	2023 £'000	2022 £'000
Prudential Assurance Company Limited	31	29
Standard Life (part of Phoenix group)	36	35
Utmost Life and Pensions	-	296
Aviva Plc	3,480	3,362
	3,547	3,722

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 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Bonds	-	2,455,350	-	2,455,350
Pooled investment vehicles	-	-	591,317	591,317
Property	-	-	46,755	46,755
Derivatives	14,817	(12,463)	42,325	44,679
Longevity swap	-	-	-	-
AVC investments	-	-	3,547	3,547
Cash	151,206	-	-	151,206
Other investment balances	(131,097)	26,446	-	(104,651)
Repurchase and reverse repurchase agreements	(385,616)	-	-	(385,616)
	(350,690)	2,469,333	683,944	2,802,587
As at 30 September 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Bonds	-	2,896,352	-	2,896,352
Pooled investment vehicles	-	157,827	1,060,849	1,218,676
Property	-	-	58,765	58,765
Derivatives	19,386	(47,260)	(35,871)	(63,745)
Longevity swap	-	-	-	-
AVC investments	-	-	3,722	3,722
Cash	179,180	-	-	179,180
Other investment balances	(301,386)	22,698	-	(278,688)
Repurchase and reverse repurchase agreements	(803,323)	-	-	(803,323)
	(906,143)	3,029,617	1,087,465	3,210,939

Notes to the Financial Statements (continued)

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.

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, which 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.

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

Investment strategy (continued)

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 the Scheme's holding in its LDI, UK corporate bond mandates managed by LGIM and abrtn, its longevity swap 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.

Direct credit risk

As at 30 September 2023, £631m (2022: £1,223m) of the Scheme's investments were held in pooled investment vehicles and cash. 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 abrtn), the Scheme's LDI Portfolio, currency hedging portfolio 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 abrtn 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 manages credit risk by investing in properties with a diverse range of tenants.

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

	2023	2022
	£'m	£'m
Unit linked insurance contracts	101.7	288.9
Authorised unit trusts	321.1	356.4
Shares of limited liability partnerships	168.5	134.7
Open ended investment companies	-	438.7
	591.3	1,218.7

The total value of the Scheme's assets subject to direct credit risk was £2,799m (2022: £3,207m).

Notes to the Financial Statements (continued)

22. Investment risk disclosures (continued)

Indirect credit risk

The total exposure to indirect credit risk at 30 September 2023 was £591m (2022: £1,065m).

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.
- 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.
- 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 LGIM, Knight Frank, PGIM, Alpha Real, Greencoat and BlackRock (through the Global Renewable Power III Fund).

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 denominated investments are in companies with overseas activity. LGIM manages the Scheme's currency hedging arrangements via a currency overlay. Currency risk associated with the Scheme's buy-and-maintain corporate bonds is fully hedged. Over the year the Trustee agreed to remove the 80% hedge of the Scheme's remaining exposure to the US dollar and to continue not hedging the Scheme's Japanese Yen and remaining Euro exposures (reflecting the minimal remaining exposures to these currencies). As at 30 September 2023, £803m (2022: £1,218m) 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.

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 LGIM and abrdn 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)

Interest rate risk (continued)

- The Scheme invests in a segregated UK property portfolio managed by CBREGI that has a direct interest rate risk and five pooled Secure Income Asset investments managed by LGIM, PGIM, Knight Frank, Alpha Real and Greencoat 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.
- The Scheme's investment in the longevity swap is held to protect the Scheme against adverse changes in longevity, however the value of this asset is sensitive to changes in interest rates and therefore forms part of the Scheme's interest rate risk.

Cash holdings are also exposed to interest rate risk. The total value of the Scheme's assets subject to interest rate risk was £2,799m (2022: £3,049m).

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 property, infrastructure and secure income assets. The total value of the Scheme's assets subject to other price risk was £1,703m (2022: £2,242m). The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets. The Scheme also invested in equity option derivatives to limit the risk of a fall in equity markets on the funding position. The options have expired during the year and have not been renewed.

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

Fund	Risk Categorisation				
	Indirect Credit	Direct Credit	Market Risk		Other Price Risk
			Currency	Interest Rate	
CBREGI Property	✓	✓		✓	✓
Knight Frank Long Income Property	✓	✓		✓	✓
LGIM Corporate Bonds		✓		✓	
LGIM USD Bonds		✓	✓	✓	
abrdn Corporate Bonds		✓	✓	✓	
LGIM LDI portfolio		✓		✓	✓
LGIM LPI Property Fund	✓	✓		✓	✓
LGIM Equity Options		✓	✓	✓	✓
Cash/Currency Overlay (Northern Trust)		✓	✓	✓	✓
PGIM UK Ground Lease Fund	✓	✓		✓	✓
Oak Hill Diversified Credit Strategies		✓	✓	✓	
Greencoat Solar II Fund	✓	✓		✓	✓
Alpha Real Wind Renewables	✓	✓		✓	✓
BlackRock Global Renewable Power	✓	✓	✓	✓	✓
Longevity Swap		✓		✓	✓

Notes to the Financial Statements (continued)

23. Current assets

	2023 £'000	2022 £'000
Contributions due from employer	72	84
Cash balances	7,712	13,174
Other debtors	2,455	2,174
Property debtor	757	674
Admin expenses to be reimbursed	573	-
	<u>11,569</u>	<u>16,106</u>

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

24. Current liabilities

	2023 £'000	2022 £'000
Accrued expenses	3,390	727
Property creditor	1,253	1,817
Unpaid benefits	556	1,177
HMRC - PAYE	1,474	1,272
	<u>6,673</u>	<u>4,993</u>

25. Self-investment

The Occupational Pension Schemes (Investment) Regulations 2005 provide 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 2023 the Scheme had self-investments totaling £2.1m (i.e. less than 0.075% of total assets (2022: £0.8m less than 0.025% of total assets)). These investments were as follows:

	Value of Assets (£m)	
	2023	2022
Pooled investment vehicles	2.08	0.80

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 Clydesdale Bank Plc trading as Virgin Money, which is the Principal Employer as its banker. The Scheme received £346,792 of interest on bank accounts during the year (2022: £52,505). This is included within interest on cash deposits in note 9.

Payments made to the Employer for administration expenses amount to £258,752 (2022: £231,967). This is included in administration and processing expenses in note 8.

Trustee services fees paid to all Trustee Directors in respect of the year amounted to £260,067 (2022: £270,834). 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	£27,500	(2022: £25,000)
J Hurst	£25,000	(2022: £23,000)

Both 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.

As detailed in Note 4, the employer pays a contribution of £6m in respect of expenses and insurance premiums.

27. Capital commitments

As at 30 September 2023, the Trustee had a remaining commitment to BlackRock's Global Renewable Power Fund III of \$51.0m (£41.8m) out of a total \$130m (£106.5m). During the year there were drawdowns of £9.8m by Alpha Real and \$43.3m (£35.5m) by BlackRock (net of a return of drawn down capital during the year; this capital is recallable).

28. GMP Equalisation

As mentioned on page 7 of the Trustee's report, on 26 October 2018 the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement 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 judgement arise in relation to many other defined benefit pension schemes. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the back dated amounts. From April 2021, benefits for new retirees have been put into payment on an equalised basis. The work to equalise pensioners is now complete for around 99% of the pensioner population and amounts to a total uplift to the pensioner payroll of around £0.2m per annum. Back payments made have totaled around £0.9m. The remaining calculations are still to be undertaken and are expected to be completed during the course of 2024.

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. The Scheme Actuary has confirmed that the order of magnitude figure in the Company accounts is reasonable and in her view is immaterial in the context of the Scheme as a whole. Any related additional liability will be recognised in the financial statements once the Trustee is able to provide a reliable estimate.

Notes to the Financial Statements (continued)

29. Capita Cyber Incident

As reported in the 2022 financial statements, the Trustee was advised by the scheme's administrator, Capita Pension Solutions Limited ('CPSL'), on 31 March 2023 that Capita plc ('Capita') identified a cyber incident which resulted in unauthorised access to its IT systems. Upon discovery, Capita interrupted and restricted the cyber-incident promptly on 31 March 2023.

There has been no financial impact on the Scheme as a result of the incident. The Trustee continues to work closely with its legal and other advisers, and with Capita, to mitigate any further risk resulting from the cyber incident and to ensure that Scheme members affected are protected as far as possible. To assist members further, the Trustee has agreed to provide members that signed up for the Experian Service with a further 12 months access free of charge.

Further details are disclosed in the Trustees Report on pages 10 to 11.

Yorkshire and Clydesdale Bank Pension
Scheme

**Annual Implementation
Statement – Scheme year
ending 30 September 2023**

Annual Implementation Statement – Scheme year ending 30 September 2023
(continued)

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Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

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”) 30 September 2023.

The purpose of this statement is to:

- Provide 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
- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on its behalf) during the year and state any use of services of a proxy voter during that year.
- Provide details and examples of the engagement activities undertaken on behalf of the Trustee during the year

The Scheme makes use of a wide range of investments; therefore, the principles and policies in the SIP are intended to be applied in aggregate and proportionately, focusing on areas of maximum impact.

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 from 1 October 2022 to 30 September 2023. The SIP linked above reflects the latest version of the SIP which is dated April 2023. Prior to this version, the SIP which covered the Scheme year was dated December 2021.

Following a review of the December 2021 SIP towards the end of 2022 and the start of 2023, the Trustee made the following amendments which are reflected in the April 2023 version:

- An update to the definition of types of assets held to align with the simplified portfolio expected to be held going forwards.
- Inclusion of the longevity swap and the risks introduced / managed by this new swap transaction.
- An increased focus on liquidity risk in light of market volatility over 2022 and 2023.

Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

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, taking into consideration costs, risks and fiduciary duties, the contract with 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 also 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 relationship and engagement, 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.

Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

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 as part of its ongoing monitoring of the Scheme's underlying investments. Managers' approach to sustainable investing was covered during these discussions, with a focus on managers' views of ESG risks and what actions they take to manage these. During the year to 30 September 2023 there was a particular focus on climate-related risks within these discussions.
- 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 processes. The reports also include information on the voting and engagement practices of the managers. At each of these meetings, the Trustee reviewed the manager's sustainable investment report ahead of the manager presentation and subsequently discussed relevant topics with managers.
- The Trustee reviewed the fees of Northern Trust, the Scheme's Custodian and Performance Measurer, in October 2022 to ensure they were in line with industry standards. The Trustee reviewed the portfolio turnover levels of the Scheme's underlying investment funds in November 2022 as part of the agreed annual process.
- During the year the Trustee drafted a Sustainable Investment Policy ("SI Policy") setting out its beliefs with respect to sustainable investment matters, including environmental, social and governance issues and its policies for managing risks relating to these points. This includes the agreement of an exclusions policy which has been provided to the Scheme's corporate bond managers to take into account when purchasing new bonds on the Trustee's behalf.
- The Scheme's SIP and SI policy were 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 May 2023. Following the review, the Trustee concluded that they were satisfied that there were no obvious misalignments between managers' policies and the Trustee's policies.

- Over the year, the Trustee has undertaken a number of actions as part of its consideration of the potential impact of climate change on the Scheme:
 - The Trustee has received regular updates on the estimates of the Scheme's exposures based on a range of carbon metrics, including total carbon emissions and carbon footprint.
 - The Trustee has progressed with the adoption of a carbon emissions reduction target, including conversations with the Company on the proposed target.
 - The Trustee has requested information on the potential impact of climate change from the Scheme's investment managers when meeting them through the year. In particular, in December the Trustee met with abrdn, one of the two buy and maintain credit managers, for a follow up session regarding climate-related risks that had been discussed earlier in the year. The climate risks within the buy and maintain mandates are understood to be among the most material to the Scheme, due to the size of the mandates.

Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

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.

Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

Section 3: Voting and Engagement

The Scheme is invested in a diverse range of asset classes and the scope for voting and engagement activity varies by asset class. For voting, focus would usually be on the equity investments which have voting rights attached. However over September/October 2022 the Trustee took the decision to fully disinvest the Scheme's equity holdings. This section therefore focuses on engagement activities within the buy and maintain credit mandates as these represent a significant proportion of Scheme assets, and one of the main sources of risk to the Scheme.

Engagement Activity

The Trustee's primary focus, from an ESG perspective, is on encouraging its investment managers and advisers to engage with the companies it invests in to better manage risks and improve outcomes. Engagement activities are monitored through the year in a number of different ways, including the annual review of managers' approach to sustainable investment and ratings of those managers, updates from the Scheme's investment consultant on the managers' engagement capabilities (where relevant) and as a part of regular manager meetings.

The Scheme's buy and maintain corporate bond mandates with LGIM and abrdn are key mandates for the Scheme from an engagement perspective. They are mandates that are very material to the strategy, with a 35% strategic asset allocation to the asset class and a key role to play in the investment strategy due to their cashflow generation and long-term focus. They also represent the majority of the Scheme's holdings in corporate securities. Over the year the Trustee met with both LGIM and abrdn to discuss the buy and maintain credit investments and ESG was one of the main topics considered. Within these discussions the Trustee looks for detail on both the process for engagement that each manager follows (including systems and resourcing) as well as examples of the engagement in practice. Specific engagement examples included:

- abrdn's engagement with Anglian Water as part of abrdn's water utilities thematic discussion. The discussion covered three environmental performance areas including wastewater management, emissions and leakage. The engagement activity also covered potential disclosure improvements such as a publicly available live sewage discharge map.
- abrdn's engagement with BNP Paribas – whereby BNP Paribas have committed to no longer financing new oil & gas fields regardless of the financing method. Existing residual oil and gas fields are in run-off and expected to reduce by 80% by 2030. This is a strong commitment from one of Europe's largest banks with only HSBC having committed to the same action.
- LGIM's engagement with the Housing Associations they own or have under coverage. The purpose was to assess whether Housing Associations' planned EPC spend was consistent with the requirement that all of their stock is classified as EPC C by 2030, to identify threats to balance sheet and cashflow quality. The engagement suggested significant differences between Housing Associations with risk not being fully priced into the market. Further engagement is planned by LGIM.
- LGIM's engagement with national policymakers on Taskforce on Nature-related Financial Disclosures ("TNFD") as a signatory of the Business for Nature 'Make it Mandatory' campaign which brings together over 400 businesses and financial institutions from 52 countries calling for governments at COP15 to adopt Target 15 of the Global Biodiversity Framework, requiring all large businesses and financial institutions to assess and disclose their risks, impacts and dependencies on biodiversity by 2030.

At a higher level, the Trustee is intending to monitor the level of climate-related engagements undertaken by its investment managers across the portfolio.

The Trustee also reviews its investment adviser's approach to sustainable investment and reviewed a number of reports detailing the investment adviser's credentials in this area in September 2022.

Annual Implementation Statement – Scheme year ending 30 September 2023 (continued)

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.

The compliance of the Scheme's investment managers with the Trustee's voting policies is not assessed here due to Trustee decision to fully disinvest from public equities in October 2022.

The Trustee will continue to monitor its investment managers' stewardship practices on an ongoing basis.