ANNUAL REPORT AND ACCOUNTS 2019

Help to find YOUR happy place

PROGRESSIVE
BUILDING SOCIETY

Purpose

Our purpose is to encourage local people to save & to become homeowners through our personal, caring & common sense approach – nurturing financial wellbeing for current and future generations

Values

We are Passionate

- Our commitment to our customers is at the heart of every decision we make

We are Trusted

- We build and strengthen relationships through mutual respect and courtesy

We are Fair

- We always work with honesty, fairness and integrity

Mutuality

Anyone who opens a savings account or becomes a mortgage holder with Progressive Building Society becomes a Member, which means that they can have a say in how the Society is run


SALE AGREE

CONTENTS

CHAIR'S STATEMENT

As a building society Progressive is run for the benefit of you, its Members, who are collectively its owners. Your Society's mutual ownership structure means that you remain at the centre of everything we do and that the Directors make their decisions with your long-term interests always in mind.

Last year was a year of uncertainty for the local economy, particularly around the UK's exit from the European Union. Added to this the mortgage market continued to be highly competitive. Against this background I am pleased to report that 2019 was another good year for your Society. Profits were in line with expectations and consistent with the maintenance of a healthy balance sheet, which is to the long-term benefit of all of our Members. Costs remained under control, with the Society continuing to be one of the most efficient in the building society sector. This meant that we were able to achieve our purpose of providing a safe home and attractive rates of interest for Members' savings, and of offering competitive mortgage products to help our borrowing Members to buy their own home. This purpose is unchanged from when the Society was founded over 100 years ago.

Progressive is proud to be the only building society with its head office in Northern Ireland. We believe that the building society sector as a whole has an important part to play in creating a healthy competitive landscape, in providing consumers with choice, in creating resilience in the financial services sector, and in supporting local people and the communities in which they live. We firmly believe that the Society's ownership structure and business model is the right one.

ECONOMIC ENVIRONMENT

The UK's expected departure from the EU has dominated the economic landscape for the last three years and nowhere more so than in Northern Ireland. The UK political environment has lacked stability for much of that time and in particular during 2019. Locally, the political vacuum was not helpful in an economic context. These factors make the Society's results all the more pleasing.

While the local economy has remained resilient these challenges have inevitably had a negative impact on consumer confidence. The recent return of politicians to Stormont is welcome and clarity on the outcome of the Brexit trade negotiations should deliver more certainty to consumers and business leaders alike as we move through 2020.

The recent release of the Q4 2019 Ulster University Quarterly House Price Index showed that the local market for residential properties remains healthy, with house price growth of 7.8% in the previous 12 months despite the challenges referred to above. While lack of supply has continued to be a significant factor in maintaining house prices, demand has remained buoyant.

The Bank of England's Monetary Policy Committee (MPC) maintained the official bank base rate at 0.75% throughout 2019. This level is the highest in the last decade, but still well below pre-crisis levels and rates are likely to continue at these levels in the short term. The MPC has indicated that the direction of the next interest rate movement could be up or down depending on how the economy performs now that many of the uncertainties around Brexit have gone.

Competition in the mortgage market intensified during 2019 with lenders offering ever-lower mortgage rates. While this was welcomed by borrowers, it resulted in additional pressure on interest rates paid to savers. This intense mortgage competition has been brought about in part by the ring-fencing of the retail banking activities of the largest banks in the UK, who are targeting the mortgage market as a home for their surplus liquidity. However, it is pleasing to report to you that the Society remains well placed to navigate this competitive challenge with its strong balance sheet, an experienced management team and Board, committed staff and you, our loyal Members.

REGULATION

The Board recognises that effective regulation is necessary in order to deliver economic stability and to protect consumers.

We welcome the work of the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) on Operational Resilience and Outsourcing which aims to increase the standards of resilience of financial services firms in preventing system and process disruptions and in dealing with them effectively if they do arise. Like many firms, the Society utilises third party providers for some of its back-office services. The Society continues to review our contractual arrangements with these providers to ensure that they are robust and in line with regulatory requirements. We will respond positively to any further regulatory guidance.

The FCA has been very active throughout the year. The ongoing mortgage market study provided an insight into the potential use of fair pricing as a metric by which to measure whether firms are treating their borrowers fairly. In addition, guidance regarding dealing with customers in vulnerable circumstances continues to evolve.

In 2019, the Society also started to address the impact of Climate Change on its business activities. In line with regulatory requirements the Society has nominated a senior member of staff who has responsibility for managing the financial risk from Climate Change for the Society. Further work is expected in this area in the coming years as the UK works towards its target of carbon neutrality.

The Society reviews and monitors regulation as it impacts the Society through the work of the Board's Risk Committee.

CULTURE

You, our Members, are the Progressive's owners, so the way we think of you is different to the way in which the plc banks think of their customers. The customers and owners (shareholders) of the plc banks are usually different groups of people with different and conflicting needs to satisfy. We pride ourselves on putting you first with first class service, striving to make a positive impact every time we engage with you. The Society's Directors believe in acting with your best interests in mind in everything we do and in accordance with the Society's purpose and values, which are shown on the inside front cover of this Report and Accounts.

It is our aim to treat all Members fairly and to deliver good outcomes to them. So we monitor whether we are successful in doing so on an ongoing basis using several measures, such as the nature and number of complaints and compliments, and through customer experience surveys. The appointment of new staff takes into consideration whether they will be a good fit with the Society's culture.

Your Board recognises that the Society's social responsibility extends beyond treating its Members fairly. We also seek to encourage a savings habit and strive to help Members to buy their home by adopting a responsible approach to lending. The communities in which we operate, our people, and the Society's environmental impact are also very important to us. There is further information on our approach to social responsibility in the Corporate Social Responsibility Report.

BOARD COMPOSITION

On behalf of our Board of Directors I would like to extend a very warm welcome to Martin Pitt who joined the Society as a non-executive Director on 1st January 2020. He is a retired audit partner from a large accounting firm and brings with him a wealth of experience from across the business, public and charitable sectors. Martin will be offering himself for election by you, our Members, at the Annual General Meeting in April.

THE FUTURE

We will continue in 2020 to concentrate on the two products that have made your Society successful for well over 100 years – mortgages and savings. These are the markets we know well and we believe that by concentrating on what we do best will enable us to deliver value-for-money products and the exceptional customer service that you have come to expect.

The Board is however not complacent and it is anticipated that the economic environment and the level of competition in the mortgage market will continue to be challenging. It is against this background that we recognise the need to innovate and to develop the Society's products and services so that they satisfy the current needs of our Members and remain relevant as these needs change in the future.

We have developed plans to introduce digital technology and improved processes to make it easier and more convenient for you to interact with Progressive and to access a wider range of products and services. This will be a primary focus. But importantly we will continue to provide value-for -money products, a safe and secure home for our Members' savings, and to run the business prudently in the best interests of all of our Members.

On behalf of the Board, I would like to thank the Society's staff for their hard work in delivering to you the products and quality of service you deserve. Likewise, I would like to thank you for choosing to be a Member of Progressive Building Society.

Michael Parrott
Chair
27th February 2020

CHIEF EXECUTIVE'S REVIEW

Progressive Building Society's purpose is to encourage local people to save and to become home owners. In 2019, we delivered strong profits and maintained capital strength while providing excellent service standards to Members. This was only made possible due to our committed staff who delivered great results as a by-product of putting our Members first and making a positive impact in the community.

Performance highlights included:

- Lending
  - We achieved £173m of new advances in the year, resulting in gross mortgage assets of £1.501bn.
- Savings
  - We maintained competitive savings rates for our Members throughout the year. The average savings rate to individuals for the year was 1.17% when Bank of England base rate was 0.75% throughout the year.
- Capital
  - Profit after tax of £6.0m increased the Common Equity Tier 1 (CET1) ratio to 20.24% and the leverage ratio to 6.42%.
- Management expenses
  - The Society's management expenses ratio of 0.79%, an improvement of 0.03%, remained one of the lowest in the building society sector.
- Low risk business model
  - The Society operates a business model consistent with its mutual values, attracting savings to fund local home ownership.
- Excellent customer experience
  - The experience of our Members when they deal with us is central to all we do. The Society monitors customer loyalty and experience through an independent survey, which included most of the major retail banks and building societies. Once again we achieved one of the highest ratings in the UK.
- Highly engaged staff
  - Our people understand the importance of customer service delivery. This is achieved through successful recruitment and ongoing training.
- Supporting local communities
  - In 2019 £113,000 was donated to local charities. In addition, volunteering, fundraising and awareness activities were undertaken by many of our staff.

The financials remained strong, and I was particularly pleased with the quality of engagement with Members, local communities and staff throughout the year.

Total assets have been maintained at over £1.8bn. This has been driven by good mortgage lending decisions and achieved through meaningful engagement of staff with borrowers.

We have maintained our robust lending principles at a time when many others are loosening their underwriting criteria. This has ensured that we continue with our low risk lending model which has been proven through reduced arrears and low loan to value levels, providing protection from any potential market or house price disruptions.

Profit after tax amounted to £6.0m reflecting margin tightening in line with expectation. Our capital and liquidity both remain prudently well ahead of regulatory requirements, providing a strong platform for sustainable growth of the business and investment in our people and infrastructure.

Throughout 2019, we worked hard to provide security and value to our Members and balance the needs of our savers and borrowers. Interest rates in the savings market have remained stubbornly low due to the margin pressures brought about by the competitive mortgage market and the interventions of the central bank with cheap funding injections into the market. However, we continued to pay significantly higher savings rates than the market average. The average savings rate paid in the year was 1.17%. The Bank of England base rate was 0.75% throughout 2019.

We again hosted the Northern Ireland Savings Week in September to support a savings culture locally and encourage healthy savings habits.

OUTLOOK

Progressive Building Society will continue to help local people save and buy, build or improve their homes. We are likely to experience a tightening of profits during 2020 due to market pressures on rates and fees.

Our strong performance over many years has resulted in record capital levels. This will stand us in good stead to deal with any economic fallout from Brexit locally.

Our Members strongly support the face-to-face quality service that is provided through our branch network, whether they are transacting on their savings account or applying for a new mortgage product. With this in mind we are committed to investing in our people, our infrastructure and our technology.

2020 will be a year of focus on cost efficiency, process re-engineering, greater digital integration, but most importantly continued attention to the requirements of our savings and borrowing Members.

The Society is well placed to meet the needs of our current and new Members while maintaining a sustainable and successful business model. We will continue to deliver sustainable results balancing the increasing margin pressures, rising Member expectations, market uncertainties and invest in our technology to improve our offerings to you, our Members.

We have the balance sheet strength, the products and service standards, the people, and most importantly the strong Member base to continue to encourage local people to save and become home owners now and in the future.

Darina Armstrong
Chief Executive
27th February 2020

BUSINESS REVIEW

For the year ended 31st December 2019

The Directors have pleasure in presenting the Annual Report and Accounts of Progressive Building Society for the year ended 31st December 2019.

Your Society Explained

Anyone who opens a savings account or becomes a mortgage holder with Progressive Building Society becomes a Member, which means that they can have a say in how the Society is run.

Savings

Where the money comes from

We raise the majority of our funding from Members entrusting us with their personal savings.

First time buyer

Home mover

Self build

What we use it for

We lend that funding out in the form of mortgages to help local people buy their own homes.

Interest & fees on mortgages - Interest on Members' savings & other funding = Income

How we generate income

The difference between the interest and fees charged for mortgages and the interest paid on Members' savings and other funding.

People costs

Technology costs

Property & operating costs

What we incur costs on

We incur costs on paying our people, systems and technology, property and operating costs.

Capital strength

Improved services

Charitable giving

What we use our profits for

Any surplus profit is used to support our current and future Members through maintaining our capital strength, investment in delivering improved products and services, and serving our local communities through charitable giving.

BUSINESS OVERVIEW

Our business model is built on providing a secure place for savings and helping more people buy their own homes. As a member-owned mutual building society we have no external shareholders, so there is no requirement for us to pay dividends. This enables us to make longer term decisions in the best interests of our Members.

Progressive Building Society has maintained its core values for over one hundred years by providing value-for-money products enabling Members' savings to fund local home ownership in Northern Ireland. The Society has relied on a prudent and balanced business model providing a strong customer-focus and excellent service standards.

In 2019, the Society produced robust profits increasing reserves, thereby protecting Members' interests and enabling us to provide excellent customer service.

The Society borrows from savers mainly through its branches, but also through its agents and postal channels. Most of the funding for mortgage lending is derived from Members' savings. Our savings Members benefit from competitive products which offer long-term value when compared to similar products in the local savings market. The Society offers savings and mortgage products through its network of branches across Northern Ireland. This branch network is supplemented by a network of agents in key locations throughout Northern Ireland transacting savings business on behalf of the Society.

Wholesale money provides a secondary source of funding to the Society and includes funding from other financial institutions, corporates and local authorities. The Society drew down £50 million in February 2018 from the Bank of England's Term Funding Scheme which provides funding to banks and building societies at close to Bank of England base rate. This funding is due to be repaid in early 2022 and the Society has robust plans in place for this.

Mortgage loans are predominantly secured against prime residential property in Northern Ireland.

Mortgage business is sourced through a network of approved mortgage brokers, as well as directly through the branch network. The Society lends to first time buyers, home movers, self-builders and re-mortgagors.

Not all of the funds we attract from savers and other investors are used to finance home purchases. In order to ensure we can meet all our obligations to savers, and to meet the commitments we have made to lend to home buyers, we keep some of the funds in the form of liquid assets. Liquid assets are invested with strong financial institutions, primarily the Bank of England. Security of, and accessibility to, liquidity are of key importance to the Society.

As a mutual organisation, Progressive does not have external shareholders or pay dividends, rather the ownership and governance model of the Society ensures strategic and operational decisions are taken focusing on the needs of our Members. This means that the Society can operate on lower levels of profit than would be required under other ownership models, providing better value products to Members. Progressive makes a profit by generating a margin on the difference between the rates paid on Members' savings and the rates charged on mortgages. This margin, or net interest receivable, covers the cost of running and administering the business, including mortgage bad debts. The surplus then increases the Society's reserves, building capital strength and allowing the delivery of value-for-money products to new and existing Members.

The Society is financially stable with strong reserves, having been profitable every year of its existence. It is important that the Society returns sufficient profits to sustain and build its capital base to provide security for Members' funds.

It is important that we develop the products and services that our new and existing Members require to fulfil their financial needs. Our staff make Progressive different from our competitors – we listen to understand what products will meet the savings and mortgage needs of our Members. We encourage face-to-face contact with our branch staff who can assist with every step of the process whether saving or borrowing. Business in Northern Ireland is largely driven by personal recommendations and the broker market, so quality of service is key to the Society's success. At Progressive we ensure our Members and potential Members have direct access to well-trained and competent staff.

Lending decisions can be made quickly due to our in-depth knowledge of the local housing market. Feedback from Members indicates high levels of satisfaction with the services provided by Progressive staff. We have local people making local decisions.

We continue to invest substantially to ensure that we have the right people and skills, systems and infrastructure to be able to continue to offer outstanding personal service.

Our low risk business model coupled with our excellent customer service aims to deliver long-term value to Members through strong financial performance which allows us to invest to grow the business whilst maintaining adequate levels of capital to remain financially strong.

STRATEGY

The Society has developed a strategy to deliver its vision to be the savings and mortgage provider of choice in Northern Ireland. This strategy is built on four key pillars of (i) people and processes, (ii) multi-channel, (iii) life cycle, and (iv) engagement.

This strategy focused on the following areas during the year:

- Working with potential partners to design the future digital landscape.
- Reconfiguring the Society's core system operations.
- Process re-engineering to achieve improved efficiency.
- Maintaining a positive "one team" culture amongst staff.
- Developing multi-skilled teams to support customers in achieving their long-term financial goals.
- Attracting and retaining talent.
- Continuing to develop the IT infrastructure and resilience.
- Researching into the life cycle wants and needs of our target market including introducing new products.
- Improving internal and external communications.

BUSINESS OBJECTIVES

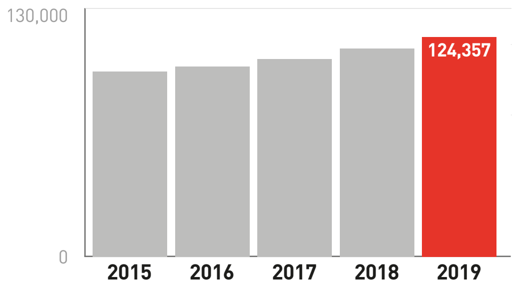
The principal purpose and objective of Progressive Building Society remains encouraging local people to save and become home owners, through our personal, caring and common sense approach, nurturing financial wellbeing through the generations. The Board strongly believes that this purpose is best served by the mutual business model and by providing a range of competitive savings and mortgage products tailored to the needs of both new and existing Members, by increasing the strength of our capital base and by continuing the Society's commitment to improve quality of service and value to Members.

The Directors believe being an independent building society provides the right environment and structure for the achievement of the Society's objectives.

KEY PERFORMANCE INDICATORS

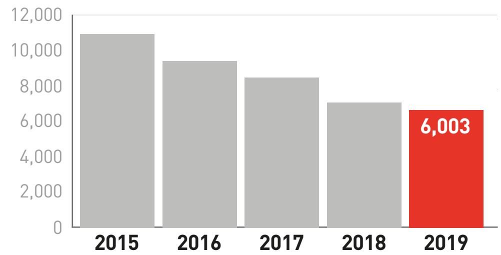
The following graphs set out a number of key indicators which the Directors use to monitor the development, performance and position of the Society on an ongoing basis. These are included to give Members a more comprehensive understanding of the Society's progress.

Total Reserves £000



Reserves are held to provide protection against losses from lending. The Society generates reserves from profit made from normal business activities and this provides long term security for the Society and its Members, while meeting regulatory capital requirements.

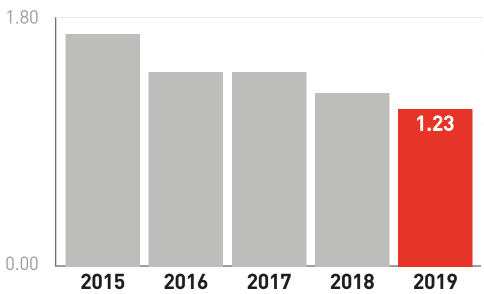
Profit After Tax £000



Profit after tax is the primary source of building reserves for the Society. As a mutually owned building society the aim is to produce sufficient profit. Profit after tax of £6.0 million enabled the

Society to improve reserves and provide value-for-money products for savers and borrowers.

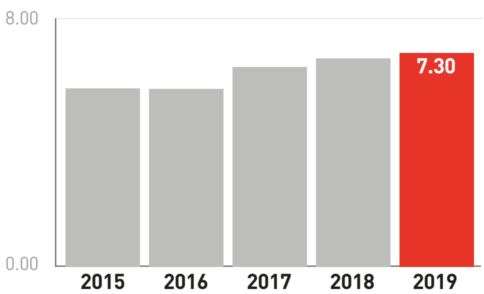
Net Interest Margin as a % of Mean Total Assets



Net interest margin is interest receivable less interest payable, expressed as a percentage of the simple average of the Society's total assets at the beginning and end of the financial year.

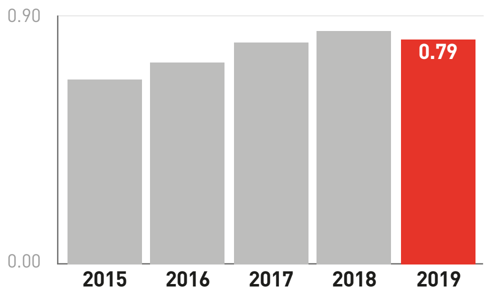
Savings rates were monitored throughout 2019 to ensure that the Society was able to control the flows of new savings balances whilst maintaining the balances already on our books. The Bank of England's base rate remained at 0.75% throughout 2019. By comparison, the average savings rate offered by the Society to individuals was 1.17%. The Society's savings' products remained competitive particularly ISA and regular savers products.

Gross Capital as a % of Shares and Deposit Liabilities



Gross capital comprises all reserves (General reserves, Revaluation reserve and Available-for-sale reserve) and is expressed as a percentage of total shares and deposit liabilities. This capital ratio is one of the most important measures of the financial strength of the Society. Profit after tax was lower in 2019, but at £6.0 million was sufficient to increase the capital ratios.

Management Expenses as a % of Mean Total Assets

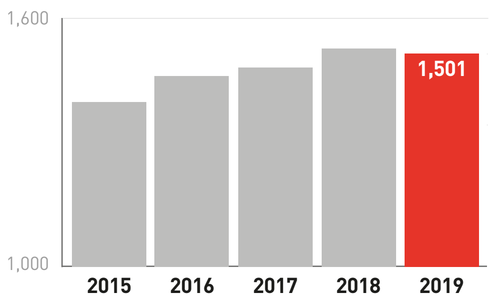


Management expenses are the Society's administrative expenses and represent the ordinary costs of running the organisation. They comprise mainly the costs of employing staff and maintaining the branch network, back office functions, and the Society's IT infrastructure. The management expenses ratio measures the proportion that these expenses bear to the simple average of total assets at the beginning and end of the financial year.

The management expenses ratio is one simple measure of the efficiency with which the Society is run. The Board seek to control this ratio while at the same time ensuring the Society has sufficient resources to operate effectively in a competitive and heavily regulated market.

The management expenses ratio decreased in 2019 which was pleasing following the increases in recent years as the Society invested to build strong people and IT infrastructure foundations to enable future technology developments to further enhance our customer experience.

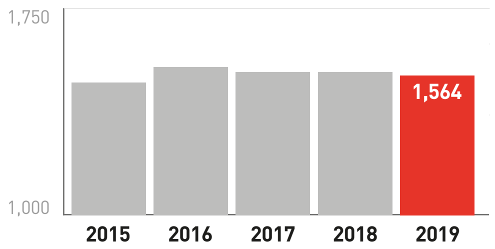
Mortgage Balances £m



This shows the movement in the Society's mortgage book in the year. The graph shows the sustainable growth of the Society's loan book in recent years.

Mortgage balances reduced slightly during 2019 due to increased competition in the local market.

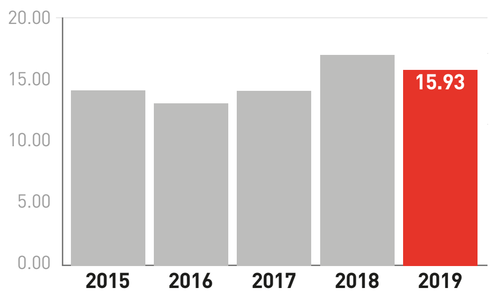
Savings Balances £m



This shows the movement in savings balances held by the Society.

The Society managed the retail flows during the year to match the funding requirements for new lending.

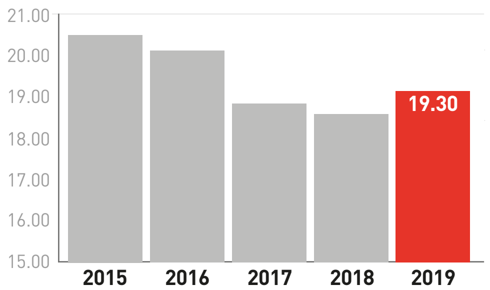
Funding Ratio as a % of Shares and Deposit Liabilities



This ratio shows the level of shares and deposits other than shares held by individuals. The Society has a low level of such borrowings and so reduces its exposure to uncertainties in the money market.

The funding ratio decreased during 2019 meaning that a larger proportion of our funding comes from individual savers.

Liquid Assets as a % of Shares and Deposit Liabilities



This ratio shows the proportion that the Society's liquid assets bear to the Society's liabilities to investors. Liquid assets are by their nature realisable, enabling the Society to meet requests by Members for withdrawals, make new mortgage loans and fund general business activities. The Society maintains a prudent approach to liquidity management and maintains liquid asset balances in excess of regulatory requirements.

Other Indicators

Financial ratios are just one measure of the Society's performance. It is important to the Directors that the Society is also successful in terms of the quality of customer service and Member satisfaction. To this end annual surveys are undertaken in order to track service levels in branches and to gain an insight into Members' views on "fairness" and the competitiveness of products. Results obtained in 2019 were once again excellent and indicate that the Society's culture and ongoing training programmes for existing and new staff continue to enhance the experience of dealing with the Society.

FINANCIAL PERFORMANCE

Performance Overview

Progressive Building Society delivered another strong performance in 2019, with profit after tax of £6.0 million (2018: £7.4 million).

The Society has maintained sustainable loan and savings books in a competitive environment, through a combination of value-for-money products and excellent customer service.

Income Statement

Profit before tax reduced, as expected, by 20% to £7.2 million (2018: £9.0 million). This resulted from tightening interest margins, partly offset by lower administration expenses and by the write back of bad debt provision charges.

Net Interest Income

Net interest income of £22.6 million (2018: £24.9 million) remained robust whilst the Society's net interest margin reduced to 1.23% (2018: 1.37%).

This was driven mainly by increased competition in the mortgage market and low interest rates which reduced margins on new lending and maturing deals rolling over into lower rates. We retained a high proportion of borrowers when they came to the end of their initial mortgage deals despite competition for mortgage business being intense during the year. Our determination to offer our Members competitive deals meant that we reduced rates and fees on new lending and sought to reward the loyalty of our existing borrowers by reducing the rates we offered to those switching products.

The savings market continued to be subdued throughout 2019. However, we provided value-for-money products which encourage long-term savings habits.

Fees and Commissions

Fees and commissions mainly relate to mortgage fees and commissions receivable on insurance introductions by the Society.

Fees and commissions receivable remained stable at £0.9 million (2018: £0.9 million) as the Society continued to offer fee-free mortgage products during the year.

2019 saw a reduction in new lending by the Society which resulted in a proportionate reduction in fees and commissions payable of £1.8 million (2018: £2.0 million).

Other Fair Value Movements

Fair value movements are changes in the value of certain assets and liabilities, mainly derivatives (interest rate swaps) to reflect their current market value. The movements are primarily due to timing differences, which will trend to zero as the asset or liability reaches maturity.

Fair value changes in 2019 resulted in a loss of £0.31 million (2018: £0.14 million gain).

Management Expenses

The Society continues to maintain a low-cost base, and management expenses (administration costs and depreciation) decreased to £14.5 million (2018: £14.9 million) due to tight cost control during the year and the one-off pension charge in 2018 in relation to GMP equalisation.

As a result, the management expenses ratio improved to 0.79% (2018: 0.82%). The Society's management expenses ratio remains amongst the lowest in the building society sector.

The Society continues to develop systems and processes to support future growth, to develop its people, to further enhance the customer experience and to ensure regulatory compliance. This will inevitably lead to increases in our cost base in the future.

Provision for Bad and Doubtful Debts

Provisions for bad debts saw a net write back of £0.3 million during the year (2018: £0.1 million charge) due to fewer people falling behind in their mortage payments and a reduction in the average period of time of loans in arrears and possession. This improvement was further augmented by the sound economic fundamentals in the Northern Ireland economy of low unemployment, rising real time wages and rising house prices.

ASSETS

Total assets of £1,838 million remained stable during the year (2018: £1,839 million).

Loans and Advances to Customers

The Society's new mortgage lending amounted to £173 million in 2019 (2018: £219 million). This was achieved in a very competitive mortgage market in terms of rates and competitors loosening their underwriting criteria.

Progressive's mortage proposition leads with a personal service, quality advice and responsible lending. Throughout 2019 we offered competitively priced mortgage products to encourage first time buyers, re-mortgagers, self-builders and home movers to avail of our mortgage services.

Our total gross mortgage assets amounted to £1,501 million at the year end (2018: £1,518 million). The Society's exposure to residential properties by way of mortgages remains above 99.7% of total mortgages. The Board remains committed to the owner-occupied nature of its loan portfolio which is almost exclusively located in Northern Ireland, a residential property market which the Society knows well, enabling sensible lending decisions to continue to be made.

Forbearance and Arrears Management

The Society applies a prudent lending policy combined with a sympathetic and efficient arrears procedure to ensure that arrears are kept to a minimum.

However, despite our prudent and responsible lending policy, individual borrower's circumstances can change which occasionally leads to difficulties in meeting their normal monthly mortgage payments. The Society reviews each case individually where borrowers are experiencing difficulties and offers forbearance measures where it is appropriate for the borrower. The aim of such forbearance measures is to reduce the risk of the borrower ultimately losing their home.

The main forbearance measures provided by the Society are as follows:

- Arrangements, where monthly payments are maintained and the arrears are repaid over a period of time.
- Concessions, where it is agreed to accept reduced monthly payments for a short period of time.
- Mortgage term extensions to reduce the amount of the monthly payment may be considered as part of a longer-term solution, provided that payments will be sustainable over the life of the mortgage.
- Change the mortgage type to interest only subject to a suitable repayment strategy.

Capitalisation of arrears may also be permitted by the Society occasionally subject to strict affordability criteria.

Thirty-four (2018: twenty-six) mortgage accounts were twelve months or more in arrears at the year end. The total amount outstanding on these accounts was £4.2 million (2018: £3.1 million) including arrears of £0.4 million (2018: £0.4 million). There were also seventeen (2018: nineteen) properties in possession at 31st December 2019.

We continued to adopt a conservative approach to mortgage provisioning. The provision for losses on all loans and advances to customers at 31st December 2019 was £4.3 million (2018: £5.3 million), which represented 0.28% (2018: 0.35%) of the total mortgage book. This reduction in provision resulted from a stronger local economy leading to lower arrears.

Liquid Assets

The Society maintains a prudent level of liquid assets and continues to hold liquidity balances well in excess of regulatory requirements, primarily in a Bank of England Reserve Account, which is instantly accessible, and in UK Government Securities, which are readily convertible to cash. This provides a buffer in the event of any major funding issues arising and provides comfort that the Society will be able to meet its financial obligations under both normal and stressed scenarios. Although the Society has not experienced any difficulties in obtaining funding in the challenging market conditions that have existed in recent years, we fully recognise the importance of maintaining a strong liquidity position.

As part of the Capital Requirements Directive IV (CRD IV) package of regulatory reforms, two measures of liquidity were introduced by the Prudential Regulation Authority. The Liquidity Coverage Ratio is a measure of short-term liquidity and the Net Stable Funding Ratio is a measure of liquidity over a longer timescale. The Society maintained liquidity quantity and quality well in excess of these regulatory requirements throughout the year.

RETAIL SAVINGS & FUNDING

The Society continues to be predominantly funded by retail savings, which reduced marginally to £1,564 million at 31st December 2019 (2018: £1,571 million). Savings balances from individuals accounted for 84.1% (2018: 83.6%) of our total funding. The Society experienced retail flows in line with budgets throughout 2019.

Through careful monitoring of rates and cashflows the Society was able to offer value-for-money rates on instant access accounts, bonds, regular savers and ISA products throughout the year.

The Society availed of £50 million of Term Funding Scheme money in February 2018. Under this scheme the Bank of England provides funding to banks and building societies at close to Bank of England base rate to encourage lending.

CAPITAL

The Society maintained a strong capital position throughout the year with all capital ratios significantly in excess of regulatory requirements.

One of the key measures that the Board monitors on a monthly basis is the Common Equity Tier 1 (CET1) ratio which includes only the strongest and most robust form of capital. This ratio reflects accumulated profits compared to the Society's risk weighted assets.

At 31st December 2019 the CET1 ratio was 20.24% (2018: 19.63%).

SYSTEMS

The Society continued to upgrade and enhance its system capabilities including additional strategic recruitment during 2019. A revised Cyber Security Plan was agreed in March and a programme of work initiated. The deliverables from this programme of work included continuous monitoring of external facing systems and appliances. This is key to keeping your data safe, as we work towards additional online capabilities.

IT systems require regular patches and upgrades as security requirements and functionality constantly change. In April we successfully delivered an extensive upgrade to our core system fulfilling a number of compliance requirements. Additionally, the Society's IT resilience was improved during the year with the introduction of real-time synchronisation between core systems and our offsite business continuity facilities, reducing recovery time in the highly unlikely event of a major disaster impacting our main data centre.

The rollout of a PC upgrade and refresh programme was completed towards the end of the year with no operational impact. Further upgrades to IT technology which improved the connectivity between devices, the network and the data centre were also successfully undertaken during the year.

CHARITABLE DONATIONS

The total of our charitable donations in the year was £113,000 (2018: £99,000). The Corporate Social Responsibility Report provides additional information on our charitable donations and work in the community.

No contributions were made for political purposes.

OUTLOOK

2019 has been another successful year for the Society with robust profits and strengthening capital.

The outlook for the Northern Ireland economy looked relatively stable as we approached the year end. Some of the uncertainty around Brexit appeared to have subsided with the strength of the UK Government's mandate in December. The trade negotiations are expected to conclude by the end of 2020, but if a deal is not agreed towards the end of the year, then this could lead to further uncertainty.

The current mortgage market competition locally and across the wider UK is likely to remain and possibly intensify which will cause further pressure on margin. We will continue to lend responsibly in the best interest of our borrowers.

We will invest in our systems and processes to improve efficiencies which will further enhance the customer experience of being a Member of the Society. We will deliver this by investing in our people, our infrastructure and our technology.

The low interest rate environment is likely to continue in the short term. The Monetary Policy Committee, which sets the Bank of England base rate, has indicated that the direction of the next interest rate movement could be up or down depending on how the economy performs now that many of the uncertainties around Brexit have gone. Either way, the Society is well placed to meet the challenge of changing interest rates successfully.

Prospects for the local housing market remain relatively strong, with low interest rates and stable employment. Mortgage demand remains good, reflecting the fact that many people in Northern Ireland continue to want to buy their own home or move to a new property. The main finding of the latest Northern Ireland House Price Index survey from Ulster University highlights sustainable and resilient annual price growth in Northern Ireland with the level of transactions remaining healthy.

We will continue with our prudent business model, offering our Members the products they need with exceptional levels of service.

COUNTRY-BY-COUNTRY REPORTING

In compliance with the Regulations of Article 89 of the CRD IV Country-by-Country Reporting we disclose the following information:

a) Name, nature of activities and geographical location
Progressive Building Society is an independent building society and not part of a group.
The principal activities of the Society are outlined in the Strategic Report. The Society operates in the United Kingdom only.

b) Average number of employees
The average number of employees is disclosed in Note 7.

c) Annual turnover
Total income is set out in the Income Statement.

d) Pre-tax profit or loss
Pre-tax profit is set out in the Income Statement.

e) Corporation tax paid
Corporation tax paid is set out in the Cash Flow Statement.

f) Public subsidies received
No public subsidies were received in 2019.

CORPORATE SOCIAL RESPONSIBILITY

At Progressive we know that our work has a big impact on the community which we are part of, and on our Members, our colleagues and on the environment. Our Corporate Social Responsibility policy gives us a framework to think about, and act on, these matters. We want to ensure as far as possible that our work benefits all our stakeholders, and that we minimise and mitigate any untoward side effects of our work. In short, it's about doing business the right way, helping sustain our environment and providing a positive experience for our staff and Members in their engagement.

As a member-owned building society we have a responsibility to do what's right for our Members, staff, communities and the environment.

HELPING OUR MEMBERS

Our purpose is to encourage local people to save and to become homeowners. Our products and service standards are the main method we deliver against this purpose.

We believe in spending time talking to our Members so that we can understand their needs and aspirations. We believe that, with a strong high street presence in prime locations throughout Northern Ireland, and local staff who take the time to get to know our Members and who understand the local community, we offer a customer experience that best meets our Members' needs.

At Progressive we understand the importance of saving and the need to make our Members' money work for them. We recognise that everyone's needs are different and that is why we offer a wide range of accounts, from instant access to longer term savings, and we can help find an account that is right for each Member's circumstances.

As a mutual organisation, we strive to help our Members achieve their life goals. The lending side of our business is about matching people's dreams of home ownership and turning those into an affordable reality.

We work to protect our Members through our responsible lending approach – we will not lend money unless the repayments are affordable. We have a range of measures in place to protect Members' savings and personal details through robust technologies, systems, policies and protocols, augmented by a programme of core regulatory and governance training for our staff, that underpins our ethical conduct.

We continue to invest in our branches, ensuring that we maintain a strong financial presence on the high streets of our cities and towns throughout Northern Ireland. With investment specialists and qualified mortgage advisors in every branch, and no need for an appointment, we continue to offer a unique and flexible lending service.

Treating our customers fairly is central to how we operate and we provide simple, straight-forward products that are easily understood. We do not believe in over-complicating our products or using confusing terms and conditions.

2019 Highlights:

- We launched our new website to help our Members and potential members find an easier means to contact their local branch and find out further information about the Society.
- We launched Foreign Currency mortgage products, enabling people with foreign income to take a mortgage in Northern Ireland.
- We have trained additional mortgage advisors. This increased the number of back office staff who are qualified in mortgage advice ensuring that Members' queries can be dealt with more efficiently.
- We continued to invest in our IT infrastructure, to improve our systems for accessing and storing Members' information.
- We commenced our Digital Transformation programme, including the implementation of digital mortgage processes to improve the efficiency and speed of our Members' mortgage journeys.

- We achieved JAM-friendly (Just A Minute) status and our branch staff received training in order to ensure the level of service provided to those Members who require some additional help was of the highest standard.

HELPING OUR COMMUNITIES

We are passionate about supporting the needs of our Members, not just by being committed to giving them the best possible customer experience but also by making a positive difference to the communities in which they live.

We believe that those customers who find themselves in difficult circumstances are most in need of our support. With an active Vulnerable Customer Group focussing on supporting the needs of those with vulnerabilities, we have continued to develop the skills of our specialists located in every branch to recognise vulnerability through continued training and engagement with leading charities.

Volunteering is an important way in which the Society's staff can contribute to their local communities. Every staff member is entitled to one day's paid leave for volunteering each year and they are encouraged to use it to support a good cause of their choice.

Giving back to our communities is important and we continue to support a wide range of local charities as part of our annual community initiative. Our staff nominations for our charities of choice ensure that we are supporting a wide range of needs in our local communities.

2019 Highlights:

- We commenced a three-year partnership with Disability Sport NI, pledging to donate £60,000 each year to fund Activity Hubs in each of the eleven local council areas, where people of all ages with disabilities can participate in a variety of sports and activities.

- We donated £48,000 to a range of local and national charities, while staff participated in coffee mornings, competitions, quizzes and charity treks raising a further £5,000.

- Our staff contributed voluntary hours to community-based projects such as animal shelters, homeless charities, Young Enterprise events, schools talks and sports clubs.

- We continued with and evolved our vulnerable customer training programme for our branch specialists and head office-based customer support team in association with various local charities and organisations.

- We built upon the success of our inaugural Northern Ireland Savings Week in 2019, continuing to build and raise awareness of the benefits of saving among local people.

- We worked hard to raise awareness of the Help to Buy: ISA before it closed to new applications on 30th November, with the aim of helping more local people get onto the property ladder.

Pictured is Darina Armstrong, Chief Executive, with Disability Sport NI staff at the launch of our partnership in May 2019.

HELPING OUR PEOPLE

We invest in staff development and wellbeing to ensure that our staff are equipped to offer our Members the competent, supportive service that they deserve. We stand for equal opportunities and believe in celebrating diversity and providing an inclusive place to work, enabling staff with a diverse range of skills, experiences, backgrounds and opinions to flourish without barriers. The Board is developing a Diversity and Inclusion Policy to augment the good practices already evident in the Society.

The Society has signed up to HM Treasury's Women in Financial Services charter and was one of the founding signatories of the Diversity Mark NI charter.

We engage with our staff to ensure that we understand their needs and aspirations so that we continue to cultivate a culture that is reflective of our values and mutual ethos. Our ethos places our Members at the centre of everything we do, focussing on delivering the best products and services to suit their needs, and we talk to our staff about their personal development to identify the skills that they need to best serve our Members.

At Progressive we are committed to offering staff a great place to work. We provide a range of benefits including flexible working arrangements to support wellbeing. We understand that by taking steps to positively enhance the wellbeing of our staff, we help them to achieve a balanced lifestyle and boost their motivation to deliver the best possible Member outcomes.

2019 Highlights:

- We increased the proportion of female representation on our Board and senior management committee, promoting our commitment to gender equality and diversity in the workplace.
- The results of our 2019 staff opinion survey indicated that our staff are positively engaged with the Society.
- Almost 10% of our staff achieved Institute of Leadership and Management qualifications through the Society as an accredited centre.
- We evolved our mental health and wellbeing programme, providing access to a wellbeing hub which is updated on a monthly basis, and sessions on mindfulness and yoga for staff throughout the year.
- We participated in the Building Society Association's Culture Survey and results showed that our staff strongly relate to the values and ethos of a mutual organisation.
- We began work on a new internal communications system to enable our staff to communicate with their colleagues across the Society more easily and efficiently.

HELPING OUR ENVIRONMENT

We believe in working sustainably and we encourage our staff to help us to reduce our environmental impact through responsible practices. We operate office and kitchen waste recycling initiatives throughout all of our locations, have automated a number of our manual processes to improve efficiencies and reduce waste streams, and we encourage staff to participate in environmentally friendly volunteering opportunities.

We are currently baselining our carbon footprint and will be taking steps to reduce our impact on the environment.

2019 Highlights:

- A group of staff participated in Business in the Community's 'Be a Saint' and 'Love your Landscape' volunteering days, cleaning up our local environment through litter picking and landscape clearing.
- We continued to increase the number of paperless processes implemented throughout back office processing, reducing the amount of paper waste generated by the Society.
- We reduced the number of business miles spent by Society staff through installation of Skype at all Society locations which has enabled meetings to take place via conference call.
- A notice has been added to all email signatures, advising staff only to print when necessary, reducing the amount of paper waste.


NEW
HOME

RISK MANAGEMENT REPORT

INTRODUCTION

The Society's risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Society's objectives. These processes allow the Society to be aware of these risks at an early stage and as far as possible mitigate them. The ability to properly identify, measure, monitor and report risk is vital in ensuring financial strength, appropriate customer outcomes and the ongoing security of Members' funds.

RISK GOVERNANCE AND STRATEGY

Risks arise naturally in the course of doing business and especially within the financial services industry. To mitigate these risks to acceptable levels, the Board has put in place a Risk Management Framework which covers all aspects of the Society's operations.

The Board is responsible for all areas of the Society's business. In particular, its role is to focus on the Society's strategy and to ensure that the necessary resources are in place to meet its objectives. The Board is likewise responsible for the design and operational effectiveness of controls within the Society. To assist the Board in the operation of these duties a Risk Committee is in operation. This Committee has clear Terms of Reference and delegated responsibilities to consider all risk matters relating to the ongoing safety and soundness of the Society and the execution of services to Members. These areas include but are not limited to credit risk, liquidity risk, capital risk, market risk, funding risk, business risk, conduct risk, reputational risk, operational risk, strategic risk and regulatory risk.

The Corporate Governance Report provides further details about all Board Committees.

Through these structures the Board operates an open and honest culture when identifying and monitoring risks. This culture is underpinned by appropriate risk training for staff, risk identification and escalation procedures and a robust whistleblowing mechanism.

RISK MANAGEMENT FRAMEWORK

The Society's Risk Management Framework comprises five elements:

a. Articulation of the Society's Risk Appetite by the Board of Directors

An effective governance framework is in place within which the Board provides clear and transparent direction to management on the Society's risk appetite and related strategy. Further, the Society's remuneration and incentive structures are aligned with its strategy and risk appetite and appropriate to the Society's objectives.

b. Board Committee structures overseeing the Risk Management and Internal Control Framework

Board Committee structures are in place to enable the effective oversight of the Risk Management Framework (including internal controls) within the Society and to support and provide guidance to the management committees and to the Risk function in the execution of their roles.

These Committees include:

- Audit Committee
- Risk Committee

c. Internal Governance Framework

The Society operates an Internal Governance Framework that reflects the model promulgated by the Committee of Sponsoring Organisations (COSO), the European Banking Authority (EBA) and the Prudential Regulation Authority (PRA).

The Society's internal governance framework includes:

(i) A three lines of defence model.

(ii) Chief Risk Officer position with direct access to the Chair and non-executive Directors.

(iii) Management Committees (Asset and Liability Committee (ALCO), Senior Management Committee, Lending Committee) support the Risk Management Framework on a day -to-day basis. Critically, there is clear and appropriate delineation of the management and oversight roles of the management and Board Committees. This is reflected in management and Board Committee Terms of Reference.

d. Appropriate Management Information

Management information is provided to the Board and Board Committees based on reporting parameters defined between the Board and management and it is directly related to the risk appetite and strategic objectives defined by the Board.

e. Continuous Process of Risk Assessment

It is important that the Society has the agility to respond to changes in the macro-economic environment, to new competition and to regulatory change and that the Society's Risk Management Framework supports a continuous approach of risk assessment and the determination of risk appetite and strategy. The 'three lines of defence' model ensures that there is an effective assessment of risks within the Society. The information provided to the Board by management directly and via the management committees continually supports the Board's consideration of the risks attached to the Society's business, the nature and strength of internal controls and the strategic options.

THREE LINES OF DEFENCE

The Society has a formal structure for managing risks and operates a 'three lines of defence' model which is recognised as an industry standard for risk management. The management of risks is detailed in risk management policies which are set by the Board.

1. Primary responsibility for managing risk and ensuring controls are in place lies with the business units within the Society – the 'first line of defence.' Management have a responsibility to understand how risks impact their area of the Society and to put in place controls or mitigating activities.

2. The 'second line of defence' comprises risk management and compliance functions whose key duties are to monitor and report risk-related practices and information, and to oversee all types of compliance and financial reporting issues. The 'second line of defence' defines preventive and detective control requirements and ensures that such requirements are embedded in the policies and procedures of the first line. It is independent of the first line and applies controls either on an ongoing (e.g. daily) or periodical basis. The second line consists of risk and compliance departments. The Chief Information Security Officer (CISO) also operates solely in the second line and seeks to continually improve the processes and controls around information governance and cyber security.

3. Internal audit provides the 'third line of defence' with independent assurance regarding the activities of the various business units. Internal audit is an outsourced function and the Head of Internal Audit has an independent reporting line directly to the Chair of the Audit Committee. The Audit Committee approves the work programme of internal audit and receives reports on the results of the work performed.

BOARD RISK APPETITE

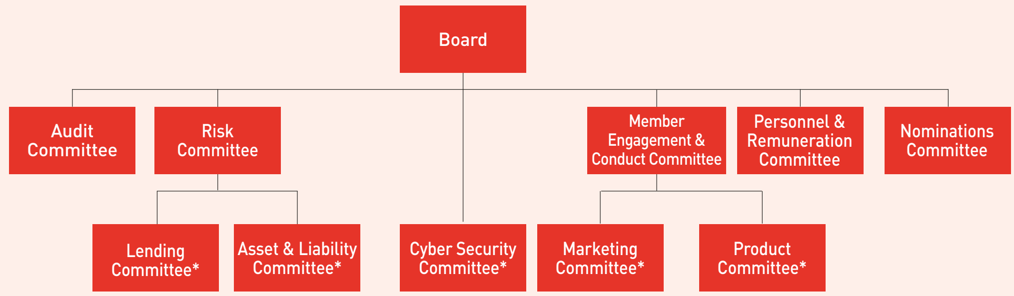
The Board sets high level risk appetite statements and associated measurable limits to provide a framework for business decision making and to identify and articulate the risks that the Board is willing to take in delivering the Strategic Plan of the Society. The Society operates as a prudent organisation in the level of risk it is willing to take in order to achieve strategic goals. This approach has been disseminated by the Board throughout the Society, thereby clearly communicating the risk culture. This culture ensures the tone from the top, set by the Board, is reflected in behaviours and decision making. All Board members also conduct branch and department visits as part of the Society's integrated culture.

Additionally, the Board has set a boundary condition to be able to withstand severe but plausible stresses and continue to report an accounting profit and meet minimum capital and liquidity requirements. The Society utilises early warning indicators through a variety of Key Performance Indicators, Board limits and regulatory limits to highlight any area of concern or potential breach of risk appetite.

The Society's performance against Board limits and early warning indicators is reviewed on a monthly basis by the Board and examined on a quarterly basis by the Board Risk Committee.

THE WORK OF THE BOARD RISK COMMITTEE

The Society Board and Committee structure in 2019 is as below:



*Denotes management committee

Board Risk Committee

The Board Risk Committee oversees the Society's Risk Governance Framework and provides a Society-wide perspective on all risk matters. Its membership comprises three non-executive Directors and is also attended by two executive Directors and other senior management by invitation as appropriate. Details of Directors' attendance are set out in the Corporate Governance Report.

The Committee has delegated responsibility for the detailed oversight of the Society's risk strategy, risk appetite, risk monitoring, liquidity management and capital management. During 2019 the Committee met five times and the matters considered included:

Review and recommendation to Board for approval:

- The Risk Management Framework.
- The Society's risk appetite.
- The Society's updated statement of risks and quarterly review of most significant risks.
- The regulatory capital assessment (ICAAP).
- The regulatory liquidity assessment (ILAAP).
- Reverse stress tests.
- Treasury and Lending Policies.
- Recovery and Resolution Plans.
- Liquidity Contingency Plans.

Monitoring of:

- Economic, political and market risks and their potential impact on risk appetite.
- Risk horizon including emerging risks.
- Risk appetite adherence.
- Regulatory publications.
- Staffing requirements in relation to risk management and training.

The Risk Committee also oversees the Society's Stress Testing Framework. The Stress Testing Framework involves both stress and scenario testing and helps to support wider strategic decision making at Board level and also operational business management. The Stress Testing Framework is an ongoing process throughout the year involving the following key components:

STRESS TESTING ACTIVITY	OVERVIEW
Strategic Planning	A range of plan scenarios are developed within the Strategic Plan to project the performance of the Society both under stressed conditions and operating as business as usual.
ICAAP	An annual internal assessment of the volume and quality of Society capital and its ability to absorb losses within a severe but plausible stress.
ILAAP	An annual internal assessment of the volume and quality of Society liquidity and the Society's ability to meet liabilities as they fall due within a severe but plausible stress.
Reverse Stress Testing	An assessment of the range of scenarios within which the Society's business model would be rendered unviable. Detailed examination of these stress events is performed and potential mitigation considered.
Recovery Planning	Recovery actions are designed following detailed scenario analysis and stress testing. These will allow the Society to identify a potential stress quickly using early warning indicators and manage the stress via recovery planning prior to an event crystallising.
Monthly Stress Testing	Business as usual stress testing is performed and reported to ALCO to assist in the assessment of the performance of the Society. This includes stress testing of liquidity and profitability positions.
Brexit	Due to the ongoing Brexit uncertainty, a variety of stress scenarios have been designed and reviewed in 2019. This work is likely to continue in 2020 as the full impact of the departure of the UK from the European Union becomes clearer.

PRINCIPAL RISKS AND UNCERTAINTIES

Progressive, like all businesses, faces a number of risks and uncertainties and seeks to actively manage these risks. The Society has an overall cautious approach to risk, which helps to maintain Member confidence, particularly in difficult market conditions. The identification and management of risk is a high priority and is integral to strategy and operations.

The principal risks inherent in the Society's business are:

Credit risk

Credit risk is the risk that customers or counterparties will not be able to meet their obligations as they fall due. The Society faces this risk from its lending operations to retail mortgage customers and to wholesale liquidity counterparties.

The Society's lending has continued to focus on low risk residential mortgage business. All mortgage applications are assessed with reference to the Society's Lending Policy, which seeks to ensure borrowers only take on debt they can afford to repay, protecting themselves and the Society. Changes to policy are approved by the Board and the approval of loan applications is mandated. The Society has no exposure to the mortgage sub-prime market and only a small involvement in the buy-to-let and commercial property markets. This has limited the Society's exposure to higher risk lending.

The Board is responsible for approval of treasury counterparties, regular review of their credit risk and setting limits on wholesale market credit exposures. During 2019 the Society maintained a very prudent approach to liquidity management, placing funds with the Bank of England, in UK Government debt, and for shorter periods, with highly regarded financial institutions. The Treasury function operates within a strict control framework and exposures are monitored on a daily basis.

Liquidity risk

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due or can only do so at excessive cost. The Society's policy is to maintain sufficient funds in a liquid form at all times to cover cash flow imbalances and fluctuations in funding, to retain full public confidence in the solvency of the Society and to ensure that liabilities can be met as they fall due. This is achieved through maintaining a prudent level of liquid assets.

The Society's funding is structured to utilise wholesale markets to complement retail funding flows. At 31st December 2019, 84.1% (2018: 83.6%) of funding was derived from Members' savings. The Treasury Manager is responsible for the daily management of liquidity risk within limits set by the Board and monitored by ALCO. These limits reflect the cautious risk appetite of the Society's Board. At the end of 2019, 76.9% (2018: 80.7%) of the Society's liquid assets were placed with the Bank of England or highly liquid UK Government Securities. The Society's Statement of Financial Position is stress tested monthly, with results reported to ALCO, to ensure the Society can withstand extreme cash outflows.

The Society conducts an Individual Liquidity Adequacy Assessment Process (ILAAP) at least annually, which is reviewed by the Board. The ILAAP identifies all the major liquidity risks faced by the Society and ensures adequate liquidity is maintained. The Society also has to adhere to the Liquidity Coverage Ratio (LCR) as defined by the European Banking Authority under CRD IV. This regulatory requirement has been put in place to ensure that all financial institutions have sufficient liquidity to cope with a severe thirty day stressed event. The Society has an LCR far in excess of the regulatory requirements.

Market and interest rate risk

Market risk is the risk of changes to the Society's profit or value due to movements in market rates. The primary market risk faced by the Society is interest rate risk.

The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest rates on assets and interest rates on liabilities are next reset to market rates or, if earlier, the dates on which the assets and liabilities mature.

Interest rate sensitivity also arises from the potential for different types of interest bases to move in different ways (e.g. fixed rate mortgages funded by variable rate savings products). This is called basis risk and is reported to and monitored by ALCO on a monthly basis. The Board has also put early warning indicators in place to highlight any potential future basis risk problems and to help ensure the Society can respond appropriately.

Interest rate risk is managed through taking advantage of natural hedging opportunities within the Statement of Financial Position. Furthermore, the Society also uses derivative instruments to manage exposure to changes in interest rates which arise from fixed rate mortgage lending and fixed rate retail savings products. The fair value of these instruments moves throughout their lives. The Society utilises hedge accounting under International Accounting Standard (IAS) 39 to reduce the amount of volatility in the Income Statement caused by these movements.

The Society has no direct exposure to foreign currency exchange rates.

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. It includes errors, omissions, natural disasters and deliberate acts such as fraud.

The six principal operational risk categories are:

- **Legal & regulatory**
  Fines, censure, supervisory intervention or legal enforcement action due to failure to comply with applicable laws, regulations, codes of conduct or legal obligations.
- **IT systems**
  Failure in the development, delivery and maintenance of effective IT solutions for the Society.
- **Information security**
  Failure to ensure the security, confidentiality, availability and completeness of the Society's data and information. This includes data protection and cyber security. This also includes adherence to General Data Protection Regulations (GDPR).
- **Financial crime**
  Criminal conduct relating to money or to financial services or markets, including offences involving fraud or dishonesty, handling the proceeds of crime and / or the financing of terrorism.
- **People**
  An inability to recruit, develop or retain appropriate human resources. This includes failure to ensure the health and safety of colleagues, customers or third parties in the workplace.

- **Operational Resilience**
  Failure to establish resilient processes, and recovery arrangements following a business disruption event. The Society assumes through this work that disruptions will occur but puts plans in place to manage through times of disruption to minimise impact to critical Member services.

These risks are controlled by the Society's managers who have responsibility for monitoring controls for their respective areas of operation. The Society recognises that operational risks can never be fully eliminated and that the cost of some controls implemented may outweigh the potential benefits. There is regular reporting of risks to the Risk Committee, the Audit Committee and the Board.

Capital management

The Society continues to comply with the capital adequacy rules of the PRA by adopting the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk. The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) at least annually, which is approved by the Board. The ICAAP identifies all the major risks faced by the Society and allocates capital as appropriate. The ICAAP is reviewed by the PRA in setting the Society's capital requirements. The Society maintains capital in excess of that required by the regulator. The regulatory requirement for the Society is to hold a minimum amount of capital based on Risk Weighted Assets and a static add-on for pension risk. This equates to a capital requirement of £60.3 million as at 31st December 2019.

Conduct risk

The Board defines conduct risk as the risk of the Society failing to treat its Members fairly, with resulting detriment to those Members. The Society endeavors to achieve good outcomes for its Members.

The Society recognises that failure to manage conduct risk can lead to unfair treatment of Members or mishandling of Members' accounts and may adversely affect its business operations, threaten its objectives and strategies and the objectives of the regulator.

The Society is committed to the operation of a Conduct Risk Framework (including a Conduct Risk Policy) to facilitate management in the identification and monitoring of conduct risk and in ensuring compliance with regulatory requirements. However, it is not merely an exercise to ensure regulatory compliance as it is considered a key governance and management process and part of the culture of placing Members at the heart of all we do.

Conduct risk management within the Society is consistent with its aims and strategic goals. A structured approach to the consideration of conduct risk management enables management and the Board to make fully informed conduct decisions without exposing the Society or its Members to unacceptable levels of risk. The objective of the Society declaring and implementing a Conduct Risk Policy and strategy is to ensure that appropriate actions will be taken by management throughout the Society to identify and manage effectively the conduct risks to which the Society and its Members may be exposed.

It is the responsibility of the Board to ensure that the Conduct Risk Framework and Appetite Statement are implemented and good conduct and fair treatment of Members is embedded in the Society's overall philosophy. The Society will continue with its aim of putting its Members at the centre of the business.

IT and information security

The Society continues to invest in its technology infrastructure, so that it can maintain and develop services suitable for the evolving needs and expectations of Members in the financial services markets in which it operates.

Whilst there is a strong focus on the development of customer interfaces and services, the Society is also fully aware of external threats, in particular cybercrime attacks designed to deny access to systems and compromise, or misuse, the data and assets held on Society systems. The Society has dedicated first and second line security functions, with specific responsibilities to protect Society and Members' assets. Independent exercises are also undertaken, designed to test the Society's defences and to ensure that cyber controls continuously evolve, in line with the ever changing complexity and unpredictability of cybercrime.

Brexit

The UK vote to leave the EU increased levels of economic uncertainty in 2019. This has caused uncertainty within the housing market and businesses regarding investment decisions. For the Society, the impact may be exacerbated by the particular issues facing Northern Ireland including the potential economic consequences of border controls and general uncertainties around further trading relationships with the Republic of Ireland. The Board and senior management of the Society have been monitoring the impact of these issues throughout 2019 and this process is likely to continue in the coming year. The impact of Brexit has also been included within the Society's Stress Testing Framework.

FUTURE DEVELOPMENTS

The work of all Board Committees is continually developing, this also includes the oversight of Risk Management through the work of the Risk Committee. All Committees perform evaluation exercises identifying areas for development and refinement and the Board reviews the Committee structure to ensure that it remains fit for purpose. The information being provided to the Board and Committees in relation to Risk Management is continually being challenged by Committee members and improved.

Michael Parrott
Chair
27th February 2020

DIRECTORS' PROFILES

Non-Executive Directors

Michael Parrott

Chair

Michael Parrott was appointed to the Society's Board in June 2012. He is a Chartered Public Finance Accountant and, until his retirement, was the Deputy Chief Executive and Finance Director of a regional building society in England. Accordingly, he brings over thirty years relevant building society finance and accounting experience and expertise. Michael is Chair of the Board. During the year he also served as Chair of the Nominations Committee and as a member of the Personnel and Remuneration Committee.

Gerard McGinn

Vice-Chair

Gerard McGinn was appointed to the Board in February 2015. He has extensive financial services and banking experience having held senior executive positions with local clearing banks. In addition, he has worked as a senior civil servant within a number of local government departments and brings extensive Board experience from the public sector. In the 2017 New Years' Honours list Gerard was awarded a CBE for services to the local economy. Gerard is Vice-Chair of the Board. During the year he also served as Chair of the Risk Committee, and as a member of the Audit Committee and the Nominations Committee.

Adrian Coles

Senior Independent Director

Adrian Coles was appointed to the Board in May 2014. His background is as an economist and, until his retirement, he was the Director General of the Building Societies Association for 20 years. He was awarded an OBE in the 2011 New Years' Honours list for services to financial services. Accordingly, Adrian brings relevant building society sector experience. Adrian is the Senior Independent Director. During the year he also served as Chair of the Member Engagement and Conduct Committee and also as a member of the Risk Committee, the Audit Committee and the Nominations Committee.

Margaret Cullen

Non-Executive Director

Margaret Cullen was appointed to the Board in February 2015. She has held senior positions in a number of large financial services organisations including a period working for the Central Bank of Ireland. Margaret is a specialist in the area of corporate governance and is currently an academic leading specialist director programmes. During the year Margaret served as Chair of the Personnel and Remuneration Committee and also as a member of the Audit Committee, the Risk Committee and the Member Engagement and Conduct Committee.

Keith Jess

Non-Executive Director

Keith Jess was appointed to the Board in August 2017. He is a Chartered Accountant by profession and until his retirement was a partner in a leading accountancy practice. Accordingly, he brings to the Board relevant financial, accounting and risk experience. During the year Keith served as Chair of the Audit Committee and as a member of the Risk Committee.

Karen Furlong

Non-Executive Director

Karen Furlong was appointed to the Board with effect from January 2019. She has held both executive and non-executive positions in mutual financial services organisations and brings to the Board experience of change management and the development and execution of strategy, most particularly in the area of digital transformation. During the year Karen served as a member of the Personnel and Remuneration Committee and the Member Engagement and Conduct Committee.

Executive Directors

Darina Armstrong

Chief Executive

Darina Armstrong was appointed to the Society's Board in January 2005. She is a Chartered Accountant and has been employed by the Society for over 25 years. Darina was appointed as the Society's Chief Executive with effect from January 2011, having previously been Finance Director. She has overall responsibility for running the business of Progressive within the strategic framework set by the Board. During the year Darina served as a member of the Nominations Committee and the Member Engagement and Conduct Committee.

Michael Boyd

Deputy Chief Executive and Finance Director

Michael Boyd was appointed to the Society's Board in April 2011 and is the Society's Deputy Chief Executive and Finance Director. He is a Chartered Accountant and has been employed by the Society for over 20 years in various finance and risk roles and served the Board for 5 years as Secretary.

Declan Moore

Operations Director

Declan Moore was appointed to the Board in July 2014. He has been employed by the Society for over 25 years and has worked in the building society sector for more than 30 years. His roles have included branch and area management and, more recently, responsibility for sales, marketing and branch operations. During the year Declan served as a member of the Member Engagement and Conduct Committee.

CORPORATE GOVERNANCE

INTRODUCTION

The Directors are committed to best practice in Corporate Governance. The Financial Reporting Council (FRC) issued a new UK Corporate Governance Code (the Code) in July 2018 which applies to accounting periods beginning on or after 1st January 2019. Accordingly, the Directors have considered the Society's adherence to good Corporate Governance by reference to the Code. Although not all of the provisions of the Code are appropriate for a mutual building society the Board believes it is appropriate to adopt its principles in so far as they relate to building societies and throughout the year ended 31st December 2019 the Society complied with the provisions of the Code in this manner. The Code is available from the FRC website at www.frc.org.uk.

BOARD LEADERSHIP AND COMPANY PURPOSE

As a mutual financial institution, the Society has maintained the core values of a building society, providing value-based products to enable Members' savings to fund local home ownership. The Society's ethos is to place Members at the heart of strategic and tactical decision-making processes. Commitment to our Members is manifested in the culture of the Society which, in turn, is underpinned by strong corporate governance. The Directors of the Society believe in having a continuous focus on culture and values and ensure that the tone they set is reflected in the actions and behaviours of staff. The Board is developing a culture dashboard which will seek to capture the Society's cultural aspirations, how the Society influences them, how the Society measures its success in achieving them and how the behaviours and beliefs of the Society underpin performance. The Society has also developed a behavioural framework for staff and all of these elements will be incorporated into the culture dashboard. A review of Key Performance Indicators will enable the Board to monitor the Society's performance against its cultural values on an ongoing basis.

The Board's role is to focus on strategic decisions within a framework of prudent and effective controls, which enable risk to be assessed and managed. The Board has a general duty to take decisions objectively in the interests of the Society and to ensure that the Society operates within its Rules and Memorandum, regulations and guidance issued by relevant regulatory authorities and all relevant legislation. In addition, it ensures that appropriate systems of control, human resources and risk management are in place to safeguard Members' interests. The Board normally meets eleven times a year and holds further meetings as and when required. The Board met on eleven occasions during 2019. At least once a year, the non-executive Directors meet without the executive Directors present and on another occasion without the Chair present. A schedule of retained powers and those delegated by the Board is maintained. The day-to-day running of the Society is delegated to members of the senior management team and management committees.

The Board has appointed a Senior Independent Director, Adrian Coles, whose role is to attend to any matters requiring to be dealt with independently from the Chair, Vice-Chair and Chief Executive.

The Board looks to identify and manage any conflicts of interest which may arise through a declarations of interest schedule which is reviewed at each meeting of the Board, a limit to the number of external directorships which may be held and the requirement for Directors to seek the consent of the Board in advance of accepting any external directorship appointment. Should a conflict of interest arise a Director will recuse himself / herself from the matter to be considered by the Board.

The Board operates several Committees, which cover key policy decision areas of the Society. Each Committee is formally constituted with written Terms of Reference, which are available to Members on request by writing to the Society Secretary at the Society's Head Office. Minutes of all Committees are formally recorded and reported to the Board.

The Committees during the year were:

Personnel & Remuneration Committee

This Committee considers remuneration and contractual arrangements of executive Directors and senior management and the terms and conditions of employment for staff. Details of the Remuneration Policy can be found in the Directors' Remuneration Report.

Audit Committee

This Committee considers matters of internal and external audit arrangements, systems of control and financial reporting. Full details of the work of this Committee can be found in the Audit Committee Report.

Nominations Committee

This Committee is responsible for reviewing the size, composition, skills, knowledge and experience required of the Board. Suitable candidates for membership of the Board are normally identified by independent search consultants for the consideration of the Committee and recommendations are then made to the Board.

Risk Committee

This Committee is responsible for setting the Society's risk appetite, for risk monitoring and for its capital and liquidity management frameworks. The Committee is also responsible for reviewing and challenging the Society's assessment and measurement of key risks, and for providing oversight and challenge to the design and execution of stress testing. The Risk Committee discusses the Individual Liquidity Adequacy Assessment Process and Internal Capital Adequacy Assessment Process, evaluates lending and liquidity quality and reviews business continuity arrangements.

The principal management committee reporting to the Risk Committee is the Asset and Liability Committee. The Asset and Liability Committee is responsible for the management and composition of the Society's assets and liabilities, monitoring the Society's exposure to interest rate variations, and monitoring and managing the operation of the Society's liquidity, wholesale funding and hedging policies.

Member Engagement & Conduct Committee

This Committee is responsible for ensuring that the Society meets its regulatory and legal obligations with regard to delivering business in a clear, transparent and fair manner. It performs its role by defining the components and evidential requirements of the Society's Conduct of Business regime and by ensuring effective governance is in place, maintained and monitored, which leads to good customer outcomes.

Two management committees, namely the Marketing Committee and the Product Committee, report to the Member Engagement & Conduct Committee. The Marketing Committee is responsible for the development and monitoring of an overall distribution strategy, the identification of potential initiatives and products and the development of the Society's brand proposition. The Product Committee is responsible for overseeing the development of new mortgage and savings products. These responsibilities are considered within the Society's Conduct Risk Policy to ensure that any risks of customer detriment are identified and appropriate actions are in place to mitigate and monitor such risks.

DIRECTORS' ATTENDANCE RECORDS

Directors' attendance records at Board meetings and relevant Board Committees in the year are as follows:

	Board	Personnel & Remuneration Committee	Audit Committee	Nominations Committee	Risk Committee	Member Engagement & Conduct Committee
M W Parrott	11(11)	4(4)	*	7(7)	*	*
G McGinn	11(11)	*	4(5)	6(6)	4(4)	*
A Coles	11(11)	*	3(3)	7(7)	1(1)	3(3)
M Cullen	11(11)	4(4)	2(2)	*	3(3)	3(3)
K Jess	8(11)	*	5(5)	*	4(4)	*
K Furlong	11(11)	4(4)	*	*	*	3(3)
D Armstrong	11(11)	*	*	7(7)	*	3(3)
M S Boyd	11(11)	*	*	*	*	*
D Moore	11(11)	*	*	*	*	3(3)

Total scheduled meetings that each Director could have attended are shown in brackets.
*Not a member of this Committee

The Society, as a mutual organisation, has Members rather than shareholders. The Board welcomes the views of Members. The Directors, all of whom are Members of the Society, are drawn from the business community, which provides feedback on the activities of the Society.

In addition, the Board receives management information on how the Society is perceived by the Members via customer surveys, complaint returns and compliments received.

The Chair, Chief Executive and other Directors are available to Members who wish to relay their views to the Board. In particular, the Senior Independent Director is available in circumstances where contact through the normal channels of Chair, Vice-Chair or Chief Executive has failed to resolve a matter or where such contact might not be appropriate.

Each year details of the Society's AGM and ballot for the election of Directors are sent to Members who are eligible to vote. Members are encouraged to vote either by personal attendance, by voting online or by using voting forms. These online votes and voting forms are part of the ballot entitling Members to vote or to appoint a proxy to vote for them at the AGM if they are unable, or decide not, to attend. All proxy votes are counted by an independent agency.

To encourage Member participation the Society makes a donation to a nominated charity for each vote returned. A poll is called in connection with each resolution at the AGM and Members are offered the opportunity at the meeting to raise any issues on the resolutions. If, in the opinion of the Board, a significant proportion of votes has been cast against a resolution at the AGM, the Society will explain to Members what actions it intends to take to understand the reasons behind the vote result.

Unless their absence is unavoidable all Directors are present at the AGM each year, and are available to answer questions.

The Board believes that the AGM and other communications with its Members provides the opportunity for Members to give feedback to the Society on any aspect of its activities.

The Board engages with the Society's workforce through employee surveys and non-executive Director unaccompanied visits to branches and departments. Reports from visits are made to the Board annually. A staff forum has also been established to facilitate staff discussion, in the absence of management, on matters of importance to them and these may be escalated to the Society's Senior Management Committee for consideration. The Society's Senior Independent Director is also available for staff to raise matters that may need to be considered independently from the Chair, Vice-Chair or Chief Executive and to whom whistleblowing reports may be made in accordance with the Society's Whistleblowing Policy. The Board believes that these mechanisms fulfil the spirit of the Code in relation to workforce engagement.

DIVISION OF RESPONSIBILITIES

The offices of Chair and Chief Executive are distinct with the Chair responsible for leading the Board and the Chief Executive responsible for managing the Society's business within the strategic framework set by the Board. Michael Parrott is the Society's Chair and the post of Chief Executive is held by Darina Armstrong. The 'Strengthening Accountability in Banking: a new regulatory framework for individuals' regime, effective from 7th March 2016, introduced a responsibilities framework where specific Senior Management Functions and Prescribed Responsibilities are allocated to individuals. The Board is content that the allocation of Senior Management Functions and Prescribed Responsibilities between the Directors and senior management is appropriate and meets the requirements of the regime.

The Chair sets the direction of the Board and promotes a culture of openness and debate by facilitating the effective contribution of non-executive Directors and maintaining constructive relations between executive and non-executive Directors. The Chair also ensures that the Directors receive accurate, timely and clear information. This information is provided by executive Directors and senior management, who are available to the Board to provide clarification and amplification where necessary.

The non-executive Directors are responsible for bringing independent judgement to the monitoring of performance and resources and for developing, scrutinising and providing effective challenge to the Board's discussions on strategic proposals, whilst supporting executive management. Their role requires an understanding of the risks in the business and the provision of leadership within a framework of prudent and effective risk management controls.

The Nominations Committee evaluates the ability of Directors to commit the time required for their role prior to appointment. The formal appraisal process carried out by the Chair each year also assesses whether Directors have demonstrated this ability during the year.

Throughout the year the Board determined that all the non-executive Directors remained independent. The Board is content that any conflicts of interest which may arise can be appropriately managed.

The non-executive Directors meet without the executives present on an annual basis to assess their performance.

The terms and conditions of appointment of non -executive Directors may be obtained by writing to the Society Secretary at the Society's Head Office.

All Directors have access to the advice of the Society Secretary and, if necessary, are able to take independent professional advice at the expense of the Society.

COMPOSITION, SUCCESSION AND EVALUATION

During the year the Board consisted of six non-executive Directors and three executive Directors. The size and composition of the Board is kept under review to ensure an appropriate balance of skills and experience for the requirements of the business.

The Chair conducts a thorough review of all non-executive Directors to assess their independence and their contribution to the Board. He confirms that all non-executive Directors continue to be effective and independent in character and judgement. In addition, all non-executive Directors are free of any relationships or circumstances that might materially interfere with the exercise of their judgement.

Following an assessment led by the Senior Independent Director, the Chair is also confirmed as being effective and independent in character and judgement. The assessment of independence takes account of the period of time that the Chair has served on the Board.

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Committee comprises the Chair, the Vice-Chair, the Senior Independent Director and the Chief Executive. The Committee evaluates the plans for orderly succession in accordance with a Board Succession Plan aimed at ensuring an appropriate balance of skills, diversity and experience on the Board. In light of this evaluation, a description of the role and capabilities for a particular appointment is prepared. The Nominations Committee has a rigorous procedure for the appointment of new non-executive Directors to the Board. This procedure ensures appointments to the Board are based on merit and normally includes the use of independent recruitment consultants. Currently this role is fulfilled by Forde May Consulting which has no other connection with the Society.

The Society complies with the PRA and FCA (the Regulators) Strengthening Accountability in Banking Regime and all Directors are required to be either registered with the Regulators as Approved Persons in order to fulfil their Senior Management Function(s) and Prescribed Responsibilities as Directors, or have been Notified to the Regulators as holding the position of non-executive Director. In addition all Directors must meet the tests of fitness and propriety laid down by the Regulator. They are also subject to election by Members at the Annual General Meeting following their appointment.

The Directors believe that the Board broadly reflects the community, cultural and gender diversity within the Society's membership base. The composition of the Board and senior management at the end of 2019 is summarised below:

Grade	Females	Males
Non-executive Directors	2	4
Executive Directors	1	2
Senior Management	5	2

The Chair is appointed to the position by the Board from among the existing non-executive Directors. This practice is supported by the Regulators.

On appointment, the Society requires non-executive Directors to attend in-house induction training which includes sessions on Liquidity Risk, Capital Risk, Credit and Interest Rate Risk and Conduct Risk. There are also sessions on Finance and Key Resources. Additionally, new Directors are expected to attend relevant training provided by the Building Societies Association, which covers building society business, Directors' responsibilities and the regulatory environment. Presentations to the Board by senior management and external courses provide opportunities for non-executive Directors to update their skills and knowledge base. The Chair ensures that non-executive Directors continually update their skills and knowledge to fulfil their role on the Board and any Committees. Training and development needs are identified and individual Director performance and effectiveness evaluated as part of the annual appraisal of the Board. These needs are usually met by internal briefings and via attendance at industry seminars and conferences.

The Chair conducts assessments of the non-executive Directors and Chief Executive individually, reviewing their performance, contribution and commitment to the role. The Chief Executive conducts assessments of the executive Directors.

The Chair is able to confirm that the performance of all Board members continues to be effective and all members are committed to providing sufficient time for Board and Committee meetings and any other necessary duties.

Following a formal appraisal of the Chair led by the Senior Independent Director, the Board can confirm that the performance of Michael Parrott, as Chair, is effective and that he devotes sufficient time for Board and Committee meetings and any other necessary duties.

New Directors are subject to election by Members at the Annual General Meeting following the Director's appointment, in accordance with the Rules of the Society. All other Directors who have not been elected or re-elected at either of the last two Annual General Meetings shall retire from office on rotation at the next Annual General Meeting.

The Board and each Committee reviewed its own effectiveness in 2019 by means of a self -assessment questionnaire. The results of the Board Committee assessments are in turn reviewed by the Board. The Board is mindful of the Code requirement for FTSE 350 companies to conduct an external evaluation every three years and, whilst this is not a requirement for building societies, has engaged a third party to complete an evaluation in the first quarter of 2020.

AUDIT, RISK AND INTERNAL CONTROL

The Statement of Directors' Responsibilities sets out the Board's responsibilities in relation to the preparation of the Society's Annual Accounts and a statement that the Society's business is a going concern is included in the Directors' Report. The Directors have evaluated the Society's performance in the Strategic Report and the Business Review. The outlook for the Society is considered in the Business Review.

The Audit Committee has advised the Board that, after due consideration and review, the Annual Report and Accounts are, in the opinion of the Committee, fair, balanced and understandable.

The responsibility for implementing, operating and monitoring systems of risk management and internal control has been delegated by the Board to senior management. The Audit Committee and the Risk Committee, on behalf of the Board, are responsible for reviewing the adequacy of these processes. The system of internal control is designed to allow the Society to achieve its strategic objectives within a managed risk profile. However, no system of internal control can completely eradicate risk. As such, the internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an established Risk Management Framework which identifies, evaluates and manages significant risks faced by the Society. The Board has ultimate responsibility for ensuring the effectiveness of the Society's systems of risk management and internal control and, following robust assessments of the principal risks by the Audit Committee and the Risk Committee, it is satisfied that the Society's systems are effective and meet the requirements of the Code.

The membership of the Society's Audit Committee comprises three non-executive Directors. The Board is satisfied that at least one member of the Committee has recent and relevant financial experience and that the Committee as a whole has competence relevant to the sector within which the Society operates.

The Committee usually meets five times a year. In addition to non-executive Directors, the meetings are also attended by representatives from the Society's internal and external auditors, its three executive Directors and other members of senior management by invitation as appropriate. At least annually, external auditors meet with the Committee Chair and with the Committee in the absence of any executive Directors.

The Committee considers the adequacy of internal controls. It also reviews both internal and external audit reports, assesses the effectiveness of the internal and external auditors and agrees the annual internal audit plan. The Committee also has responsibility for ensuring effective whistleblowing arrangements are in place, which enables any concerns to be raised by employees in confidence.

Minutes of the Committee's meetings are distributed to all Board members and the Chair of the Committee reports to the Board at each regular meeting of the Board following a meeting of the Committee.

The auditors may provide non-audit services on a consultancy basis to the Society. The extent and cost of the work is reported to the Audit Committee for approval in accordance with an agreed policy statement. The Revised Ethical Standard 2016 introduced restrictions around the provision of non-audit services, including tax services. The Society has ensured compliance with these regulations. The Society is of the opinion that auditor objectivity and independence is not challenged by provision of services allowable under the Revised Ethical Standard.

REMUNERATION

The remuneration policies for executive and non -executive Directors are set out in the Directors' Remuneration Report. These policies explain the Society's application of the Code Principles.

Michael Parrott
Chair
27th February 2020

AUDIT COMMITTEE REPORT

The Audit Committee is an essential part of Progressive's governance framework to which the Board has delegated oversight of the Society's financial reporting, internal controls, internal audit and external audit. This report provides an overview of the Committee's work and details of how it has discharged its responsibilities during the year.

The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees.

The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- the integrity of the financial statements, including the challenge of actions and judgements made by management in relation to the financial statements;
- the adequacy and effectiveness of the system of internal control processes;
- the effectiveness, performance and independence of the internal auditor;
- the independence, performance and objectivity of the external auditor, including their appointment, re-appointment and removal;
- the effectiveness of Society's Whistleblowing arrangements; and
- the policy on the use of external auditors for non-audit work.

Following each Committee meeting, the minutes of the meeting are distributed to the Board, and the Committee Chair provides an update to the Society's Board on key matters discussed by Committee.

The Committee comprises independent non-executive Directors (as detailed in the Corporate Governance Report). Keith Jess chaired the Committee throughout the year. The Committee members have been selected to provide the wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Board considers that the Committee as a whole has competence relevant to the financial services sector and considers that at least one of the Committee members has recent and relevant financial experience as required by the UK Corporate Governance Code (the Code).

Meetings are attended by the non-executive Directors, and, by invitation, the Chief Executive, the Deputy Chief Executive & Finance Director, the Operations Director and the Chief Risk Officer. Other relevant senior management are also invited to attend certain meetings in order to provide insight and enhance the Committee's awareness of key issues and developments. The outsourced internal auditor, PwC LLP, and the external auditor, Deloitte, are also invited to each meeting. The Committee meets at least once each year with the external auditor and the internal auditor without management being present.

Key areas reviewed during 2019

The Committee met five times during the year and focused on the following matters:

1. Financial Reporting

The primary role of the Committee in relation to financial reporting is to review and assess with management and the external auditor the integrity and appropriateness of the annual financial statements concentrating on amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements. This includes advising the Board on whether the Annual Report and Accounts, when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Society's performance, business model and strategy; and
- material areas in which significant judgements have been applied or there has been discussion with the external auditor.

To aid its review, the Committee considered reports from the Deputy Chief Executive & Finance Director and reports from the external auditor on the outcomes of their annual audit.

The Audit Committee supports Deloitte in displaying the necessary professional scepticism their role requires. The primary areas of judgement considered by the Committee in relation to the 2019 accounts were:

- loan loss provisions
  - review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with FRS 102.
- revenue recognition
  - review of the design, implementation and operating effectiveness of the controls around the calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies.
- management override of controls
  - review of judgements and decisions made by management in making accounting estimates included in the financial statements to evaluate the risk of material misstatement.

In considering whether the 2019 Annual Report and Accounts were fair, balanced and understandable, the Committee satisfied itself that there was a robust process of review and challenge.

The Audit Committee fully discharged its responsibilities in relation to financial reporting of the Annual Report and Accounts 2019.

2. Internal Audit

The Committee is responsible for monitoring internal audit activities and effectiveness and ensuring that sufficient resources are in place. In order to provide the scalability and flexibility of specialist resources required within internal audit, the Society continues to outsource this work to PwC LLP. This enables the Society to leverage the skills and expertise of an external specialist provider who has extensive depth of resources.

Prior to the commencement of each financial year, the Committee receives, considers and approves Internal Audit's annual work plan in the context of a robust risk assessment carried out by Internal Audit. Key reviews were completed through their agreed work programme during the year including areas of internal control significance, (e.g. loan loss provisioning, procurement processes, treasury function, contract management, branch operations, mortgage application process, savings' processes and cyber security) and compliance with regulatory guidance (e.g. senior management accountability arrangements, financial crime, liquidity, capital, interest rate risk reporting, treating members fairly, mortgage conduct of business, compliance activity and COREP reporting).

Internal audit findings and thematic issues identified were considered by the Committee, as well as management's response and the tracking and completion of outstanding actions. The Committee considers the guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the Internal Auditors and the Committee are fulfilling their obligations in a robust manner.

The Committee also approved the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail.

During the year the Committee carried out a review of the effectiveness of the provision of the internal audit function by PwC LLP and concluded that the services provided operated in line with the agreed plan, providing appropriate assurance on the Society's operations. The review concluded that PwC LLP provided an effective internal audit service to the Society.

PwC LLP operate in accordance with an Internal Audit Charter, which may be found on the Society's website.

3. System of Internal Controls

The Board recognises the importance of sound systems of internal control in the achievement of its objectives and the safeguarding of Members' and Society assets. Internal control also facilitates the effectiveness and efficiency of operations, helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

The Society operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal control framework has been designed to ensure thorough and regular evaluation of the nature and extent of risk and the Society's ability to react accordingly. It is the role of management to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

The internal audit function provided independent assurance to the Board on the effectiveness of the internal control framework through the Audit Committee.

The Committee reviewed this aspect through regular reporting from management, the Society's internal auditor and the external auditor.

The main internal control matters which were reviewed by the Committee in 2019 were:

- conduct related;
- prudential related;
- internal audit plans;
- control reports from the external auditor, Deloitte, in relation to the financial reporting process arising from the external audit. During the year, Deloitte did not highlight any material control weaknesses;
- the status of issues raised in control reports which were tracked closely. During the year, the volume and age profile of issues raised remained within appropriate parameters; and
- whistleblowing arrangements - the Committee reviews the Society's whistleblowing arrangements and the effectiveness of its whistleblowing systems and controls each year. Awareness of whistleblowing arrangements within the Society is maintained in a number of ways including internal communications and training modules. The Society has appointed a Whistleblowing Champion, Keith Jess. The Whistleblowing Champion is responsible for ensuring and overseeing the integrity, independence and effectiveness of the Society's policies and procedures intended to protect whistleblowers from being victimised because they disclosed a reportable concern.

The information received and considered by the Committee provided reasonable assurance that during 2019 there were no material breaches of control or regulatory standards and that, overall, the Society maintained an adequate internal control framework that met the principles of the Code.

4. External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification and, at the start of the audit cycle, the Committee receives from Deloitte a detailed audit plan, identifying their assessment of the key risks. The Committee carries out an annual review of the effectiveness of the external auditor based on the competencies of audit staff and the conduct of the year-end audit. This review was completed by the Deputy Chief Executive & Finance Director. Results of the review and the Committee's discussions confirm that Deloitte produced a highly effective audit process.

The Committee holds a private meeting with the external auditor at least once per year, usually after the Annual Report and Accounts have been signed. This provides the opportunity for open dialogue and feedback from the Committee and the auditor without management being present. Matters typically discussed include the auditor's assessment of business risks and management's activity in relation to these risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, independence of their audit and how they have exercised professional scepticism. The Chair of the Audit Committee also meets the external audit partner outside the formal Committee process during the year.

Each year the Committee considers the reappointment of the external auditor, including rotation of the audit partner, and also assesses their independence on an ongoing basis. The external auditor is required to rotate the audit partner responsible for the Society's audit at least every seven years. The audit in relation to the 2019 results was the third for the current audit partner, Brian O'Callaghan, following the reappointment of Deloitte as a result of a competitive tendering process during 2016.

The Committee approved the fees for audit services for 2019 after a review of the level and nature of the work to be performed and was satisfied that the fees were appropriate for the scope of the work required.

As a further safeguard to help avoid the objectivity and the independence of the external auditor becoming compromised, the Committee has a formal policy governing the engagement of the external auditor to provide non-audit services. The Committee was content that non-audit services were not provided by Deloitte during the year and hence the objectivity and independence of Deloitte has not been compromised. In addition, the objectivity and independence of the external auditor is protected in the provision of non-audit services by individual terms of engagement for each assignment.

5. Audit Committee Effectiveness

The Committee conducts a formal self assessment review to monitor its effectiveness annually. The review was performed using anonymous questionnaires completed by Committee members and regular attendees at meetings.

The review concluded that the Committee had operated effectively and in accordance with its Terms of Reference. The Committee reviewed its Terms of Reference during the year and found them to be fit for purpose.

Keith Jess
Chair of the Audit Committee
27th February 2020

DIRECTORS' REMUNERATION REPORT

For the year ended 31st December 2019

This report sets out the Board's policy on the remuneration of Directors of the Society. The Society has adopted high standards of corporate governance and this includes the provision to its Members of full details of Directors' remuneration. Members vote annually at the Annual General Meeting on an advisory resolution on the Board's policy on the remuneration of Directors.

The policy for the remuneration and contractual arrangements for executive Directors and for the pay increments and performance related pay for all staff is set by the Board following recommendations from the Personnel and Remuneration Committee and is described below.

PERSONNEL AND REMUNERATION COMMITTEE

The Personnel and Remuneration Committee (the Committee) is a committee of the Board and is composed of three independent, non-executive Directors. In 2019 they were Margaret Cullen (Chair), Michael Parrott and Karen Furlong. The Committee makes recommendations to the Board on the contractual arrangements of executive Directors and on the pay increments and performance related pay for all Society staff. This Committee has access to independent advice where it considers it appropriate.

The Committee seeks input from the Society's Chief Executive, the Deputy Chief Executive & Finance Director and the Head of Human Resources in relation to challenges in the labour market, key person retention risk and aspects of the remuneration structure. They provide information relevant to the Committee's deliberations, as and when required, and attend meetings at the Committee's request.

The Committee's Terms of Reference are available upon request in writing to the Society Secretary.

In making its decisions and recommendations relating to executive fixed remuneration the Committee takes into account a variety of factors, including the comparative benefit packages of senior staff across a relevant peer group of building societies, the competitive market for financial services staff in Northern Ireland and macro -economic conditions.

The Committee supports linking staff rewards to Society performance, including good Member outcomes, but does not support a culture of incentive-driven remuneration structures that could result in inappropriate behaviours and the Society's remuneration philosophy reflects that. In determining performance related pay metrics, the Committee pays close attention to the achievement of strategic objectives set by the Board, the risks to which the Society is exposed, external market conditions, the Society's commitment to its employees and the Society's overall responsibility to Members within a framework of good corporate governance. It is critical that executive reward is aligned with the experience of Members of the Society.

During 2019, the Committee:

- Considered the outturn of the 2018 balanced scorecard for the staff bonus scheme and approved measures for the 2019 scorecard.
- Approved bonus scheme awards for all eligible staff.
- Endorsed the Society's remuneration policy.
- Approved the Society's salary review approach.
- Reviewed and approved the Directors' Remuneration Report.
- Considered the impact of the UK Corporate Governance Code, effective from 1st January 2019.
- Reviewed and approved the Committee's Terms of Reference as well as those of the Health & Safety Committee.
- Considered employee engagement throughout the year.
- Conducted a comprehensive review of the executive Directors' fixed remuneration in line with Board policy.

POLICY AIMS AND OBJECTIVES

The Committee's decision-making processes reflect:

- The need to recruit and retain staff with appropriate skills and experience to make an effective contribution to the Society's strategy and operations, and so to act in the long-term interests of the Society's Members.
- The need for a transparent link between Society performance (financial and non-financial) and performance related remuneration.
- The levels of remuneration (fixed and performance related) paid for financial services positions and / or levels of experience within a peer group of building societies selected by the Committee.
- Macro-economic conditions in Northern Ireland, including inflation.
- The need to ensure that the remuneration policy of the Society is consistent with the Society's overall strategic and cultural objectives (including Member outcomes), risk appetite as determined by the Board, and in no way encourages behaviour inconsistent with the ethos of the Society and / or risk taking outside this risk appetite.
- The application of provisions of the Prudential Regulation Authority's Remuneration Code to building societies where proportionate to the Society.
- The provisions of the UK Corporate Governance Code, as they relate to building societies.

The Society seeks to ensure that its remuneration decisions are in line with the Society's strategy, culture and long-term objectives, all of which reflect the Society's status as a mutual society. The emphasis of the Society's performance related pay policy is on rewarding strategic outcomes, particularly Member-driven outcomes, consistent with our mutuality.

Our policy in relation to performance related pay takes into account the need to retain a strong financial position. Performance related remuneration amounts will not be paid unless they are sustainable within the Society's current financial condition and future prospects. Performance related pay is not guaranteed and all schemes are non-contractual. All staff of the Society are subject to the same performance measures reflecting our ethos of 'One Society, One Team'.

CONFLICTS OF INTEREST

The Society seeks to manage conflicts of interest related to remuneration decisions. The Committee is aware of the potential for such conflicts when considering remuneration for Directors and seeks external professional advice where appropriate. Executive Directors are not involved in the determination of their remuneration.

DIRECTORS' SERVICE CONTRACTS

The Society has a one year rolling service contract with each of the executive Directors which is terminable by the Director on six months' notice. Provision for compensation for loss of office is included in the contract. The Society will not enter into an employment contract which would compensate any individual for failing to perform his / her duties satisfactorily.

STATUTORY CONSIDERATIONS

The Society will ensure that its remuneration decisions are in line with statutory requirements, for example, in relation to equal pay and non-discrimination.

REMUNERATION OF EXECUTIVE DIRECTORS

The policy in respect of executive Directors' remuneration is to set remuneration at a level to secure employment of and retain high quality executive Directors. The Society seeks to establish a balance between the fixed and performance related elements of remuneration commensurate with the Society's mutual ethos. The Committee has been mandated by the Board to ensure that fixed remuneration is in line with the market rate for executive directors in similar positions at comparable organisations.

The main components of the executive Directors' remuneration are:

Fixed Remuneration: Base Salary

There were three executive Directors in post during 2019. Their duties are carried out in line with formally approved job descriptions. The base pay remuneration of executive Directors is set to take account of the job content and responsibilities involved, year-on-year performance, and the salaries and incentives payable to executives in similar roles within a peer group of building societies selected by the Committee.

The Committee conducts a comprehensive review of executive Director fixed remuneration at least every three years in line with Board approved policy on the determination of fixed executive Director pay.

This review was last completed in early 2020 in relation to 2020 salaries.

In conducting this review, a peer group was selected by the Committee based on their comparability to the Society in terms of both balance sheet size and complexity. The approach to peer group selection is included in the Board approved policy on the determination of fixed pay. The base pay of the Society's three executive Directors was compared to the equivalent levels across the peer group. Following due consideration, the Committee made a recommendation to the Board that no adjustment to executive Director pay was required as their pay was in line with the average of their peer group. The executive Directors received a pay increase reflecting inflation in line with all Society staff.

Pension and Other Benefits

The executive Directors are members of the Society's Staff Pension Scheme and participate in an unfunded arrangement. They contribute a total of 8% of salaries to the defined benefit scheme. Other taxable benefits for which the executive Directors are eligible include a car or car allowance, fuel allowance and private medical insurance.

Performance Related Remuneration

The Society operates an annual performance related pay scheme. It does not operate a long term incentive scheme. However, in considering the metrics for the annual scheme, the Committee has regard to the goals set by the Board in the Society's five-year Strategic Plan. None of the payments are pensionable. The structure of the scheme is considered by the Committee at the beginning of each financial year and recommended to the Board for approval. For 2019, the scheme was subject to a cap of 12% of base salary during the year. A matrix of performance related metrics is determined and agreed by the Board.

All Society staff are part of this performance related pay scheme. There is currently no separate remuneration scheme for executive Directors, senior management (Chief Risk Officer, Head of Conduct & Compliance, Head of Digital, Head of Human Resources, Head of IT and Head of Lending & Savings) and other Society staff. The objective is to create a "One Society, One Team" culture and not having a separate executive remuneration programme for performance related pay has been deemed consistent with this ethos.

The performance related pay scheme has been designed to fulfil a number of key objectives which provide a link between the Society's strategy, values and culture as measured by Member and regulatory outcomes and the efficacy of the Society's system of internal controls. Performance appraisals of the executive Directors are carried out at least annually to assess their success in meeting individual and strategic objectives.

The key objectives which drive the scheme are:

- linking staff efforts to delivering a quality Member service,
- improving business performance,
- creating the desired culture for the Society.

The performance related metrics established for 2019 (linked to the Society's Purpose and Values) fall into one of three key areas:

- Behaviours and Culture
- Financial Performance
- Regulatory Outcomes

The executive Directors have continued to deliver strong performance in line with the Society's strategy. The remuneration of the executive Directors in 2019 included an earned performance related pay element of 7.5% of salary related to the overall performance of the Society in line with its strategic objectives and, in particular, exceeding targets for behaviours and culture.

The Board agreed, following Committee recommendations, that the current approach to performance related pay whereby all Society staff (including the executive Directors and senior management) are subject to the same performance criteria, is retained. It is proposed to maintain the maximum amount payable under the performance related pay scheme at 8% of salary for 2020. The performance related criteria have been adjusted to reflect financial targets, behaviours, and risk / control objectives consistent with the Society's strategic, risk and cultural objectives for 2020.

Total emoluments for executive Directors for services in connection with the management of the Society for the year is analysed as follows:

2019	**Salary £000**	**Performance related £000**	**Benefits £000**	**Total £000**
D Armstrong (Chief Executive)	**219**	**16**	**16**	**251**
M Boyd (Deputy Chief Executive & Finance Director)	**164**	**13**	**13**	**190**
D Moore (Operations Director)	**146**	**11**	**12**	**169**
				610

2018	Salary £000	Performance related £000	Benefits £000	Total £000
D Armstrong (Chief Executive)	213	21	16	250
M Boyd (Deputy Chief Executive & Finance Director)	159	16	13	188
D Moore (Operations Director)	142	14	11	167
				605

The increase in accrued pension for D Armstrong, M S Boyd and D Moore in 2019 was £5,000 (2018: £4,000), £5,000 (2018: £5,000) and £7,000 (2018: £7,000) respectively.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The review and setting of fees for non-executive Directors is principles based. These guiding principles are:

- Fees under consideration relate to the post and not the individual.
- Fees paid should be appropriate to recruit or retain an individual to that post with appropriate skills, expertise, qualifications and experience.
- Fees should reflect the time and commitment required for the role.
- The market within which the Society seeks to recruit Directors should not be limited to Northern Ireland.
- In assessing the market, the fees should take into account the fees paid to non-executive Directors by similar institutions, giving appropriate weighting to the complexity of each institution and the market in which it operates.
- The approach adopted should be consistent with the approach used in determining executive remuneration.
- No Director has a say in his or her pay decisions.

Remuneration of the Chair is reviewed and set by the other Directors, led by the Senior Independent Director, taking into account the fees paid to the Chairs of comparable institutions in the UK.

The remuneration of the other non-executive Directors is determined by the Board Chair and the executive Directors having considered Director remuneration conditions at other societies. The Board aims to ensure that fees are in line with the amount paid to non-executive Directors in similar positions at comparable organisations. Non-executive Directors do not have service contracts, are not members of the Society's pension schemes and have no entitlements under performance-related pay schemes. Their effectiveness is appraised annually by the Chair, and the Board as a whole, under the leadership of the Senior Independent Director, assesses the Chair's performance.

Total emoluments for non-executive Directors for services as Directors of the Society for the year is analysed as follows:

Non-executive Directors' fees	Fees 2019 £000	Fees 2018 £000
M W Parrott (Chair)	**49**	49
G McGinn (Vice-Chair)	**36**	36
A Coles (Senior Independent Director)	**32**	32
M Cullen	**29**	29
K Furlong (co-opted 1st January 2019)	**26**	-
K Jess	**30**	30
	202	176

No pension contributions were made in respect of non-executive Directors.

Annual amounts for non-executive Directors are set out in the table below:

		Fee £000
Chair		49
Standard non-executive Director		26
Additional fees:		
	Vice-Chair	6
	Senior Independent Director	3
Committee Chairs:		
	Audit	4
	Member Engagement & Conduct	3
	Personnel & Remuneration	3
	Risk	4

M Parrott and A Coles, who are domiciled in England, and M Cullen who is domiciled in the Republic of Ireland, received additional taxable amounts to cover travel and accommodation costs of £6,000, £6,000 and £2,400 respectively.

A Coles and K Jess each received additional amounts of £1,500 for their roles as pension scheme trustees.

Margaret Cullen
Chair of the Personnel
and Remuneration Committee
27th February 2020

DIRECTORS' REPORT

For the year ended 31st December 2019

The Directors' Report should be read in conjunction with the Chair's Statement, the Chief Executive's Review and the Strategic Report.

DIRECTORS

The following persons were Directors of the Society during the year:

Non-Executive Directors

Michael Parrott (Chair)
Gerard McGinn (Vice-Chair)
Adrian Coles (Senior Independent Director)
Margaret Cullen
Karen Furlong
Keith Jess

Executive Directors

Darina Armstrong (Chief Executive)
Michael Boyd (Deputy Chief Executive & Finance Director)
Declan Moore (Operations Director)

BOARD COMPOSITION

Details of the Board composition are provided in the Directors' Profiles. In addition, Martin Pitt joined the Board as a non-executive Director, on 1st January 2020. Martin brings extensive financial, audit, governance and risk experience. He also brings significant Board experience from both the public and charitable sectors.

BUSINESS OBJECTIVES

Information on the Society's objectives and activities can be found in the Business Review.

BUSINESS REVIEW

The Business Review can be found within the Strategic Report.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Information on the Society's financial risk management objectives and policies can be found in the Risk Management Report.

PROFIT AND CAPITAL

Profit before tax for the year was £7.2 million (2018: £9.0 million) and after tax the amount transferred to general reserves was £6.0 million (2018: £7.4 million).

The Society's general reserves at 31st December 2019 were £124.9 million (2018: £122.3 million). Details of reserves movements are provided in the Statement of Changes in Members' Interests.

Further information on the Society's capital strength is given in the Business Review.

MORTGAGE ARREARS

Note 14 describes the various forbearance measures offered by the Society to borrowers experiencing difficulties in meeting their repayments. The Business Review provides information on the mortgage accounts which were 12 months or more in arrears at 31st December 2019.

GOING CONCERN AND VIABILITY STATEMENT

The current economic conditions present ongoing risks and uncertainties for all businesses. In response to such conditions, and as required by the Financial Reporting Council, the Directors have carefully considered these risks and the extent to which they might affect the preparation of the Financial Statements on a going concern basis.

By way of background, the Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report as well as in this report.

Information concerning the policies and processes for managing the Society's capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are also included in the Strategic Report and in Note 25 to the Accounts.

The Directors consider that:

- the Society maintains an appropriate level of liquidity, sufficient to meet both the normal demands of the business and the requirements which might arise in stressed circumstances. It also maintains facilities with the Bank of England providing ready access to liquidity if required;
- the availability and quality of liquid assets is structured to ensure funds are available for new advances to borrowers, to repay any maturing wholesale funds and to meet exceptional demand from retail investors;
- the Society's mortgages on residential property are fully secured and adequately provided for if the debt is deemed doubtful; and
- reasonable profits have been maintained to keep capital at a suitable level to meet regulatory requirements.

Having reviewed the Society's five year plans and forecasts, including related funding, capital needs and a robust assessment of the principal risks facing the Society, the Directors consider that the Society remains viable and is able to generate adequate profits for regulatory capital requirements and holds sufficient liquidity to maintain its solvency.

In conclusion they consider that the Society has adequate resources to continue in operational existence and continue to meet its liabilities over the five year planning period and so they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

POST BALANCE SHEET EVENTS

The Directors consider that there have not been any events since the year end that have had a significant effect on the financial position of the Society. The UK withdrew from the EU at the end of January 2020 and the Board will continue to monitor the impact on the Northern Ireland economy in the coming months.

AUDITORS

The Auditors, Deloitte, have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for their reappointment as Auditors is to be proposed at the Annual General Meeting.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Directors' responsibilities in respect of the Annual Report and Accounts, the Strategic Report, the Directors' Report and the Annual Business Statement.

The following statement, which should be read in conjunction with the Independent Auditor's Report, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, the Strategic Report, the Directors' Report and the Annual Business Statement.

The Directors are responsible for preparing the Annual Report and Accounts, the Strategic Report, the Directors' Report and the Annual Business Statement in accordance with applicable laws and regulations.

The Building Societies Act ("the Act") requires the Directors to prepare Annual Accounts for each financial year. Under the Act they have elected to prepare the Annual Accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

The Annual Accounts are required by law to give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year.

In preparing the Annual Accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Annual Accounts; and
- apply the going concern concept unless it is inappropriate to presume that the Society will continue in business.

In addition to the Annual Accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal control.

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK governing the preparation and dissemination of Annual Accounts may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of their knowledge:

- the Annual Accounts, prepared in accordance with UK Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', give a true and fair view of the state of the affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for the financial year;
- the Strategic Report includes a fair review of the developments and performance of the business and the position of the Society taken as a whole, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report, taken as a whole is fair, balanced and understandable and provides the information necessary for Members to assess the Society's performance, business model and strategy.

Michael Parrott
Chair
27th February 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROGRESSIVE BUILDING SOCIETY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Opinion

In our opinion the financial statements of Progressive Building Society (the 'Society'):

- **give a true and fair view of the state of the Society's affairs as at 31st December 2019 and of the Society's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Building Societies Act 1986.**

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Other Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Members' Interests;
- the Cash Flow Statement; and
- the related Notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. 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 Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning; and • Revenue recognition Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the financial statements was £540,000 which was determined on the basis of approximately 0.4% of net assets.
Scoping	We determined the scope of our audit by obtaining an understanding of the Society and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our risk assessment process has resulted in the key audit matters reported upon remaining consistent with previous year. These continue to be areas in which significant judgement and complexity are inherent in the account balance. We updated our basis of materiality from 5% of profit before tax to 0.4% of net assets based on our assessment that net assets is the most appropriate critical component for users of the financial statements while margins have narrowed in an increasingly competitive market.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the Directors' statement in the Directors' Report to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2 Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Society's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 24 - 26 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the Directors' confirmation on page 49 that they have carried out a robust assessment of the principal and emerging risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 46 - 47 as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Viability means the ability of the Society to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Loan loss provisioning

Key audit matter description	The Society holds £4.3m of provisions for bad and doubtful debts at the year end (2018: £5.3m) against total loans and advances to customers of £1,503m (2018: £1,518m). Determining impairment provisions against loans to customers is a judgemental area requiring an estimate to be made of the losses incurred within the mortgage portfolio, which is largely on residential property in Northern Ireland. This requires the formulation of assumptions relating to customer default rates, discounted cash flow rates (required under FRS 102), property values and market movements, forced sale discounts, likelihood of repossession, and other impairment indicators, some of which may be sensitive to changes in the economic environment. As the determination of the impairment provision by management incorporates a significant level of judgement, as described above, and is susceptible to management manipulation, a risk of fraud is inherently deemed to arise in this area. Loan loss provision balances are dealt with in Note 15 to the financial statements. Management's associated accounting policies are set out on page 67 and details about judgements in the application of accounting policies and critical accounting estimates are on page 69. In addition, the matter is described on page 37 of the Audit Committee Report.
How the scope of our audit responded to the key audit matter	We assessed the design, determined the implementation and evaluated the operating effectiveness of relevant controls over impairment identification and calculation, and provisioning models. We challenged the appropriateness of management's key assumptions used in the impairment calculations for loan receivables, including the application of impairment triggers and arrears data, forced sale discounts, the propensity to possess, and estimations of collateral values, by comparison with relevant data. We gained an understanding of the provisioning models and tested their operation. We also tested the underlying key controls including a test of data flows into the models to assess whether the data was complete and accurate.
Key observations	Based on the evidence obtained, we found that the impairment model assumptions were determined and applied appropriately and the recognised provision was reasonably stated.

5.2 Revenue recognition

Key audit matter description	Total mortgage interest income is £42.2m (2018: £43.1m) and the significance of this amount, coupled with the high volume of existing and new mortgage transactions increases the risk of mortgage revenue recognised not being accurately calculated and recorded. In accordance with ISA 240 "The auditor's responsibilities relating to fraud in an audit of financial statement", there is a presumption that there are risks of fraud in revenue recognition and therefore this key audit matter is deemed to constitute a fraud risk. Management's associated accounting policies are detailed on page 65 and details about judgements in the application of accounting policies and critical accounting estimates are on page 69. There is a reconciliation of interest receivable in Note 3. In addition, the matter is described on page 37 of the Audit Committee Report.
How the scope of our audit responded to the key audit matter	We tested the design, determined the implementation and evaluated the operating effectiveness of relevant controls over interest income calculations. We challenged the appropriateness of management's processes and systems used in the recognition of revenue by testing data processing and transaction authorisation controls. We developed an expectation of mortgage interest income from underlying loan book and interest rate data, using substantive analytical techniques. In addition we performed test of details on interest income by re-performing the calculation of a sample of income by reference to original transaction documentation.
Key observations	We consider the revenue recognition policies to be appropriate.

6. Our application of materiality

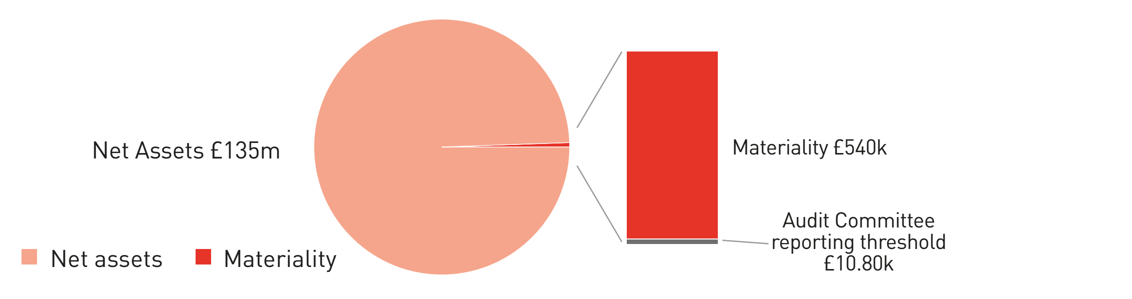
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Society financial statements

Materiality	£540,000 (2018: £406,600)
Basis for determining materiality	The materiality that we used in the current year was £540,000 which is approximately 0.4% of net assets. We updated our basis of materiality from 5% of profit before tax to 0.4% of net assets based on our assessment that net assets is the most appropriate critical component for users of the financial statements while margins have narrowed in an increasingly competitive market.
Rationale for the benchmark applied	Net assets is an important indicator to assess future revenues and obligations, to evaluate whether the Society is suitably managed to ensure that funds are available when withdrawals are made and to honour mortgage contracts and the ability of the Society to remain resilient through difficult trading circumstances.



6.2 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £10,800 (2018: £8,100), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Whilst the Society operates from a network of twelve branches, the accounting records are centralised and all financial reporting is completed at Head Office. We determined the scope of our audit by obtaining an understanding of the Society and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report, the Directors' Report, the Directors' Profiles, the Directors' Remuneration Report, the Corporate Governance Report, the Audit Committee Report, the Corporate Social Responsibility Report and the Statement of Directors' Responsibilities, other than the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Society's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are 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 Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Society'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 Directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the entity's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

We determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1 Identifying and assessing potential risks related to irregularities

- In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management , internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: management override of controls, revenue recognition and loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Society Act 1986.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included the Society's regulatory solvency requirements, Financial Services Authority regulations, Prudential Regulation Authority regulations, Financial Conduct Authority regulations and money laundering regulations

11.2 Audit response to risks identified

As a result of performing the above, we identified revenue recognition and loan loss provisioning as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Prudential Regulation Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

13. Opinion on other matters prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given on page 15 for the financial year ended 31st December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15. Other matters

15.1 Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Members of the Society at the Annual General Meeting on 25th April 2019 to audit the financial statements for the year ending 31st December 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 2007 to 2019.

15.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Society's Members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's Members those matters we are required to state to them 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 Society and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Brian O'Callaghan FCA
(Senior statutory auditor)

For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, Northern Ireland
27th February 2020

INCOME STATEMENT

for the year ended 31st December 2019

	Note	2019 £000	2018 £000
Interest receivable and similar income	3	**42,233**	43,109
Interest payable and similar charges	4	**(19,672)**	(18,191)
Net interest receivable		**22,561**	24,918
Fees and commissions receivable		**866**	931
Fees and commissions payable		**(1,795)**	(1,977)
Other operating income		**316**	177
Other fair value (losses) / gains	5	**(310)**	142
Total income		**21,638**	24,191
Administrative expenses	6	**(13,345)**	(13,730)
Depreciation and amortisation	16 & 17	**(1,159)**	(1,160)
Other operating charges		**(146)**	(255)
		6,988	9,046
Provisions for bad and doubtful debts	15	**272**	(82)
Provision for FSCS (charge) / credit	22	**(22)**	60
Operating profit and profit for the year before taxation		**7,238**	9,024
Tax on profit on ordinary activities	9	**(1,235)**	(1,641)
PROFIT FOR THE FINANCIAL YEAR	23	**6,003**	7,383

All results in the current and prior years were derived from continuing operations.
The Notes on pages 65 to 95 form part of these Annual Accounts.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2019

	Note	2019 £000	2018 £000
Profit for financial year	23	**6,003**	7,383
Actuarial (loss) / gain recognised in the pension scheme	27	**(4,106)**	1,666
Movement in deferred tax relating to the pension scheme	27	**441**	(283)
Net movement on available-for-sale assets	24	**18**	(20)
Credit in respect of current year taxation on pension scheme	23	**287**	-
Total comprehensive income for the year		**2,643**	8,746

The Notes on pages 65 to 95 form part of these Annual Accounts.

STATEMENT OF FINANCIAL POSITION

as at 31st December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		**166,756**		167,972	
Loans and advances to credit institutions	10	**75,693**		60,718	
Debt securities - issued by other borrowers	11	**86,390**		86,708	
			328,839		315,398
Derivative financial instruments	12		**33**		1,013
Loans and advances to customers	14				
Loans fully secured on residential property		**1,494,204**		1,507,899	
Other loans fully secured on land		**4,148**		4,513	
			1,498,352		1,512,412
Tangible fixed assets	16		**6,712**		6,967
Intangible fixed assets	17		**1,604**		1,528
Other assets	9		**1,447**		965
Prepayments and accrued income			**1,019**		802
TOTAL ASSETS			**1,838,006**		1,839,085
LIABILITIES					
Shares	18		**1,564,453**		1,570,621
Amounts owed to credit institutions	19		**75,812**		77,430
Amounts owed to other customers	20		**63,957**		64,120
Derivative financial instruments	12		**2,010**		327
Other liabilities	21		**1,562**		1,611
Pension liability	27		**5,855**		3,262
			1,713,649		1,717,371
Reserves					
General reserves	23		**124,919**		122,302
Other reserves	24		**(562)**		(588)
TOTAL LIABILITIES			**1,838,006**		1,839,085

The Notes on pages 65 to 95 form part of these Annual Accounts.
The Accounts on pages 60 to 95 were approved by the Board of Directors on 27th February 2020 and were signed on its behalf by:

Michael Parrott
Chair

Gerard McGinn
Vice-Chair

Darina Armstrong
Chief Executive

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

as at 31st December 2019

	General reserves £000	Available-for-sale reserve £000	Revaluation reserve £000	Total £000
2019				
As at 1st January 2019	122,302	71	(659)	121,714
Profit for the year	6,003	-	-	6,003
Other comprehensive income for the period				
Net movement from changes in fair value	-	18	-	18
Transfer of amount equivalent to additional depreciation on revalued assets	(8)	-	8	-
Remeasurement of defined benefit obligation	(3,665)	-	-	(3,665)
Credit in respect of current year taxation on pension scheme	287	-	-	287
Total comprehensive income for the period	2,617	18	8	2,643
As at 31st December 2019	**124,919**	**89**	**(651)**	**124,357**
2018				
As at 1st January 2018	113,567	86	(685)	112,968
Profit for the year	7,383	-	-	7,383
Other comprehensive income for the period				
Net movement from changes in fair value	-	(20)	-	(20)
Transfer of amount equivalent to additional depreciation on revalued assets	(8)	-	8	-
Remeasurement of defined benefit obligation	1,383	-	-	1,383
Transfer of realised losses	(23)	5	18	-
Total comprehensive income / (expense) for the period	8,735	(15)	26	8,746
As at 31st December 2018	122,302	71	(659)	121,714

The Notes on pages 65 to 95 form part of these Annual Accounts.

CASH FLOW STATEMENT

for the year ended 31st December 2019

	2019 £000	2018 (as restated)* £000
Net cash flow from operating activities (see below)	**(78)**	1,356
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(980)**	(789)
Disposal of tangible and intangible fixed assets	**-**	70
Purchase of debt securities	**(95,399)**	(126,651)
Disposal of debt securities	**95,301**	61,078
Net cash flows from investing activities	**(1,078)**	(66,292)
Net decrease in cash and cash equivalents	**(1,156)**	(64,936)
Cash and cash equivalents at beginning of year	**175,633**	240,569
Cash and cash equivalents at end of year	**174,477**	175,633
Cash flows from operating activities		
Profit before tax	**7,238**	9,024
Movement in prepayments and accrued income	**128**	(765)
Movement in accruals and deferred income	**1,149**	602
Movement in provisions for bad and doubtful debts	**(1,028)**	(573)
Depreciation and amortisation	**1,159**	1,160
Loss on disposal of tangible assets	**-**	1
Pension charges	**981**	1,590
Pension contributions	**(2,494)**	(2,623)
Movement in derivative financial instruments	**2,663**	(765)
Movement in fair value adjustments	**(2,352)**	622
Net cash flow from operating activities before movement in operating assets and liabilities	**7,444**	8,273
Movement in operating assets and liabilities:		
Loans and advances to customers	**17,352**	(49,477)
Shares	**(7,066)**	(1,245)
Amounts owed to credit institutions and other customers	**(1,944)**	46,988
Loans and advances to credit institutions	**(14,821)**	(630)
Other liabilities	**188**	(435)
Taxation paid	**(1,231)**	(2,118)
Net cash flow from operating activities	**(78)**	1,356
Cash and cash equivalents:		
Cash in hand and balances with Bank of England	**166,756**	167,972
Loans and advances to credit institutions repayable on demand	**7,721**	7,661
	174,477	175,633

*Further detail provided in Note 18.
The Notes on pages 65 to 95 form part of these Annual Accounts.

NOTES TO THE ACCOUNTS

for the year ended 31st December 2019

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the following accounting policies which have been applied consistently with the prior year.

Basis of preparation
The Annual Accounts have been prepared in accordance with Financial Reporting Standard 102, IAS 39 Financial Instruments: Recognition and Measurement and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended).

The Annual Accounts have been prepared under the historical cost convention as modified to include the revaluation of financial assets and liabilities held at fair value through profit or loss, available-for-sale financial assets, derivative contracts and certain land and buildings.

The Accounts have been prepared on the going concern basis as outlined in the Directors' Report.

Interest income and interest payable
Interest receivable and interest payable, for all interest bearing financial instruments held at amortised cost, are recognised in the Income Statement using the Effective Interest Rate (EIR) method.

The EIR method calculates the amortised cost of a financial instrument and allocates the interest income / expense over the expected product life.

The EIR is the rate that exactly discounts the estimated future cash flows (excluding credit losses) through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial instrument.

The calculation includes all fees received or paid and costs borne by the Society that are an integral part of the EIR of the financial instrument. The main impact for the Society relates to mortgage advances where fees such as application fees, arrangement fees, survey fees and procuration fees are incorporated in the calculation.

Interest income on available-for-sale instruments, derivatives and other financial assets accounted for at fair value is included in "Interest receivable and similar income".

Fees and commissions
Fees payable and receivable in relation to the provision of loans, such as loan origination fees, are accounted for on an Effective Interest Rate basis. Other fees and commissions are recognised on an accruals basis when the service has been provided.

Operating leases
Costs in respect of operating leases are charged to the Income Statement on a straight line basis over the lease term.

Repairs and renewals
The cost of repairs and renewals is charged to revenue in the year in which the expenditure is incurred.

Taxation
Current tax is provided on the Society's taxable profits at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the date of the Statement of Financial Position.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the financial year end where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the financial year end. Timing differences are differences between the Society's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the date of the Statement of Financial Position that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model is measured using the tax rates and allowances that apply to the sale of the asset.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

1. ACCOUNTING POLICIES (Continued)

Where items recognised in other comprehensive income are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Society intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if the Society has a legally enforceable right to set off current tax assets against current tax liabilities.

Tangible fixed assets and depreciation
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold or long leasehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold and long leasehold buildings	1% to 10%
Short leasehold land and buildings	over the term of each lease
Equipment, fixtures, fittings and vehicles	10% to 50%

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Individual freehold and long leasehold properties are revalued to fair value with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the Income Statement.

Financial assets
In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Society classifies its financial assets into the following categories:

(a) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Society's loans and advances to customers and money market advances are classified as loans and receivables and are measured at amortised cost using the Effective Interest Rate method less provisions for impairment.

In accordance with the Effective Interest Rate method, directly attributable upfront costs and fees such as application and arrangement fees, survey fees and procuration fees are deferred and recognised over the expected life of the mortgage assets. Historic data and management judgements are used to estimate the expected lives of mortgage assets and the calculation adjusted when actual experience differs from estimates, with changes in deferred amounts being recognised immediately in the Income Statement.

(b) Available-for-sale financial assets

These are non-derivative assets, principally debt securities, that are intended to be held for an indefinite period of time and which may be sold in response to changes in interest rate or changes in liquidity requirements.

Available-for-sale assets are measured at fair value with fair value gains or losses recognised in Other Comprehensive Income. On sale or impairment of the asset, the cumulative gain or loss previously recognised in Other Comprehensive Income is reclassified to profit or loss as a reclassification adjustment.

The fair values of quoted investments in active markets are based on current bid prices. If market data is not available alternative valuation techniques, such as discounted cash flow models or recent arms length transactions, are used to determine fair value.

Premiums and discounts arising from the purchase of available-for–sale assets are amortised over the period to the maturity date of the security.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

1. ACCOUNTING POLICIES (Continued)

c) Financial assets at fair value through Profit and Loss

These are derivative financial assets initially recognised at fair value on the date on which the derivative contract is entered into. Subsequent measurement is at fair value with movements in value recognised in the Income Statement.

Where a hedge is terminated early, the realised gain or loss is recognised in the Income Statement.

(d) Held to maturity financial assets

The Society has not classified any financial assets as held to maturity.

Financial assets are derecognised when the rights to receive cash flows have expired or where substantially all the risks and rewards of ownership have been transferred to another party.

Financial liabilities

Non-derivative financial liabilities are initially recognised at fair value being the issue proceeds net of premiums, discounts and transaction costs incurred. These are subsequently held at amortised cost using the Effective Interest Rate method.

Derivative financial liabilities are recognised at fair value. Movements in fair value are recognised in the Income Statement.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Financial assets and liabilities are only offset in the Statement of Financial Position when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Society intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment losses on loans and advances to customers and credit institutions

The Society assesses at each year end whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset or group of financial assets is impaired. Evidence of impairment may include indications that the borrower or group of borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the debt being restructured to reduce the burden on the borrower, any breach of contract, and other overall economic conditions.

The Society first assesses whether objective evidence of impairment exists either individually for assets that are separately significant, or collectively for assets that are not separately significant. If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics. For example, accounts subject to forbearance are collectively assessed for forbearance.

If there is subjective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the net present value of estimated future cash flows discounted at the asset's original effective interest rate. The resultant provisions have been deducted from the appropriate asset values in the Statement of Financial Position.

Other provisions and contingent liabilities

Provisions are recognised when a legal or constructive obligation exists as a consequence of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the settlement.

Where it is not probable that the obligation will be settled and / or it cannot be reliably estimated, a contingent liability is disclosed in the Notes to the Accounts.

Borrowings

Commissions and other costs incurred in the raising of other borrowings are amortised over the period to maturity.

Retirement benefits

For defined benefit schemes the amounts charged to operating profit are the costs arising from employee services rendered during the period and the cost of plan introductions, benefit changes, settlements and curtailments. They are included as part of staff costs. The net interest cost on the net defined benefit liability is charged to the Income Statement and included within finance costs. Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability) are recognised immediately in Other Comprehensive Income.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

1. ACCOUNTING POLICIES (Continued)

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Society, in separate trustee administered funds. The executive Directors also benefit from an unfunded arrangement. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at the Scheme's financial year end. The valuations are also updated for accounting purposes at the Society's financial year end.

For defined contribution schemes the amount charged to the Income Statement in respect of pension costs and other retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

Derivative financial instruments and hedge accounting

The Society uses derivatives only for risk management purposes. Further information on hedging strategies may be found in Note 25.

(a) Derivative financial instruments

Derivatives are initially measured at fair value, at the date the derivative contract is entered into, with subsequent movements in fair value recognised in the Income Statement.

Fair value measurement

Fair values are calculated by applying yield curves, based on quoted market rates, to a discounted cash flow model. The resulting gain or loss is recognised in the Income Statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative.

Where collateral is given / held to mitigate the risk inherent in amounts due from / to the Society it is recognised as an asset / liability and included within "loans and advances to credit institutions" / "amounts owed to credit institutions".

The Society does not hold or issue derivative financial instruments for trading purposes.

(b) Hedge accounting

The Society applies fair value hedge accounting when the transactions meet the criteria specified in IAS 39.

Hedge relationships are formally designated and documented at inception.

Note 25 sets out details of the fair values of the Society's derivative instruments used for hedging purposes.

Changes in the fair value of the derivatives are recognised in the Income Statement together with changes in the fair value of the hedged item that are attributable to the hedged risk.

Hedge accounting is discontinued when:

- the derivative expires, is sold, is terminated or exercised,
- the hedge no longer meets the criteria for hedge accounting,
- the hedged item matures, is sold or repaid,
- the hedge designation is revoked.

Intangible assets

Purchased computer software, which is not an integral part of the related hardware, is recognised as an intangible asset at cost and amortised on a straight line basis over the estimated useful life, 3 to 5 years. Provision is made for any impairment.

Costs incurred to maintain technical feasibility or to maintain existing levels of performance are recognised as an expense as incurred.

Sale and repurchase agreements

Investments and other securities may be lent or sold subject to a commitment to repurchase them at a predetermined price (a repo). Where substantially all the risks and rewards of ownership remain with the Society such securities remain on the Statement of Financial Position and the counterparty liability is recognised separately on the Statement of Financial Position as appropriate.

The difference between the sale and repurchase price is accrued over the life of the agreement.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

2. JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Society has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements.

In addition, the Society makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are continually evaluated and are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The most significant areas where estimates, assumptions and judgements are made are as follows:

Impairment provision on loans and advances

The Society reviews its mortgage advances portfolio at least on a monthly basis to assess impairment.

The creation of impairment provisions for a portfolio of mortgage loans is inherently uncertain and requires the exercise of a significant degree of judgement. Provisions are calculated using historic default and loss experience but require judgement to be exercised in predicting future economic conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates), House Price Index, forced sale discounts and the length of time before impairments are identified (i.e. emergence period). These assumptions are based on observed historical data and updated as management considers appropriate to reflect current and future conditions. The impairment provision at year end amounted to £4.3 million (2018: £5.3 million).

Fair value of derivatives and available-for-sale assets

Derivative financial instruments and available-for-sale assets are recognised at fair value, which is derived from market data, with alternative valuation techniques used if market data is not available.

Derivative financial instruments are valued by discounted cash flow models using yield curves that are based on observable market data. Available -for-sale assets are valued using market prices or, where market prices are not available, using discounted cash flow models or recent arms length transactions.

Changes in the assumptions used could affect the fair value calculations.

Effective interest rate (EIR)

Under IAS 39, financial instruments carried at amortised cost are accounted for on an EIR basis.

The calculation of EIR requires the Society to make assumptions regarding the expected lives of financial instruments and the anticipated level of early repayment fees. Management regularly review these assumptions to ensure they reflect actual performance.

Retirement benefit obligations

The calculation of the present value of the retirement benefit obligations requires the Society to make significant judgements in respect of mortality, price inflation, discount rates, pension increases and earnings growth. Further details on the assumptions used in valuing retirement benefit obligations and other sensitivity analysis can be found in Note 27.

Changes in assumptions could affect the reported liability, service cost and expected return on pension plan assets.

The fair value of the pension liability amounted to £5.9 million at year end (2018: £3.3 million).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2019 £000	2018 £000
On loans fully secured on residential property	**39,915**	41,485
On other loans	**229**	238
On debt securities	**316**	325
On other liquid assets	**2,222**	1,598
Net expenditure on financial instruments used to hedge assets	**(449)**	(537)
	42,233	43,109

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
On shares held by individuals	**16,692**	15,664
On deposits and other borrowings	**1,452**	1,012
On other shares	**1,528**	1,515
	19,672	18,191

5. OTHER FAIR VALUE GAINS AND LOSSES

	2019 £000	2018 £000
(Loss) / gain on derivatives	**(2,661)**	765
Gain / (loss) on hedged items attributable to the hedged risk	**2,351**	(623)
	(310)	142

Other fair value gains and losses represent the difference between changes in the fair value excluding interest flows of the hedging derivatives and the changes in fair value excluding interest flows of the underlying hedged items.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

6. ADMINISTRATIVE EXPENSES

	2019 £000	2018 £000
Staff costs:		
• Wages and salaries	**5,882**	5,591
• Social security costs	**587**	577
• Other pension costs (Note 27)	**1,232**	1,796
	7,701	7,964
Other administrative expenses	**5,644**	5,766
	13,345	13,730
Other administrative expenses include:		
Fees payable to the Society's auditors:		
For the audit of the Society's Annual Accounts	**73**	71
Total audit and non audit fees (inclusive of VAT)	**73**	71
Loss on disposal of tangible fixed assets	**-**	(1)
Operating lease charges include:		
Property	**201**	208

7. EMPLOYEES

The average number of persons employed by the Society (including the executive Directors) during the year was as follows:

	2019 Full Time	2018 Full Time	2019 Part Time	2018 Part Time
Head office	**66**	64	**22**	23
Branch offices	**65**	64	**30**	31
	131	128	**52**	54

8. DIRECTORS' EMOLUMENTS AND TRANSACTIONS

Directors' emoluments are shown as part of the Directors' Remuneration Report.
The total emoluments of the Directors who served during the year were £812,000 (2018: £781,000).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

9. TAXATION

a. Analysis of taxation charge in the period

	2019 £000	2018 £000
Current tax:		
UK corporation tax on profits of the current year	**1,259**	1,419
Adjustments in respect of prior periods	**(192)**	(18)
Total current tax	**1,067**	1,401
Deferred tax:		
Origination and reversal of timing differences	**141**	316
Effect of changes in tax rate	**(15)**	(34)
Adjustment in respect of prior periods	**42**	(42)
Total deferred tax	**168**	240
Tax charge for the period	**1,235**	1,641

b. Factors affecting the current tax charge for the period

The effective tax rate is 17.06% (2018: 18.18%), which is lower (2018: lower) than the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £000	2018 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**7,238**	9,024
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 19.00% (2018: 19.00%)	**1,375**	1,715
Effects of:		
Expenses not deductible for tax purposes	**25**	20
Tax rate changes	**(15)**	(34)
Prior period adjustments	**(150)**	(60)
Tax charge for period (see above)	**1,235**	1,641

"Other assets" on the face of the Statement of Financial Position includes a corporation tax asset of £213,000 (2018: corporation tax liability £237,000 within "Other liabilities").

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

9. TAXATION (Continued)

c. Deferred Taxation

	2019 £000	2018 £000
Movement in deferred tax balance in period		
Deferred tax asset as at 1st January	**965**	1,485
Adjustment in respect of prior periods	**(42)**	42
Charge to Income Statement	**(126)**	[282]
Credit / (charge) to Other Comprehensive Income	**437**	(280)
Deferred tax asset as at 31st December	**1,234**	965
Analysis of deferred tax balance		
Accelerated capital allowances	**(9)**	23
Other timing differences	**1,243**	942
	1,234	965

The deferred tax asset of £1,234,000 (2018: £965,000) is included within "Other assets" on the face of the Statement of Financial Position.

d. Factors that may affect future tax charges

The Finance Act 2016 provided for the reduction in the main rate of corporation tax to 17% from 1st April 2020 which will affect the future taxable profits of the Society.

The potential gross deferred tax on revalued assets, after allowing for any indexation allowances which may be available, is estimated to be £nil (2018: £nil).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2019 £000	2018 £000
Loans and advances to credit institutions have remaining maturities as follows:		
Repayable on demand	**7,721**	7,661
Other loans and advances by residual maturity repayable:		
In not more than three months	**48,100**	32,500
In more than three months but not more than one year	**19,657**	20,436
	75,478	60,597
Accrued interest	**215**	121
	75,693	60,718

Included in the above amount is £3.1m (2018: £1.0m) deposited as collateral under Credit Support Annex (CSA) agreements.

11. DEBT SECURITIES - ISSUED BY OTHER BORROWERS

	2019 £000	2018 £000
Issued by public bodies	**86,390**	86,708
	86,390	86,708
Debt securities are held as available-for-sale assets and carried at their fair value.		
Debt securities have remaining maturities as follows:		
In not more than one year	**76,004**	60,228
In more than one year	**10,096**	25,751
	86,100	85,979
Accrued interest	**290**	729
	86,390	86,708
Analysis of debt securities (excluding accrued interest):		
Transferable securities		
Listed	**86,100**	85,979
	86,100	85,979

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

11. DEBT SECURITIES - ISSUED BY OTHER BORROWERS (Continued)

	2019 £000	2018 £000
The movement in available-for-sale debt securities is summarised as follows:		
As at 1st January	**85,979**	20,424
Additions	**95,399**	126,651
Disposals and maturities	**(95,301)**	(61,078)
Changes in fair value	**23**	(18)
As at 31st December	**86,100**	85,979

12. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps are used by the Society for hedging purposes. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place.

	Contract / notional amount		**Fair value**	
	2019 £000	2018 £000	**2019 £000**	2018 £000
Derivative assets held for hedging purposes and designated fair value hedges				
Interest rate swaps	**65,000**	255,000	**33**	1,013
Total recognised derivative assets	**65,000**	255,000	**33**	1,013
Derivative liabilities held for hedging purposes and designated fair value hedges				
Interest rate swaps	**195,000**	93,000	**2,010**	327
Total recognised derivative liabilities	**195,000**	93,000	**2,010**	327

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	2019 £000	Level 1 £000	Level 2 £000
Financial assets at fair value through profit or loss:			
Derivative financial instruments	**33**	-	33
Available-for-sale financial assets:			
Debt securities	**86,390**	86,390	-
	86,423	86,390	33
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	**2,010**	-	2,010
	2,010	-	2,010

	2018 £000	Level 1 £000	Level 2 £000
Financial assets at fair value through profit or loss:			
Derivative financial instruments	1,013	-	1,013
Available-for-sale financial assets:			
Debt securities	86,708	86,708	-
	87,721	86,708	1,013
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	327	-	327
	327	-	327

The tables above provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which fair value is observable.

Level	Hierarchy for fair value disclosures
1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
2	Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly (i.e. derived from prices).
3	Inputs for the asset or liability that are not based on observable market data. There are no instruments classified as level 3 in 2019 (2018: none).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

14. LOANS AND ADVANCES TO CUSTOMERS

	2019 £000	2018 £000
The maturity of loans and advances to customers from the date of the Statement of Financial Position is as follows:		
On call and at short notice	**1,939**	804
Other loans and advances by residual maturity repayable:		
In not more than three months	**18,191**	17,240
In more than three months but not more than one year	**56,121**	53,787
In more than one year but not more than five years	**303,270**	299,276
In more than five years	**1,121,163**	1,146,929
	1,500,684	1,518,036
Unamortised loan origination fees	**141**	229
Provisions for bad and doubtful debts (Note 15)	**(4,263)**	(5,291)
Fair value adjustment for hedged risk	**1,790**	(562)
Total loans and advances to customers	**1,498,352**	1,512,412

At 31st December 2019 £154m (2018: £176m) of loans have been pledged as collateral to the Bank of England to facilitate funding under the Term Funding Scheme (TFS).

Past experience would indicate that mortgages are often redeemed before their natural maturity date. This maturity analysis may therefore not reflect actual experience.

Forbearance

The Society offers a range of forbearance options to support borrowers who are in financial difficulty with the aim of minimising the risk of the customer ultimately losing their home and to ensure the right customer outcome.

The Society embraces regulatory guidance. Accordingly, the individual circumstances of the borrower are considered in determining the most appropriate forbearance measure and the Society will continue to work with the borrower to bring the mortgage back to sustainable terms within a timeframe appropriate to the borrower's circumstances.

The Society provided the following forbearance measures to customers during 2019:

- A temporary change of repayment type from Repayment to Interest Only - 42 cases (2018: 29 cases)
- A payment concession of less than the normal monthly payment due - 2 cases (2018: 6 cases).

No extra provisions for forbearance cases have been required in addition to provisions calculated under the Society's normal accounting policies as detailed in Note 1.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

15. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Provisions against loans and advances have been made as follows:

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1st January 2019			
Collective provision	962	-	962
Specific provision	4,071	258	4,329
	5,033	258	5,291
Amounts written off during the year			
Specific provision	876	-	876
	876	-	876
Income Statement			
Collective provision	(330)	-	(330)
Specific provision	129	49	178
	(201)	49	(152)
At 31st December 2019			
Collective provision	**632**	-	**632**
Specific provision	**3,324**	**307**	**3,631**
	3,956	**307**	**4,263**

The credit of £272,000 in the Income Statement consists of the credit of £152,000 above and credits of £120,000 in respect of recoveries against loans which have been written off in prior periods and the write back of amounts overprovided on properties in possession when sold.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

16. TANGIBLE FIXED ASSETS

	Land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Total £000
Cost or valuation			
At 1st January 2019	7,190	4,694	11,884
Additions during year	14	365	379
Disposals during year	-	(82)	(82)
At 31st December 2019	**7,204**	**4,977**	**12,181**
Depreciation			
At 1st January 2019	1,214	3,703	4,917
Charge for the year	113	521	634
Disposals	-	(82)	(82)
At 31st December 2019	**1,327**	**4,142**	**5,469**
Net book value			
At 31st December 2019	**5,877**	**835**	**6,712**
At 31st December 2018	5,976	991	6,967

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

16. TANGIBLE FIXED ASSETS (Continued)

	2019 £000	2018 £000
The net book value of land and buildings comprises:		
Freehold	**4,766**	4,824
Long leasehold	**1,012**	1,016
Short leasehold	**99**	136
	5,877	5,976
Analysed as follows:		
Land	**1,833**	1,833
Buildings	**4,044**	4,143
	5,877	5,976
The net book value of land and buildings occupied by the Society for its own activities:		
At 31st December	**4,713**	4,798
If land and buildings had not been revalued they would have been included at the following amounts:		
Cost	**8,146**	8,132
Aggregate depreciation based on cost	**(1,514)**	(1,393)
Net book value based on cost	**6,632**	6,739

Freehold and long leasehold land and buildings were revalued on market value basis. The last external valuations were performed by O'Connor Kennedy Turtle, a firm of independent chartered surveyors, in December 2015.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

17. INTANGIBLE ASSETS

	Total £000
Cost	
At 1st January 2019	5,104
Additions during year	601
Disposals during year	(17)
At 31st December 2019	**5,688**
Amortisation	
At 1st January 2019	3,576
Charge for the year	525
Disposals	(17)
At 31st December 2019	**4,084**
Net book value	
At 31st December 2019	**1,604**
At 31st December 2018	1,528

18. SHARES

	2019 £000	2018 £000
Held by individuals	**1,432,697**	1,431,910
Other shares	**131,756**	138,711
	1,564,453	1,570,621
Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		As restated
Accrued interest	**12,469**	11,571
Repayable on demand	**825,657**	790,410
Other shares by residual maturity repayable:		
In not more than three months	**133,957**	161,847
In more than three months but not more than one year	**332,147**	321,420
In more than one year but not more than five years	**260,223**	285,373
	1,564,453	1,570,621

For 2018, £2.247m has been reclassified from "repayable on demand" to "accrued interest".

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NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2019 **£000**	2018 £000
Amounts owed to credit institutions are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	**227**	201
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	**21,085**	19,229
In more than three months but not more than one year	**4,500**	8,000
In more than one year but not more than five years	**50,000**	50,000
	75,812	77,430

Included in the above amount is £50m (2018: £50m) drawndown against the Bank of England Term Funding Scheme (TFS) and £nil (2018: £0.69m) of collateral held under Credit Support Annex (CSA) agreements.

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2019 **£000**	2018 £000
Amounts owed to other customers are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	**389**	252
Other amounts owed to other customers by residual maturity repayable:		
In not more than three months	**30,068**	18,868
In more than three months but not more than one year	**27,500**	40,000
In more than one year but not more than five years	**6,000**	5,000
	63,957	64,120

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

21. OTHER LIABILITIES

	2019 £000	2018 £000
Corporation tax	-	237
Income tax	115	136
Social security	118	125
Other creditors	1,329	1,113
	1,562	1,611

22. PROVISIONS FOR LIABILITIES AND CHARGES

	2019 £000	2018 £000
At 1st January	-	101
Charge / (credit) for the year	22	(60)
Utilisation of provision	(22)	(41)
At 31st December	-	-

Based on its share of protected deposits, the Society has had to pay levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. Claims against the FSCS were triggered by failures in the banking sector.

The FSCS announced in June 2018 that it has repaid its remaining £4.65 billion debt to HM Treasury arising from the Bradford & Bingley failure of 2008. This brings to an end the FSCS costs borne by the industry in respect of the 2008 / 2009 banking failures.

As a result of the notifications it has received this year from the Financial Conduct Authority, the Society has not recognised in this year's results a provision for the FSCS levy (2018: nil).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

23. GENERAL RESERVES

	2019 £000	2018 £000
At 1st January	**122,302**	113,567
Profit for the financial year	**6,003**	7,383
Transfer of amount equivalent to additional depreciation on revalued assets	**(8)**	(8)
Transfer of realised losses	**-**	(23)
Net pension scheme movement in Statement of Other Comprehensive Income	**(3,665)**	1,383
Credit in respect of current year taxation on pension scheme	**287**	-
At 31st December	**124,919**	122,302
The general reserves can be analysed into the following components:		
Relating to defined benefit pension liability	**(5,855)**	(3,262)
Other elements	**130,774**	125,564
	124,919	122,302

24. OTHER RESERVES

	Revaluation reserve		**Available-for-sale reserve**	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1st January	**(659)**	(685)	**71**	86
Transfer of amount equivalent to additonal depreciation on revalued assets	**8**	8	**-**	-
Transfer of realised losses	**-**	18	**-**	5
Net fair value movement	**-**	-	**18**	(20)
At 31st December	**(651)**	(659)	**89**	71

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS

A financial instrument is a contract which gives rise to a financial asset of one entity and a financial liability of another entity. The Society is a retailer of financial instruments in the form of mortgage and savings products, and also uses wholesale financial instruments to invest liquid asset balances, raise wholesale funding and manage the risks arising from its operations.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Asset and Liability Committee (ALCO), which is charged with the responsibility for managing and controlling the exposures of the Statement of Financial Position and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Society, in accordance with the Buildings Societies Act 1986, to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

The type of derivative instrument used by the Society in the management and control of Statement of Financial Position risk is the interest rate swap. This is used to reduce the interest rate risk inherent in fixed rate loans and savings products by effectively converting the fixed rate into a variable market rate.

The Society, as with most other building societies reporting under FRS 102, utilises IAS 39 Financial Instruments: Recognition and Measurement, which allows for macro hedging and a reduction in volatility in the income statements. IAS 39 outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortised cost or fair value).

Under IAS 39, exposures to interest rate risk arise from loans, deposits and interest rate derivatives. However under this standard, loans and deposits are accounted for at amortised cost while interest rate derivatives are required to be accounted for at fair value through profit or loss. Consequently, risk management using derivatives may result in volatility in profit or loss even if the purpose of initial risk management using the derivative is to reduce the risk faced by the Society.

Hedge accounting under IAS 39 allows entities to address such recognition and measurement mismatches by either changing the measurement of the items that give rise to the risk exposure (a fair value hedge) or deferring gains or losses on the hedging instrument to a later period (a cash flow hedge). The Society uses the fair value hedge option to apply the standard. In order to apply hedge accounting it is also necessary to identify specific hedged item(s) and hedging instrument(s) and link them via designation in individual hedging relationships.

	2019 £000	2018 £000
Notional principal amounts	**260,000**	348,000
Credit risk weighted amounts	**207**	421
Replacement costs	**33**	1,013

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS (Continued)

Market risk is the risk of changes to the Society's financial condition caused by movements in market interest rates. The Society is exposed to market risk in the form of changes in the relationship between short and long term interest rates and the divergence of interest rates for different Statement of Financial Position elements (basis risk). The Society has adopted the 'Extended' approach to interest rate risk, as defined by the Prudential Regulation Authority (PRA), which aims to undertake structural hedging based on a detailed analysis of the Statement of Financial Position. The table below summarises the repricing mismatches as at 31st December 2019. Items are allocated to time bands by reference to the earlier of the next interest rate repricing date and the maturity date.

	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	Non interest-bearing £000	Total £000
Assets						
Liquid assets	221,321	67,754	25,250	11,096	3,418	328,839
Derivative financial instruments	-	-	-	-	33	33
Loans and advances to customers	765,465	88,568	132,942	513,709	(2,332)	1,498,352
Tangible fixed assets	-	-	-	-	6,712	6,712
Intangible fixed assets	-	-	-	-	1,604	1,604
Other assets	-	-	-	-	1,447	1,447
Prepayments and accrued income	-	-	-	-	1,019	1,019
Total assets	986,786	156,322	158,192	524,805	11,901	1,838,006
Liabilities						
Shares	1,006,662	93,779	201,842	249,701	12,469	1,564,453
Amounts owed to credit institutions	71,085	2,000	2,500	-	227	75,812
Amounts owed to other customers	30,068	16,000	11,500	6,000	389	63,957
Derivative financial instruments	-	-	-	-	2,010	2,010
Other liabilities	-	-	-	-	1,562	1,562
Net pension liability	-	-	-	-	5,855	5,855
Reserves	-	-	-	-	124,357	124,357
Total liabilities	1,107,815	111,779	215,842	255,701	146,869	1,838,006
Impact of derivative instruments	255,000	(20,000)	(35,000)	(200,000)	-	-
Interest rate sensitivity gap	133,971	24,543	(92,650)	69,104	(134,968)	-
Cumulative gap	133,971	158,514	65,864	134,968	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS (Continued)

The repricing mismatch comparatives as at 31st December 2018 (as restated) were as follows:

	Not more than three months £000	More than three months but not more than six months £000	More than six months but not more than one year £000	More than one year but not more than five years £000	Non interest-bearing £000	Total £000
Assets						
Liquid assets	246,979	17,500	20,111	26,751	4,057	315,398
Derivative financial instruments	-	-	-	-	1,013	1,013
Loans and advances to customers	712,638	56,419	213,230	535,749	(5,624)	1,512,412
Tangible fixed assets	-	-	-	-	6,967	6,967
Intangible fixed assets	-	-	-	-	1,528	1,528
Other assets	-	-	-	-	965	965
Prepayments and accrued income	-	-	-	-	802	802
Total assets	959,617	73,919	233,341	562,500	9,708	1,839,085
Liabilities						
Shares	1,007,065	61,872	224,211	265,902	11,571	1,570,621
Amounts owed to credit institutions	69,229	5,500	2,500	-	201	77,430
Amounts owed to other customers	18,868	21,500	18,500	5,000	252	64,120
Derivative financial instruments	-	-	-	-	327	327
Other liabilities	-	-	-	-	1,611	1,611
Net pension liability	-	-	-	-	3,262	3,262
Reserves	-	-	-	-	121,714	121,714
Total liabilities	1,095,162	88,872	245,211	270,902	138,938	1,839,085
Impact of derivative instruments	323,000	(25,000)	(80,000)	(218,000)	-	-
Interest rate sensitivity gap	187,455	(39,953)	(91,870)	73,598	(129,230)	-
Cumulative gap	187,455	147,502	55,632	129,230	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS (Continued)

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Society's financial instruments by category as at 31st December 2019. All activities are non-trading book. Where available, market values have been used to calculate fair values. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates.

The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist.

	2019 Book value £000	**2019 Fair value £000**	2018 Book value £000	2018 Fair value £000
Assets				
Liquid assets	**328,839**	**328,189**	315,398	314,505
Loans and advances to customers	**1,498,352**	**1,485,406**	1,512,412	1,498,636
Derivative financial instruments	**33**	**33**	1,013	1,013
Total	**1,827,224**	**1,813,628**	1,828,823	1,814,154
Liabilities				
Shares	**1,564,453**	**1,564,453**	1,570,621	1,570,621
Wholesale liabilities	**139,769**	**139,464**	141,550	141,220
Derivative financial instruments	**2,010**	**2,010**	327	327
Total	**1,706,232**	**1,705,927**	1,712,498	1,712,168

Liquid assets comprise cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities. Wholesale liabilities comprise all financial liabilities reported within 'Amounts owed to credit institutions' and 'Amounts owed to other customers'.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2019 were as follows:

	At amortised cost £000	Loans and receivables £000	Available-for-sale £000	Fair value through profit and loss £000	Total £000
Assets					
Cash in hand and balances with Bank of England	166,756	-	-	-	166,756
Loans and advances to credit institutions	-	75,693	-	-	75,693
Debt securities	-	-	86,390	-	86,390
Derivative financial instruments	-	-	-	33	33
Loans and advances to customers	-	1,498,352	-	-	1,498,352
Total financial assets	166,756	1,574,045	86,390	33	1,827,224
Total non-financial assets					10,782
Total Assets					1,838,006
Liabilities					
Shares	1,564,453	-	-	-	1,564,453
Amounts owed to credit institutions	75,812	-	-	-	75,812
Amounts owed to other customers	63,957	-	-	-	63,957
Derivative financial instruments	-	-	-	2,010	2,010
Total financial liabilities	1,704,222	-	-	2,010	1,706,232
Total non-financial liabilities					7,417
Reserves					124,357
Total Liabilities					1,838,006

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

25. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2018 were as follows:

	At amortised cost £000	Loans and receivables £000	Available-for-sale £000	Fair value through profit and loss £000	Total £000
Assets					
Cash in hand and balances with Bank of England	167,972	-	-	-	167,972
Loans and advances to credit institutions	-	60,718	-	-	60,718
Debt securities	-	-	86,708	-	86,708
Derivative financial instruments	-	-	-	1,013	1,013
Loans and advances to customers	-	1,512,412	-	-	1,512,412
Total financial assets	167,972	1,573,130	86,708	1,013	1,828,823
Total non-financial assets					10,262
Total Assets					1,839,085
Liabilities					
Shares	1,570,621	-	-	-	1,570,621
Amounts owed to credit institutions	77,430	-	-	-	77,430
Amounts owed to other customers	64,120	-	-	-	64,120
Derivative financial instruments	-	-	-	327	327
Total financial liabilities	1,712,171	-	-	327	1,712,498
Total non-financial liabilities					4,873
Reserves					121,714
Total Liabilities					1,839,085

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

26. FINANCIAL COMMITMENTS

	2019 £000	2018 £000
Capital commitments		
Capital commitments at 31st December for which no provision has been made:		
Contracted but not provided for	**-**	9
Lease commitments		
Total future minimum lease commitments in respect of land and buildings under non-cancellable operating leases which expire:		
Between one to five years	**341**	237
After five years	**124**	419
	465	656
Memorandum items		
Irrevocable undrawn mortgage loan facilities	**75,168**	76,797

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

27. PENSION SCHEME

Defined contribution scheme

The Society operates a defined contribution scheme which is open to all employees who are not in the defined benefit scheme and the assets of which are vested with independent trustees for the benefit of members and their dependants. The contributions for the year amounted to £251,000 (2018: £206,000) and have been charged to 'Administrative expenses'.

Defined benefit scheme

The Society operates a funded pension scheme, which provides benefits on a defined benefit basis. There is also an unfunded arrangement in respect of the executive Directors. The defined benefit scheme has been closed to new employees from April 2001.

The valuation as at 31st December 2019 used for FRS 102 disclosures has been undertaken by a qualified actuary in order to assess the liabilities of the scheme at 31st December 2019 using the Projected Unit Credit Method. Pension scheme assets were restated at their market value at 31st December 2019.

The major assumptions used by the actuary were:

	At 31st Dec 2019 %	At 31st Dec 2018 %
Rate of increase of pensions in payment	**3.00**	3.03
Discount rate	**2.15**	3.01
Inflation	**3.02**	3.23

The following amount has been recognised in the performance statements under the requirements of FRS 102

	2019 £000	2018 £000
The amount relating to operating costs was as follows:		
Included within 'Administrative expenses':		
Current service cost	**784**	896
Past service cost	**-**	436
	784	1,332

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

27. PENSION SCHEME (Continued)

	2019 £000	2018 £000
The amount relating to other pension costs within staff costs (Note 6) was as follows:		
Current service cost	**784**	896
Past service cost	**-**	436
Net finance charge	**197**	258
Defined contribution scheme charge	**251**	206
	1,232	1,796
The amount relating to the finance charge was as follows:		
Expected return on pension scheme assets	**1,254**	1,062
Interest on pension scheme liabilities	**(1,326)**	(1,195)
Administrative expenses	**(125)**	(125)
Net charge (included within 'Administrative expenses')	**(197)**	(258)
Actuarial gains and losses have been reported in the Statement of Other Comprehensive Income as follows:		
Actuarial (loss) / gain recognised in pension scheme	**(4,106)**	1,666
Movement in deferred tax relating to pension scheme	**441**	(283)
Actuarial (loss) / gain recognised in the Statement of Other Comprehensive Income	**(3,665)**	1,383

Included in the current year actuarial loss is an amount of approximately £495,000 relating to an under-provision of the prior period pension liability. The under-provision arose as a consequence of a misinterpretation of data migrated from the previous actuary and if corrected would have resulted in a lower actuarial gain in the prior year financial statements, a lower general reserve figure, and a higher reported pension deficit (£3,673,000 as opposed to the £3,262,000 reported). Correspondingly, the current year actuarial loss of £4,106,000 would have reduced by £495,000 to £3,611,000. The correction of the under-provision would have no impact on the pension liability reported at the end of December 2019, or on the current or prior period profit for the financial year. Whilst the amount is significant, the Board do not feel it is sufficiently material to warrant a prior period adjustment and therefore no restatement of comparatives has been made.

The amount included in the Statement of Financial Position arising from the Society's obligations in respect of the defined benefit pension scheme and the unfunded arrangement is as follows:

	Value at 31st Dec 2019 £000	Value at 31st Dec 2018 £000
Fair value of pension scheme assets	**46,856**	40,726
Present value of pension scheme liabilities	**(52,711)**	(43,988)
Deficit in pension scheme	**(5,855)**	(3,262)

The pension liability of £5,855,000 comprises £3,355,000 liability for the funded pension scheme and £2,500,000 liability for the unfunded arrangement.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

27. PENSION SCHEME (Continued)

	2019 **£000**	2018 £000
Movements in the present value of scheme liabilities in the current period were as follows:		
At 1st January	**43,988**	46,140
Current service cost	**784**	896
Past service cost	**-**	436
Interest cost	**1,326**	1,195
Contributions from scheme members	**181**	189
Actuarial loss / (gain)	**7,111**	(3,533)
Benefits paid	**(679)**	(1,335)
At 31st December	**52,711**	43,988
Movements in the present value of scheme assets in the current period were as follows:		
At 1st January	**40,726**	40,179
Expected return on scheme assets	**1,254**	1,062
Actuarial gain / (loss)	**3,005**	(1,867)
Contributions from the Society	**2,494**	2,623
Contributions from scheme members	**181**	189
Administrative expenses	**(125)**	(125)
Benefits paid	**(679)**	(1,335)
At 31st December	**46,856**	40,726

The analysis of the scheme assets and the expected rate of return at the date of the Statement of Financial Position were as follows:

	Expected return		**Fair value of assets**	
	2019 **%**	2018 %	**2019** **£000**	2018 £000
Equity instruments	**2.15**	3.01	**8,890**	7,781
Debt instruments	**2.15**	3.01	**23,626**	21,328
Property instruments	**2.15**	3.01	**3,253**	3,078
Other assets	**2.15**	3.01	**11,087**	8,539
	2.15	3.01	**46,856**	40,726

The scheme's assets are not intended to be realised in the short term and their fair values may be subject to significant change before the assets are realised. The present values of the scheme's liabilities are derived from cash flow projections over long periods and thus are inherently uncertain.

The estimated values of contributions expected to be paid to the scheme during the current financial year, 2020, is £2,683,000 consisting of £2,499,000 from the Society and £184,000 from the members.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2019

28. CAPITAL STRUCTURES

The Society's policy is to have a strong capital base to maintain Member and market confidence and to sustain future development of the Society. The formal Internal Capital Adequacy Assessment Process (ICAAP) assists the Society with its management of capital. The Board monitors the Society's capital position to assess whether adequate capital is held to mitigate the risks it faces in the course of its business activities. The Society's actual and expected capital position is reviewed to ensure that it is maintained at a level above its Total Capital Requirement (TCR) as determined by the Prudential Regulation Authority (PRA).

The Board manages the Society's capital and risk exposures to maintain capital in line with regulatory requirements which includes monitoring of:

a) Lending and Business Decisions - the Society uses strict underwriting criteria to help it assess whether mortgage applications fit within its appetite for credit risk.

b) Pricing - pricing models are utilised for all mortgage product launches.

c) Concentration risk - the design of retail products takes into account the overall mix of products to ensure that exposure to market risk remains within permitted parameters.

d) Counterparty risk - wholesale lending is only carried out with approved counterparties in line with the Society's lending criteria and is subject to a range of limits. These limits are monitored daily to ensure the Society remains within risk appetite.

Regular stress testing is performed to ensure the Society maintains sufficient capital for future possible events.

The Society's capital requirements are set and monitored by the PRA. During 2019 the Society has complied with the requirements included within the EU Capital Requirements Directive IV (Basel III).

There were no reported breaches of capital requirements during the year. There have been no material changes in the Society's management of capital during the year.

Under Basel III Pillar 3 the Society is required to publish further information regarding its capital position and exposures. The Society's Pillar 3 disclosures are available on the Society's website www.theprogressive.com.

29. RELATED PARTY TRANSACTIONS

The remuneration of Directors including non-executive Directors, who are the key management personnel of the Society, is set out in the Directors' Remuneration Report.

Loans to Directors

At 31st December 2019, there were two (2018: two) mortgage loans outstanding granted in the ordinary course of business on normal commercial terms to Directors and their connected persons, amounting in aggregate to £272,000 (2018: £287,000).

A register is maintained at the Head Office of the Society, under Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and connected persons.
A statement of the appropriate details contained in the Register, for the financial year ended 31st December 2019, will be available for inspection at the Society's Head Office for a period of fifteen days up to and including the Annual General Meeting.

ANNUAL BUSINESS STATEMENT

for the year ended 31st December 2019

1. STATUTORY RATIOS AND PERCENTAGES

	31st Dec 2019 %	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (lending limit)	**0.46**	25
Proportion of shares and borrowings not in the form of shares held by individuals (funding limit)	**15.93**	50

The percentages are calculated in accordance with, and the statutory limits are those prescribed by, Sections 6 and 7 of the Building Societies Act 1986.

Business assets are the total assets of the Society as shown in the Statement of Financial Position plus provisions for bad and doubtful debts, less tangible and intangible fixed assets and liquid assets.

Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Statement of Financial Position plus provisions for bad and doubtful debts.

2. OTHER PERCENTAGES

	31st Dec 2019 %	31st Dec 2018 %
As a percentage of shares and borrowings:		
Gross capital	**7.30**	7.11
Free capital	**6.85**	6.67
Liquid assets	**19.30**	18.42
As a percentage of mean total assets:	**For 2019**	For 2018
Profit after taxation	**0.33**	0.41
Management expenses	**0.79**	0.82

Definitions

- 'Shares and borrowings' represent the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.
- 'Gross capital' represents the aggregate of the general reserves, revaluation reserve and available-for-sale reserve.
- 'Free capital' comprises gross capital and collective provisions for bad and doubtful debts less tangible and intangible fixed assets as shown in the Statement of Financial Position.
- 'Liquid assets' represent the total of cash in hand, loans and advances to credit institutions, debt securities and other liquid assets.
- 'Mean total assets' represent the simple average of the total assets at the beginning and end of the financial year.
- 'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

ANNUAL BUSINESS STATEMENT (CONTINUED)

for the year ended 31st December 2019

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS AT 31st DECEMBER 2019

DIRECTORS

Name and Date of Birth	Date of Appointment	Business Occupation	Other Directorships
Michael W Parrott FCPFA (09/12/53)	01/06/12	Retired Chartered Public Finance Accountant	Garafin Management Company Limited by Guarantee
Gerard McGinn CBE BA (Hons) FIB (04/05/57)	20/02/15	Company Director	AXA Insurance dac Strategic Investment Board
Adrian Coles OBE MA (19/04/54)	01/05/14	Retired Director-General of Building Societies Association	Reclaim Fund Ltd Financial Services Commission (Gibraltar) Housing Securities Ltd Housing Securities (40) Ltd BSA Pension Trustees Ltd The Funding Network
Margaret Cullen BA MSc PhD (08/01/72)	20/02/15	Academic	BNP Fund Administration Services (Ireland) Limited Cantillon Fund plc State Street Global Advisors Funds Management Limited
Karen Furlong BA (Hons) (19/08/69)	01/01/19	Company Director	AirPOS Limited Personal Injuries Assessment Board
Keith Jess BSSc FCA (02/02/57)	01/08/17	Retired Chartered Accountant	NIE Networks Limited
Darina Armstrong BA (Hons) MSc FIB FCA (07/05/67)	01/01/05	Building Society Chief Executive	None
Michael S Boyd BSc (Hons) FCA (01/10/69)	01/04/11	Building Society Deputy Chief Executive & Finance Director	None
Declan Moore BA MBA (02/03/65)	21/07/14	Building Society Operations Director	None

Documents may be served on the Directors at the offices of the Society's principal solicitors, Peden & Reid, 22 Callender Street, Belfast BT1 5BU.

Mrs Darina Armstrong, Mr Michael Boyd and Mr Declan Moore each have a one-year rolling service contract, which is terminable by the Director on six months notice. Mrs Armstrong's contract was entered into in January 2005 and subsequently amended in February 2012. Mr Boyd's contract was entered into in February 2012 and Mr Moore's contract was entered into in July 2014. No other Directors have a service contract.

OFFICERS

Name	Business Occupation	Directorships
Mairead King BA (Hons)	Head of Conduct & Compliance	None
Peter G Lyttle BA	Society Secretary	None
Sarah McKeaney BSc (Hons) ACA	Head of Digital	Go Baby Limited
Ailsa L McNeill BA PgDip	Head of Human Resources	None
Jane Millar	Head of Lending & Savings	None
Gareth T J Robinson BSc (Hons) CGMA	Chief Risk Officer	None
Monique Silva BSc (Hons)	Head of IT	None

SOCIETY OFFICES

Head Office
Progressive House,
33 / 37 Wellington Place,
Belfast BT1 6HH 028 9024 4926

BRANCH OFFICES

Ballymena
79 / 81 Wellington Street
Wendy McClintock (Branch Manager) 028 2564 2845

Bangor
6 Castle Street
Kerry MacDougall (Branch Manager) 028 9127 0348

Belfast
7 Arthur Square
Kevin Flannery (Branch Manager) 028 9032 0573

Belfast
33 / 37 Wellington Place
Kevin Flannery (Branch Manager) 028 9082 1821

Coleraine
17 The Diamond
Lorraine Johnston (Branch Manager) 028 7032 9999

Enniskillen
24 High Street
Patrick Maguire (Assistant Branch Manager) 028 6632 2470

Glengormley
323 Antrim Road
Marina McBride (Branch Manager) 028 9083 9329

Lisburn
3 Market Place
Ian Nelson (Branch Manager) 028 9260 2802

Londonderry
3 Millennium Forum
Noel Murray (Branch Manager) 028 7137 2277

Newtownards
4 Conway Square
Lyn Crawford (Branch Manager) 028 9181 9709

Omagh
40 High Street
Julia Ellis (Customer Service Manager) 028 8225 0989

Portadown
12 Market Street
Lynne Lyness (Branch Manager) 028 3833 0103

WEB ADDRESS

www.theprogressive.com

NOTES

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Information correct at the time of going to print (March 2020).

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