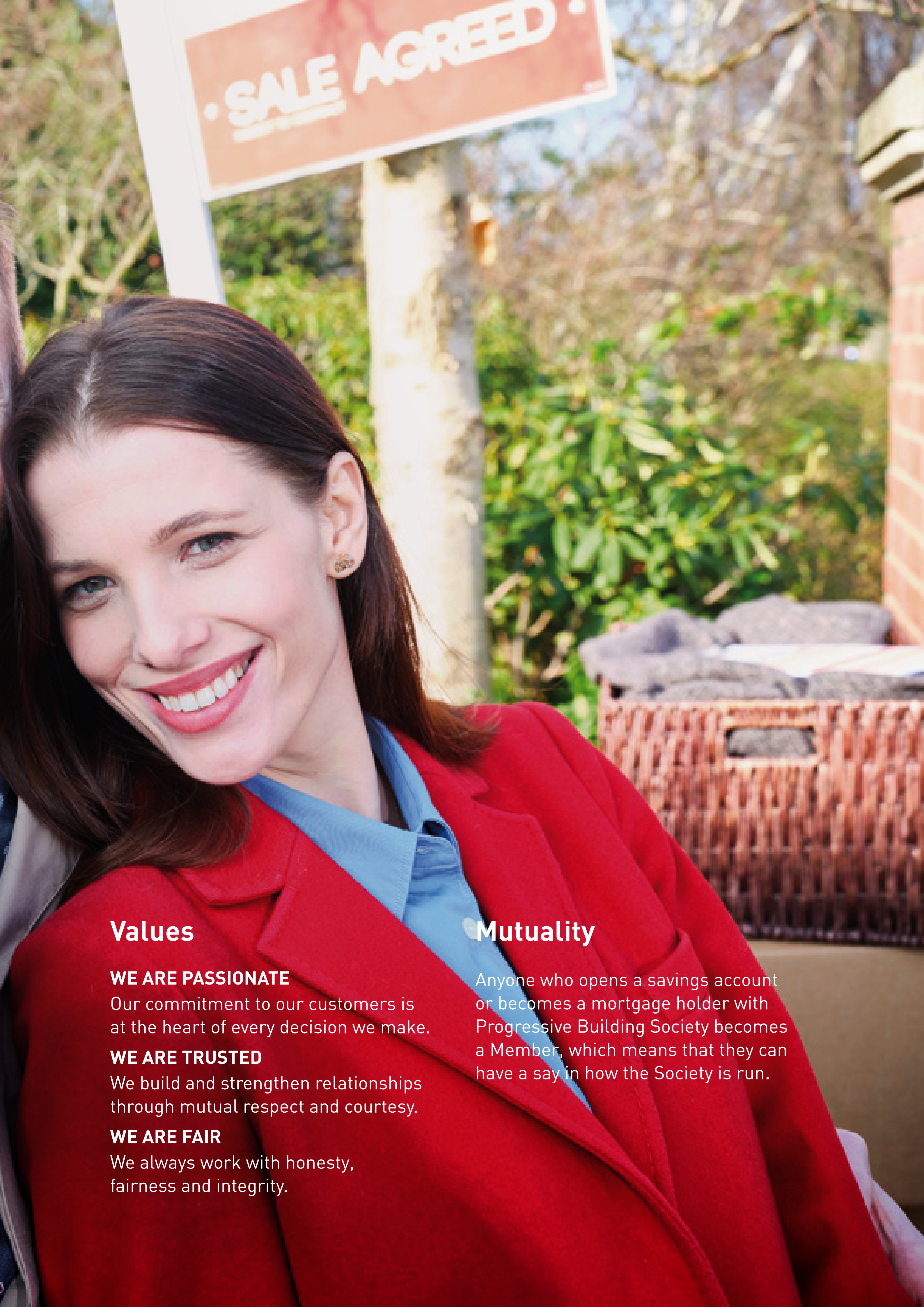
PROGRESSIVE
BUILDING SOCIETY

ANNUAL REPORT AND ACCOUNTS 2021

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.

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CHAIR'S STATEMENT

It is my pleasure to introduce Progressive Building Society's Annual Report & Accounts for 2021.

I noted this time last year that 2020 had been an unprecedented year, and 2021 turned out to be similar. Despite the ongoing challenges of Covid-19, your Society delivered another successful year, maintaining a focus on Members' experience, a strong balance sheet and profitability, increasing capital strength, delivering on a strategic technological mortgage platform and successfully adapting to the continually changing environment.

Our focus throughout the pandemic has been primarily on the safety and wellbeing of our Members and colleagues, particularly on those who are vulnerable. Our Members and colleagues continued to exhibit exceptional resilience adapting to change and embracing it. This positive response continues to be replicated across Northern Ireland and gives us confidence that we will emerge stronger and more competitive, but with a renewed focus on the importance of the community, our health, and the quality of life.

During the last 12 months, we have been able to revert to more normal opening hours in our branches, although, on occasion, we have had to close individual branches for short periods. We would like to thank our Members who have been affected for their patience and understanding.

We have transformed the way in which we work in response to the challenges of the pandemic and this has led to us being able to maintain services in the most adverse of circumstances. We have invested in further strengthening cyber security and we will continue to do so as we expand our online offerings to ensure the security of your data and the resilience of your Society.

MORTGAGES AND SAVINGS

The housing market enjoyed a strong year in 2021 with house prices increasing on average around 10% in Northern Ireland. This robust performance was remarkable given the impact of Covid-19 on the wider economy and was largely driven by demand for residential property exceeding supply. Mortgages remained affordable for borrowers, with record low interest rates for most of the year and rising incomes. We were conscious however that this was against a background of economic uncertainly and therefore continued to adopt a prudent approach, carrying out robust affordability assessments for all mortgage applications.

The Government's support for people and businesses affected by the pandemic has cushioned its full impact on their finances. We will continue to support our borrowers who may yet face hardship, particularly now that the Government support has fallen away.

The savings market has remained relatively buoyant despite the economic uncertainties of Brexit and coronavirus and the continued low interest rate environment. Your Society has remained the home of choice for many savers, leading to an increased level of savings balances during the year.

FINANCIAL STRENGTH

Despite the challenging economic environment it is pleasing that Progressive delivered an increased level of profit in 2021 as we focused on our cost base and benefitted from not requiring all of the loan provision we had set aside at the end of 2020.

Capital strength and strong liquidity levels remain central to the Board's strategy. As a building society Progressive's capital strength comes from its reserves, which are made up almost entirely from the accumulation of its profits since it was formed in 1914. These act as a safety net to absorb losses should they occur in the future. The Society's capital position remains strong and well in excess of regulatory requirements.

Our success in attracting savings balances resulted in us holding higher levels of liquidity than we did a year ago. This places the Society in a good position to support future mortgage lending and ensures we will have funds available should Members require savings withdrawals. As with capital, we hold liquidity balances well in excess of regulatory requirements.

GOVERNANCE

Your Board is proud that Progressive is Northern Ireland's only locally owned and locally managed bank or building society. Its independent building society structure enables the Society to provide choice and competition in the Northern Ireland mortgage and savings market. This structure means that we can take a long-term view and decisions can be Member-centric rather than short-term, which can be a feature of the dividend and shareholder led approach of the PLCs.

The Society has a strong framework for Board succession in place and this resulted in us being able to welcome two recently appointed non-executive Directors to the Society's Board.

Stephen Mitcham joined the Society on 1st November 2021. Stephen is a retired Chief Executive of a UK-based building society and brings with him a wealth of knowledge and experience of the sector.

Clare Guinness joined the Society on 1st January 2022. Clare is Innovation District Director at the Strategic Investment Board, having formerly been Chief Executive of Warrenpoint Harbour Authority. She also brings a wealth of property market, distribution and banking experience from her previous roles.

Stephen and Clare will offer themselves for election at the AGM in April.

Two non-executive Directors retired from the Board in 2021. Adrian Coles retired at the Annual General Meeting in April while Margaret Cullen retired at the end of December. I would like to thank Adrian and Margaret for their commitment, support and wise counsel and to place on record the invaluable contributions they both made to the progress of Progressive during the seven years they each served on the Society's Board.

We believe that your Board is made up of Directors who bring the diversity, experience and independence of mind necessary to ensure that Progressive continues to be well governed and to secure its continuing success.

THE FUTURE

The last two years have been a real challenge for people and businesses alike. This was certainly no different for Progressive. Despite the challenges, your Society has continued to thrive. We are confident that it will continue to be both responsive and successful and are looking forward to the future with confidence.

Despite the constraints that coronavirus has brought, we have made excellent progress in delivering our digital transformation programme which will make it easy for you to interact with the Society online. We have already delivered digital functionality which enables borrowers to switch mortgage products and for mortgage brokers to deal with us online. Significant progress was made in the second half of 2021 on a new online savings offering which will be rolled out to Members in the coming months.

Further enhancements to our products and services, and to the way we deliver them to you, will follow. We will also continue working on our processes to make them more efficient for us and to make it easier for you, our Members, to interact with us.

Climate and environmental issues came increasingly under the spotlight during the year, particularly at COP26 in Glasgow. We have already taken steps to reduce our own impact and we are also looking at ways in which we can further support Members in their own efforts to reduce their carbon footprint through the range and design of our products and services.

We know that our branch network provides an essential service to many of our Members and maintains an important link with local communities. Our commitment to the branch network was most recently demonstrated when we relocated in January to new larger premises in Coleraine which have been designed to integrate with our digital transformation plans.

You can be assured that whichever way you choose to engage with us in the future, we are committed to continuing to provide the same level of excellent customer service that has become our hallmark and which differentiates Progressive from its competitors.

We will continue to deliver on our core purpose as a mutual building society, which is to help people to buy their own homes and to provide a safe and secure home for your savings. We will do so by offering value-for-money products and by running Progressive prudently and in the best interests of you, its Members.

I will be retiring from the Board at the AGM in April and will be succeeded as Chair by Keith Jess. Keith has served as a non-executive Director for almost five years and will continue to lead the Society's development in the best interests of saving and borrowing Members. He is well placed to become Chair of Progressive, having served as Vice-Chair for the last year and having previously chaired the Audit Committee. He has also been a member of the Risk Committee and will continue to serve on the Nominations and Personnel & Remuneration Committees. I wish Keith well in his role as Chair.

It has been my privilege and pleasure to have served as a non-executive Director since 2012, and Chair for almost five years. Over that time the Society has significantly built resilience through an increased capital base, developed new digital platforms and is well set to grow its loan book. The Society continues to focus on Members' service and experience. It is an organisation I believe we can all be proud of.

"THANK YOU"

We owe a huge debt of gratitude to the Society's management and staff for their dedication. It is only due to their efforts and diligence that Progressive has been able to continue to serve and support you, its Members, with the full range of the Society's products and services throughout the year.

I would also like to thank you, our Members, for your support and for putting your trust in Progressive to look after your savings and to help you finance your home.

Michael Parrott

Chair

24th February 2022

CHIEF EXECUTIVE'S REVIEW

In many ways 2021 has been difficult, frustrating and restrictive, but, it has also been rewarding and I am pleased to report that Progressive Building Society had a successful year. The progress made in terms of delivering robust financial results, maintaining a quality service to our loyal Members and developing digital platforms to augment our traditional branch network, has been a source of satisfaction. I am very proud of all that our staff have achieved in another year of adversity.

The impact of Covid-19 will be with us for some time, but the recent reduced restrictions and lower hospitalisations are encouraging. Your Society continues to adapt to the ever-changing working environment, keeping your service and safety needs at the centre of our thinking.

Performance highlights included:

- Lending
  - We achieved £187 million of new advances in the year, resulting in gross mortgage assets of £1.451 billion.
- Savings
  - We maintained competitive savings rates for our Members throughout the year. The average savings rate for the year was 0.57% (2020: 0.81%) when Bank of England base rate was 0.10% for most of the year.
- Capital
  - We maintained strong capital ratios with Common Equity Tier 1 (CET1) ratio at 22.39%, gross capital ratio at 7.95% and the leverage ratio at 6.89%.
- Management expenses
  - The Society's management expenses ratio was 0.87% for the year.
- Low risk business model
  - The Society operates a business model consistent with its mutual values, attracting savings to fund local home ownership.
- Highly engaged staff
  - Our people focus on customer service delivery. This is achieved through successful recruitment and ongoing training.
- Supporting local communities
  - In 2021 £84,000 was donated to local charities.

New lending increased to £187 million (2020: £152 million) with the local housing market bouncing back strongly from the lockdown periods in the middle of 2020. We offered competitive rates for our core residential mortgage products, while maintaining a flexible underwriting approach where our experienced lending teams consider each case on its merits. This approach underpinned by our prudent Lending Policy continues to ensure mortgage loans remain affordable for our borrowers.

We have maintained our robust lending principles throughout the year. 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.

In March 2020, the Bank of England reduced its base rate to 0.10%. This rate remained until 16th December 2021 when the Monetary Policy Committee of the Bank of England increased the base rate to 0.25%. The increase reflected official data published in December that showed prices rising at the fastest rate for more than a decade, which had prompted calls for interest rates to increase in order to help dampen price spikes.The rise also came despite concerns the Omicron variant might derail the economy by triggering consumers to spend less.

The 0.10% bank base rate was the lowest rate in the history of the Bank of England. These historically low interest rates have been bad news for savers. However, throughout the year we endeavoured to maintain our savings rates, at or near the top of the local best buy tables, ensuring that savings balances held at the Society have remained stable throughout the year.

The average savings rate paid in the year to our savers was 0.57%. Our savings balances grew by £27 million during the year, providing evidence that our rates were consistently competitive in the low interest rate environment.

The savings inflows have meant that our liquidity balances have also increased during the year to record levels of £359 million. Liquid assets are important for a financial institution to ensure that it will be able to pay liabilities as they fall due. For the Society, the main liabilities are savers making withdrawals, repaying wholesale funding, and advancing mortgage loans to borrowers. I am pleased to report, once again, that the Society continues to hold high quality liquid assets well ahead of regulatory requirements.

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

Total assets have been maintained at over £1.8 billion.

Profit after tax amounted to £6.9 million. The Society benefitted from the ability to reduce our provisions for bad debts due to the unexpected strength of the housing market and the wider economy as borrowers who had availed of Covid payment holidays in 2020 and 2021 were able to revert to full mortgage payments on a monthly basis. Gains were made from swaps and derivatives with the changing interest rate environment in the run up to year end. Additionally, we were able to manage a slightly higher interest rate margin than had been anticipated.

Similar to liquidity, capital strengthened during the year and remained well ahead of prudential regulatory requirements, providing a strong platform for the future. This increase in capital strength resulted from the robust profits and the added benefit of a significant reduction in the pension liability.

OUTLOOK

Management are forging ahead with the Board's technology strategy which has seen the introduction of a digital mortgage broker portal and online product switch functionality in the last year. A new online savings portal will be launched in 2022 providing more choice for our current savers and another choice for potential new savers. Members will continue to see the improvements in products and services.

Alongside the Society's investment in technology, we have been investing in our people through training and recruitment where required. The strong capital base has enabled the investment in people and technology, which will serve Members' needs now and in the years to come.

Technological improvements and change are important, but so too are our branches and it was pleasing to see the opening of our new larger branch in Coleraine at the beginning of 2021. We will continue to look for improvements in our branch infrastructure as we move forward hand-in-hand with technology. Our Members strongly support the face-to-face quality service that is provided through our branch network. This proved to be the case even through the depths of the pandemic. Our Members tell us that they feel safe in our branches and welcome and respect the measures we have put in place.

Progressive Building Society will continue to support new and existing Members to save and buy, build or improve their homes. Many challenges lie ahead with the ongoing impact of Covid-19, uncertainty around Brexit, and the escalating inflation in the economy.

However, our traditional branch based business model, augmented by technology and a prudent lending policy, will ensure we continue to be the provider of choice for local savers and borrowers.

The next 12 months are likely to see margins under increasing pressure at the same time as costs are rising, and potentially pressure on the housing market as inflation impacts family finances.

Inflation continues to increase above levels seen in recent years. We will continue to focus on cost efficiencies and value, while ensuring we continue to pay attention to the requirements of our savings and borrowing Members.

The Board recognises the importance of climate change and its environmental impact and has adopted a policy to reduce the Society's carbon footprint and develop products for Members that are beneficial to the environment by supporting more energy efficiency in their homes. Climate change is probably the biggest single challenge for society in the decades to come.

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.

I am proud of all that the Society has achieved in recent years. The changes in working environment, Members' needs, risks and technology have been immense, but our people have embraced it all with enthusiasm and a drive to provide an excellent Member service. The decisions that have been made in the Society will shape our long term sustainability as a strong, independent building society.

Darina Armstrong

Chief Executive

24th February 2022

BUSINESS REVIEW

For the year ended 31st December 2021

The Directors have pleasure in presenting the Annual Report and Accounts of Progressive Building Society for the year ended 31st December 2021.

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, for systems and technology, property and operating costs.

Capital strength | Improved services | Charitable giving

What we use our profits for

Any 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 2021, the Society remained profitable and strengthened its capital base, thereby protecting Members' interests and continuing to provide excellent customer service.

BUSINESS MODEL

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. The Society borrows from savers mainly through its branches, but also through its agents and postal channels. This will be augmented by a new online savings platform in the coming months. 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.

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 and rolled the funds into the latest version, Term Funding Scheme with additional incentives for SMEs (TFSME), in October 2021. TFSME provides funding to banks and building societies at close to Bank of England base rate. This funding is due to be repaid in late 2025. The Society has planned for this in its five year Strategic Plan.

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.

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 from savers in the form of liquid assets which are invested with strong financial institutions, primarily the Bank of England in the Society's Reserve Account. Liquidity is also invested in UK government backed securities including Gilts and Treasury Bills. Security of, and accessibility to, liquidity are of key importance to the Society.

We aim to generate sufficient profit through management of the net interest margin (the difference between interest earned from borrowers and interest paid to savers) and cost efficiency, in order to maintain a strong capital position. As a result, we can continue to invest in the Society for the benefit of our Membership as a whole – for example, by improving customer experience, building digital capability, maintaining branches and enhancing the colleague working environment.

The continuing pandemic meant significant operational strain for the Society as Members and staff suffered symptoms and had to isolate. To manage staff shortages and health and safety we had to change branch opening hours occasionally. Members are supportive of the measures we have implemented to keep them and our staff as safe as possible. Almost all borrowers who had sought mortgage payment deferrals and other financial support in the first 12 months of the pandemic have now successfully reverted to making full mortgage repayments. This support alongside furlough and the temporary reduction in stamp duty land tax rates, and supply and demand imbalances in the housing stock meant that the mortgage market remained surprisingly buoyant throughout 2021. Mortgage rates have been historically low since the Bank of England reduced the bank base rate from 0.75% to 0.10% in March 2020, in order to support the economy from the effects of the pandemic. Inflationary concerns preceded the Bank of England increasing interest rates by 0.15% to 0.25% in December 2021. This is likely to be the first of a number of increases in the coming months. We will continue to offer competitive mortgage and savings rates.

Longer term, while we believe that our core product lines are sustainable into the future, we expect the markets we operate in to remain fiercely competitive and we will need to adapt accordingly in the best interests of our Members. Despite the challenging external environment, we have continued to invest in our mortgage systems to improve efficiency, speed up processing times and improve customer experience for Members and mortgage brokers alike. This will help us to face challenges from a more digital marketplace, with more diverse customer requirements, both in terms of channel preferences and product needs. We continue to review opportunities to meet existing and new Members' needs better, including the development of our products and distribution channels.

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.

We continue to develop the products and services that our new and existing Members require to fulfil their financial needs. We listen to understand what products will meet the savings and mortgage needs of our Members – that's what makes us different from our competitors. We encourage face-to-face contact with our branch staff who can assist with every step of the process whether saving or borrowing. However, often our Members prefer to use our online mortgage product switch functionality and will soon be able to avail of our new online savings functionality. 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, either face-to-face, by video or by phone.

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 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 once again on the following areas during the year:

- Working with partners to design the future digital landscape.
- Continuing to develop the IT infrastructure and resilience.
- Reconfiguring the Society's core system operations.
- Process re-engineering to achieve improved efficiency.
- Improving internal and external communications.
- 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.
- Researching into the life cycle wants and needs of our target market including introducing new products.

While the Society made significant progress in its Strategic Plan during 2021, the main operational focus was on the health and safety of Members and staff, remaining financially resilient and communicating effectively both internally and externally.

BUSINESS OBJECTIVES

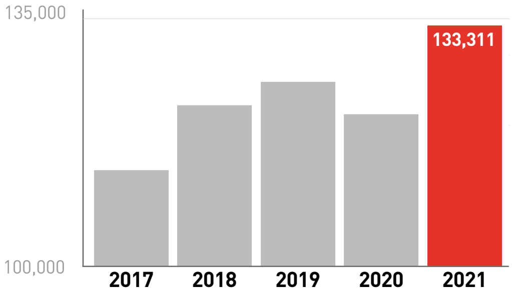
The principal purpose and objective of Progressive Building Society remains encouraging local people to save and become home owners, through our personal, caring and common sense approach, nurturing financial wellbeing through the generations. The Board strongly believes that this purpose is best served by the mutual business model and 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

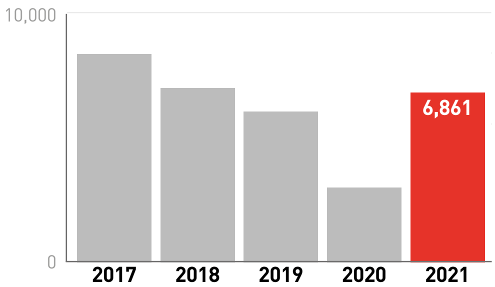
The following graphs set out a number of key indicators which the Directors use to monitor the development, performance and position of the Society on an ongoing basis. These are included to give Members a more comprehensive understanding of the Society's progress.

Total Reserves £000



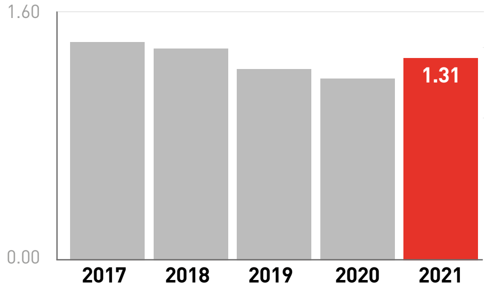
Reserves are held to provide protection against losses from lending. The Society generates reserves from profit made from normal business activities and this provides long term security for the Society and its Members, while meeting regulatory capital requirements. The Society's reserves increased in the year due to profit after tax of £6.9 million which were augmented by a pension scheme deficit reduction due mainly to an increase in long-term interest rates.

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 £6.9 million enabled the Society to increase reserves and provide value-for-money products for savers and borrowers.

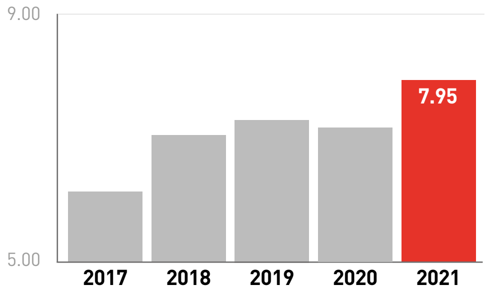
Net Interest Margin as a % of Mean Total Assets



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.

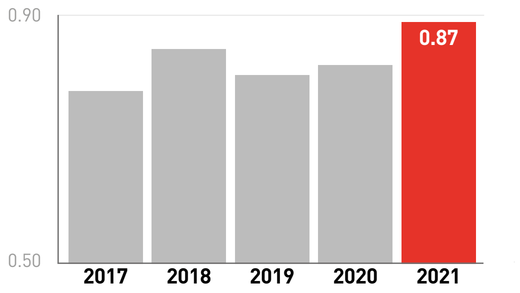
Savings rates were monitored throughout 2021 to ensure that the Society was able to control the flows of new savings balances whilst maintaining the balances already on our books. The Bank of England's base rate remained at 0.10% for most of the year until December when base rate increased to 0.25%. By comparison, the average savings rate offered by the Society was 0.57%. The Society's savings products remained competitive particularly ISAs, regular savers products, instant access and fixed rate bonds.

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 higher in 2021 than the previous year, and at £6.9 million was sufficient to maintain a strong capital base.

Management Expenses as a % of Mean Total Assets

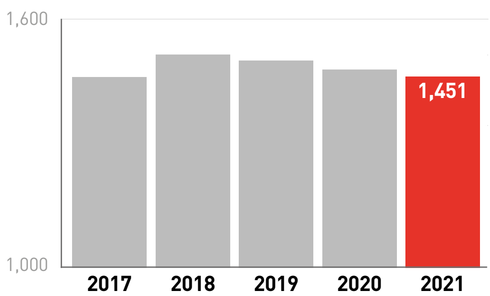


Management expenses are the Society's administrative expenses and represent the ordinary costs of running the organisation. They comprise mainly the costs of employing staff and maintaining the branch network, back office functions, and the Society's IT infrastructure. The management expenses ratio measures 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.

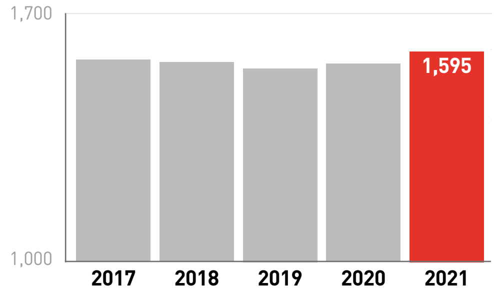
The management expenses ratio increased in 2021 as the Society continued to invest to build strong people and digital foundations to enable future technology developments to further enhance our customer experience.

Mortgage Balances £m



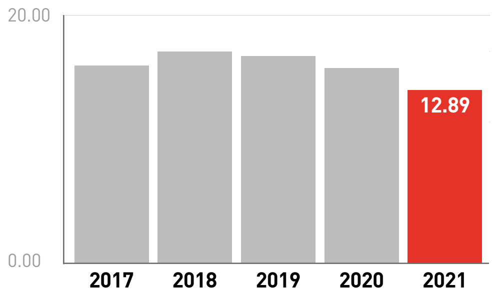
This shows the movement in the Society's mortgage book in the year. Mortgage balances reduced slightly during 2021 due to the Society's prudent lending approach.

Savings Balances £m



This shows the movement in savings balances held by the Society. The Society experienced increased savings inflows as many people spent less of their discretionary spend during 2021 as the impact of the pandemic continued to be felt.

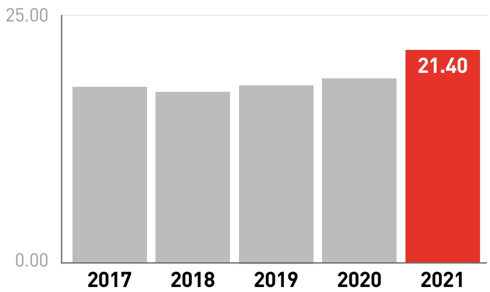
Funding Ratio as a % of Shares and Deposit Liabilities



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 2021 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. Liquid asset balances increased during 2021 as savings balances increased.

FINANCIAL PERFORMANCE

Performance Overview

Progressive Building Society delivered a robust performance in 2021, with profit after tax of £6.9 million (2020: £3.4 million).

The Society has maintained stable loan and savings books in a competitive environment, through a combination of value-for-money products and excellent customer service. The impacts of Covid-19 resulted in additional charges for bad and doubtful debts in 2020, which were largely reversed during 2021 as the economy and the local housing market picked up resulting in a write back of £1.0 million (2020: £1.6 million charge) in the year.

Income Statement

Profit before tax increased to £8.6 million (2020: £4.2 million). The increase was larger than had been budgeted, resulting from a write back of provisions for bad and doubtful debts, and interest rate margin holding up better than anticipated.

Net Interest Income

Net interest income of £23.7 million (2020: £21.5 million) remained robust whilst the Society's net interest margin increased to 1.31% (2020: 1.18%).

This was driven mainly by reduced competition in the savings market and historically low interest rates as banks and building societies experienced increased funds inflows from savers as consumers had fewer outlets for their discretionary spend.

The Bank of England bank base rate remained at 0.10% until December when it increased to 0.25%. The savings market continued to be subdued throughout 2021 as financial institutions experienced high volumes of savings inflows. However, we continued to provide value-for-money products which remained at or near the top of the local best buy tables and encourage longer term savings habits.

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.

Fees and Commissions

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

Fees and commissions receivable remained stable at £0.8 million (2020: £0.8 million) as the Society continued to offer fee-free mortgage products during the year. Fees and commissions payable amounted to £1.5 million (2020: £1.6 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 2021 resulted in a gain of £0.4 million (2020: £0.4 million loss) as interest rate expectations increased towards the end of the year.

Management Expenses

The Society continues to maintain a low-cost base, and management expenses (administration costs and depreciation) increased to £15.9 million (2020: £14.6 million) due to investments in people and technology while keeping a focus on cost control during the year.

The management expenses ratio increased to 0.87% (2020: 0.80%). 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 £1.0 million during the year (2020: £1.6m charge) due to the impact of the pandemic on the economy not being as severe as originally expected. Fewer people were struggling with household finances through reductions in income or job losses in 2021 than in 2020. The job market statistics and local house prices have remained remarkably buoyant during the year.

ASSETS

Total assets of £1,821 million increased by £5 million during the year (2020: £1,816 million) largely due to increased liquid asset balances as savers used their discretionary spend to increase savings balances.

Loans and Advances to Customers

The Society's new mortgage lending amounted to £187 million in 2021 (2020: £152 million). This was achieved in a very competitive mortgage market, at the same time as ensuring the safety of Members and staff, and developing technology system capabilities.

Progressive's mortgage proposition leads with a personal service, quality advice and responsible lending. Again, this proved popular with individual borrowers and brokers alike.

Our total gross mortgage assets amounted to £1,451 million at the year end (2020: £1,477 million). The Society's exposure to residential properties by way of mortgages was 99.8% of total mortgages. The Board remains committed to the owner-occupied nature of its loan portfolio which is 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.
- Payment deferrals, where it is agreed to accept no monthly payments for a short period of time (this has been used for Covid-19 mortgage payment deferrals).

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

Thirty (2020: thirty-one) mortgage accounts were twelve months or more in arrears at the year end. The total amount outstanding on these accounts was £4.2 million (2020: £3.8 million) including arrears of £0.6 million (2020: £0.6 million). There were also thirteen (2020: sixteen) properties in possession at 31st December 2021.

In light of the uncertain economic conditions we have continued to adopt a conservative approach to mortgage provisioning. The provision for losses on all loans and advances to customers at 31st December 2021 was £4.0 million (2020: £5.6 million), which represented 0.28% (2020: 0.38%) of the total mortgage book. This decrease in provision resulted from the improvements in the economy and the local housing market during the year.

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 (Gilts and Treasury Bills), 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 increased to £1,595 million at 31st December 2021 (2020: £1,568 million). Savings balances from individuals accounted for 87.1% (2020: 85.9%) of our total funding.

Through careful monitoring of rates and cashflows the Society was able to offer value-for-money rates, which were consistently at or near the top of local best buy tables, on bonds, regular savers, instant access and ISA products throughout the year.

The Society availed of £50 million of Term Funding Scheme money in February 2018. In October 2021, the Society rolled this funding into the Term Funding Scheme with additional incentives for SMEs. Under these schemes 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 2021 the CET1 ratio was 22.39% (2020: 20.06%).

SYSTEMS

IT continues to play an important part in supporting all business departments to improve and to deliver efficient processes across the Society while also driving our programme of work on digital capabilities and cyber security.

The new broker online self-service portal, launched in November 2020, included a new feature in May 2021 to give brokers the ability to create Illustrations and a "Decision in Principle" (DIP) with the ability to submit mortgage applications. The brokers were migrated successfully to a new portal. The customer self-service ("Progressive Online") portal functionality was also upgraded to enhance the user experience.

We mobilised the Savings Programme in Q2 2021, with the view to have savings capabilities included in the "Progressive Online" in 2022. These new capabilities will include account management, the ability to open new savings accounts and much more. We continued to streamline internal processes through automation to provide efficiencies and reduction of our carbon footprint (i.e.paperless).

Our core banking system was upgraded successfully in July, with additional patches also being implemented during the year to increase our digital capability (interfaces) and to fulfil a number of compliance requirements. Other IT systems continued to be patched and upgraded as security threats evolved with continuous functionality updates taking place as required. The security of our systems and our Members data is and continues to be our main focus in anything that we do.

Third party management mainly focused on IT contracts. Renewals were reviewed in light of our procurement requirements for the next year, EBA guidelines, the inclusion of cloud capabilities and security requirements and accreditation expected on our contracts going forward.

We effectively completed our IT disaster and recovery exercise in November to support our operational resilience framework and to provide assurance on our ability to recover from an IT incident or business continuity request and successfully resumed our business activities with minimal impact to our Members.

CHARITABLE DONATIONS

The total of our charitable donations in the year was £84,000 (2020: £109,000). 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

The Northern Ireland economy has performed significantly better than expected by many commentators. Unemployment is now back below pre-Covid levels at 3.6% and the local house prices increased by over 10%, mainly due to supply issues. The outlook at the time of writing remains uncertain. On the positive side, the pandemic impact appears to be reducing enabling an easing of restrictions which can only be positive for the economy. However, inflation is rising fast, driven by supply chain constraints and labour market shortages, and is expected to peak at over 7%. The Bank of England has reacted by increasing its base rate from 0.10% to 0.25% in December and then a further 0.25% increase in February.

The government support for consumers through mortgage payment holidays and the Job Retention Scheme have been withdrawn. It may take some time for us to understand the longer term impacts of the pandemic on the economy.

With this backdrop, the next 12 months look uncertain. Borrowers may struggle making mortgage payments due to increasing costs of borrowing and indeed general living costs. The Board remains confident that the robust lending criteria that the Society has operated for many years will mean that although we may well experience increased provisions for bad debts that this will not be of a magnitude to produce losses for the Society.

Staff costs will inevitably increase due to the increases in inflation as will the increasing costs of bringing a new digital channel to market for mortgages and savings, including the costs of ensuring the security of your personal data.

Our strong capital and liquidity bases meant that the impact on the Society's financial stability was lessened, enabling the Board to focus on the wellbeing of staff and customers as well as the ongoing strategic developments of our digital programme.

Competition, particularly in the mortgage market is likely to remain intense, but we have started the new year as we finished last year with strong business volumes through targeted pricing and underpinned by robust underwriting processes.

We will continue to 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.

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 2021.

CORPORATE SOCIAL RESPONSIBILITY

At Progressive, we understand how important our local communities are and the impact that the Society can have on our Members, colleagues and the environment. As a Member-owned Society, we want to ensure that our actions have a positive impact on our surroundings, and that we do business the right way. In this report we have highlighted four key areas and the positive ways in which we have made an impact on each during 2021.

SUPPORTING OUR MEMBERS

Our purpose is to encourage local people to save and become homeowners, essentially nurturing financial wellbeing for current and future generations, and in 2021 this was more important than ever.

We understand that the Covid-19 pandemic has been difficult for many of our Members both personally and financially, and we made every effort to support them through this challenging time. We have never been prouder of our teams who have worked tirelessly to find the best possible solutions for Members affected by the pandemic.

Our Vulnerable Customer group continued to engage with charities and other organisations to ensure that staff training to support those with additional needs continued to develop. We built staff awareness and developed processes to support the needs of those Members most affected by the Covid-19 pandemic.

We recognise how important having a presence on local high streets is to our Members and with that in mind, we continued to invest in our branch network. We relocated our Coleraine branch to larger, modernised premises just a short distance away meaning we could maintain our town centre presence.

2021 Highlights:

- Our online Product Switch Portal went from strength to strength with the number of customers switching online increasing each month.
- Continuing our digital transformation journey, we launched an online Intermediary Portal enabling brokers who provide access to Progressive mortgages with an improved user experience, making it easier for them to navigate the system and submit mortgage applications to the Society.
- Our Mortgage and Savings Suite upgrade provided us with greater back-office reporting capabilities and functionality that support how we service our Members. This is another positive digital milestone for our business that ultimately benefits our customers.
- We extended home working arrangements to a greater number of branch staff to ensure a seamless service for our Members at a time of great uncertainty within our communities.
- We continued to bolster our Covid-secure measures that helped to protect our Members and staff throughout the pandemic and put in place measures to ensure Members had access to services throughout.
- We continued to promote virtual mortgage appointments to enable our customers to speak to us from the comfort and safety of their own home.
- We raised Coronavirus Fraud Awareness through our website and other digital mediums.

SUPPORTING OUR COMMUNITIES

At Progressive, we take pride in being a collaborative partner in our local communities. We supported multiple good causes throughout the year and encouraged our staff to make a positive impact where they live and work, doing all we could to help in difficult times.

As part of the Society's Savings Week initiative, we partnered with Action Mental Health and The Consumer Council, with a focus on highlighting the important issue of wellbeing and encouraging the public and our Members to 'open up' about the impact that money worries could have on their mental health.

The launch of our Regular Savers Campaign aimed to encourage people to think before impulse buying and to consider putting that money into a savings account instead and to emphasise the benefits of saving small amounts regularly. To promote the campaign, we aired our existing Regular Savings campaign TV commercial on UTV and the ITV Hub, endorsed the campaign and messaging across our social media channels and partnered with Cool FM.

2021 Highlights:

- We entered the third year of our three-year partnership with Disability Sport NI, donating £60,000 to sponsor a programme of activity and events throughout 2021 and 2022. As part of the partnership, we assisted with several programmes including a 'Miles and Smiles' walking challenge and NI's first ever Boccia League. We also announced that we would be extending the partnership until the end of 2022.
- We donated £20,000 to the Royal Belfast Hospital's Helping Hand charity in support of a mixed reality project aimed at accelerating diagnoses and reducing time-to-care for sick children.
- As part of our Regular Savers Campaign, we partnered with online influencer, Jill McDowell from 'Home at Rose Cottage' who promoted the campaign on Instagram and her blog about her experience of savings along with some of her top tips.
- Launch of the renovation re-mortgage product gives customers the opportunity to switch their mortgage from another provider to Progressive and borrow additional money in order to make structural renovations to their home.
- Our Coleraine branch moved to new larger premises with innovative facilities and a modern feel, putting customer experience at the forefront.
- We supported International Women's Day by providing articles for Ulster University and Society Matters magazine.

SUPPORTING OUR PEOPLE

We recognise how important it is to have engaged and competent staff in providing our Members with the supportive service they deserve and have come to expect. We are passionate about maintaining equality within our workplaces and encourage our staff to embrace an inclusive working environment where individual differences are valued and respected and in which each member of staff feels able to participate and achieve their potential. Mutual respect guides how we treat each other and work together to deliver better Member outcomes.

We support the engagement and development of all staff and provide a variety of opportunities to enhance their experiences and advance their careers. We hold a corporate membership with Women in Business to encourage our female staff to avail of opportunities for personal development which can lead to career enrichment.

Staff welfare throughout the pandemic has been our top people priority and our Covid Pandemic Committee ensured that our workplaces were safe and that our staff felt supported whether they were providing services in our branches or were supporting the Society in hybrid home and office working arrangements.

2021 Highlights:

- Our comprehensive staff Wellbeing programme encouraging positive mental health was supported by the launch of our Mental Health Policy, the introduction of mental health first aiders and the marking of World Mental Health Day, Mental Health Awareness Week and Stress Awareness Month.
- We broadened our wellbeing initiatives to include access to sleep, nutrition and mindfulness clinics and to wellness literature posted on our Connect portal, in partnership with Business in the Community NI and Inspire Workplaces.
- Our focus on keeping our staff well extended to offering free flu vaccinations and giving staff paid time off work for Covid vaccination appointments which we promoted and encouraged.
- Our return to the office hybrid 'bubble' arrangements and workplace preparations provided a phased, seamless return of staff to Head Office 2 days per week, supported by comprehensive pre-return training on new Covid safety procedures.
- We continued to support our front-line staff with changes to branch opening hours and implemented strict Covid protocols to protect staff against Covid transmission based on changing government guidance. Special measures were taken in the protection of our vulnerable staff.
- The introduction of Departmental Engagement sessions was a great success, with departments taking turns to host sessions providing overviews of their teams and their work thus promoting working relationships and collaboration across teams.
- Maintaining morale has been central to supporting our staff during the pandemic and we arranged for gifts to be delivered to them throughout the year including Easter eggs and hampers to boost positivity and convey our appreciation for their dedication.
- Fostering a diverse and inclusive culture is essential to our success as supported by the launch of our Diversity & Inclusion Policy. We believe that broader perspectives enable better decisions and faster innovation, producing positive business results, as well as societal benefits. We participated in the Business in the Community NI Age Inclusive Network and provided guidance on supporting menopausal staff. Sessions to support working parents with finances were provided by our partner Employers for Childcare.
- The results of our 2021 staff opinion survey indicated that our people are positively engaged with the Society. Results indicate that key to their engagement was how we have supported their wellbeing throughout the pandemic.
- Our Staff Forum continued to engage colleagues through competitions and charity events with uplifting themes such as the Great Outdoors photo competition, family-based photo competitions reflecting the changing seasons and fitness challenges for worthy causes.

Improved functionality for mortgage appointments has enabled our customers to attend appointments via telephone or video conferencing rather than having to travel to a branch.

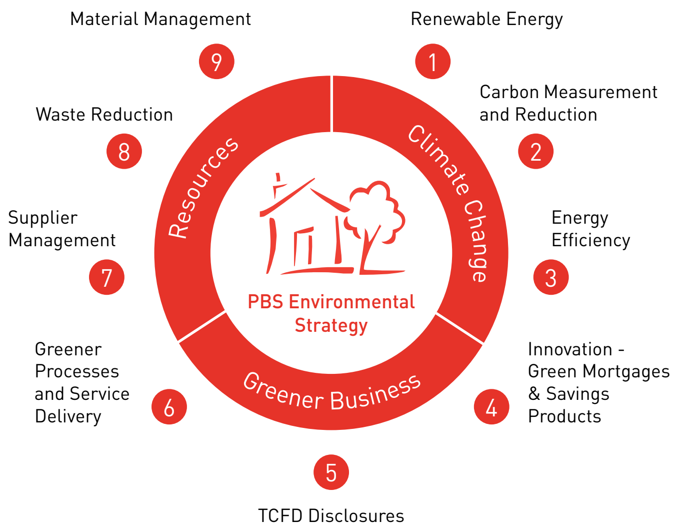
SUPPORTING OUR ENVIRONMENT

We are conscious of the environmental impact businesses can have and strive to work as sustainably as possible, recognising the importance of minimising our corporate footprint and encouraging responsible behaviour across the Society.

We recognise that we have a responsibility to lead within our local community in tackling climate change so that we can collectively look forward to a bright future.

We are committed to improving our operational environmental footprint and designing and delivering products which align to this strategic goal. To this end, the Board agreed a detailed Environmental Strategy in 2021 which will be delivered in the next strategic plan period. This is our first strategy of this type and illustrates the importance the Board is placing on this area for the future of the Society and our Members.

This Environmental Strategy provides a framework for the Society to improve its environmental performance across three core areas which have been segmented into nine workstreams. The three core areas are: Fighting Climate Change, Doing Greener Business, and Managing Resources in a sustainable way. Many of these areas are interlinked which highlights the importance of having a holistic approach to implementing change. Our Environmental Strategy areas for focus are illustrated in the below diagram:



The Society's Environmental Working Group has been tasked with delivering this strategy, making sustainable improvements and reducing our carbon footprint.

2021 Highlights:

- We introduced a new green mortgage product offering a cheaper mortgage rate to reward customers for purchasing an energy efficient home.
- We implemented the facility of online mortgage applications thus reducing printing and paper handling.
- Our mortgage Members have had the opportunity to conduct product switches online, bringing even further environmental benefits.
- The use of a paperless invoicing approvals system has continued to significantly improve efficiencies and save on paper usage.
- The continuation of home working for many of our workforce has reduced our carbon emissions in saved travel to work mileage.
- The continued use of the Microsoft Teams platform across the Society has greatly improved productivity and reduced travel requirements for collaboration and training. Soft phones have begun to replace physical handsets which will have an environmental benefit in the future in terms of handset disposal.
- Improved functionality for mortgage appointments has enabled our customers to attend appointments via telephone or video conferencing rather than having to travel to a branch.
- A move from monthly to quarterly supplies ordering has reduced road transportation impacts on the environment.
- The introduction of internal paperless processes has continued apace with many forms now being completed and transferred electronically and has significantly reduced printing and paper usage. This continues to be an area of focus for the Society.

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 a 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 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, Management Risk 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 Cyber Security Advisor 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

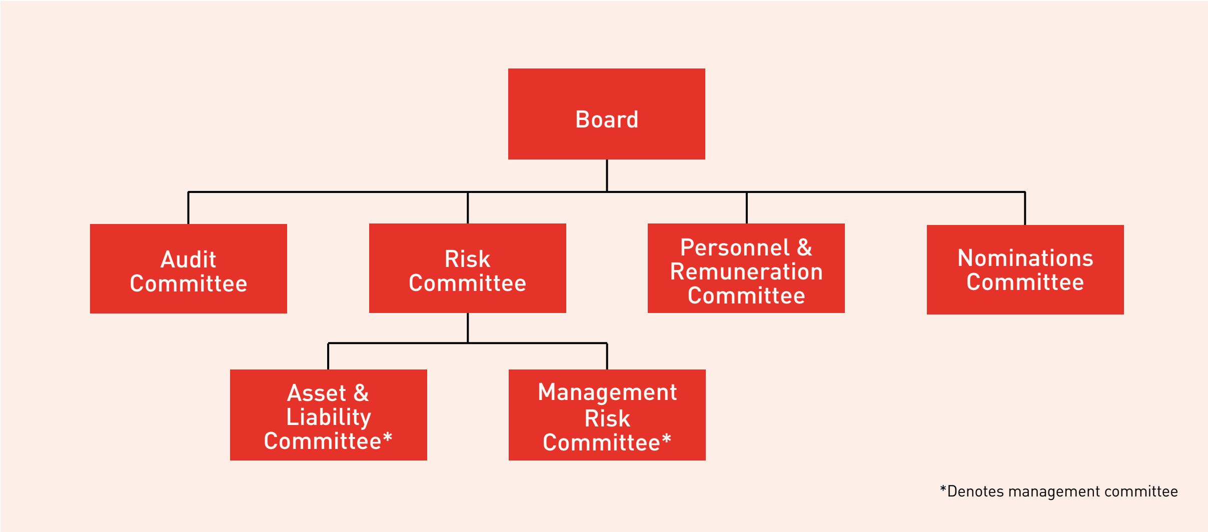
The Board sets high level risk appetite statements and associated measurable limits to provide a framework for business decision making and to identify and articulate the risks that the Board is willing to take in delivering the Strategic Plan of the Society. The Society operates as a prudent organisation 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 2021 is as below:



Board Risk Committee

The Board Risk Committee oversees the Society's risk governance and provides a Society-wide perspective on all risk matters. Its membership in 2021 comprised four 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 2021 the Committee met seven times (2020: seven 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.
- Society top risks and deep dives into individual risk areas.
- 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 2021. This work is likely to continue in 2022 as the full impact of the departure of the UK from the European Union becomes clearer.
Covid-19	Throughout 2021 the Board Risk Committee continually monitored the Society's response to the Covid-19 pandemic. This involved a review of the Society's Covid-19 Risk Register.

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 2021 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 2021, 87.1% (2020: 85.9%) 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 2021, 84.4% (2020: 81.6%) 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 interest rate benchmark LIBOR ceased at the end of 2021 with a regulatory requirement for all firms to transition to alternative benchmark rates before this date. The Society's exposures to LIBOR relate to interest rate derivatives transacted for hedge accounting purposes. The Directors have signed up to ISDA Fallback Protocols which amend these derivative agreements to include 'fallback' rates so the derivatives can transition seamlessly to reference new adjusted Risk Free Rates.

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 also operates a robust Cyber Security framework through extensive use of specialist third party resource. 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.

Covid-19 risk

Covid-19 coronavirus represents a generational disruption to life in the UK, as everyone is now aware, this pandemic caused extraordinary disruption across the globe and also to the Society's business. Covid-19 had developed into the biggest risk faced by the Society in 2021. The Society tracked these risks via the Management Risk Committee in a formal Risk Register. The Management Risk Committee met on a monthly basis to formally review the risks associated with the pandemic and the Society put in place numerous teams, projects, controls and work streams to minimise the disruption to the business. Health and safety of Members and staff was paramount with the Society introducing controls including social distancing, screens erected at counters, reduced opening hours to enable some staff to work remotely and reducing the number of staff in the branch, hand sanitising stations in each branch and the obligatory wearing of masks.

The pandemic has meant that the profile of the Society's principal risks may be impacted in the following ways:

- **Strategic**
  Covid-19 has impacted how some customers choose to interact with their financial service providers which may make digital offerings more important in the future. The Society is already implementing a digital transformation programme to address these changing needs. The future digital offering will fit with our existing branch offering and the Society will continue to offer excellent customer service across all delivery channels.

- **Credit**
  It is encouraging that no losses have occurred to date due to Covid-19 payment deferrals, however it is still conceivable that higher arrears and potentially some losses will occur over coming months. Additional alterations in the macroeconomic indicators in the wider economy caused by the pandemic may still bring about payment difficulties for Members and the Society will continue to track this impact. Historically the Society has been prudent in the lending policy and affordability controls used across all lending types. These prudent policy positions should help minimise the financial impact of the pandemic for Members and the Society.

- **Market risk**
  The historically low Bank of England base rate of 0.10% reduced the level of return on the Society's liquid assets as well as increasing the amount paid on interest rate derivatives. These changes reduced the Society's net interest income for the year. To balance this position a better than expected level of margin between the cost of funding and the return from mortgages has been achieved. The Society will continue to manage these positions prudently in 2022 following the base rate increase in December 2021.

- **Conduct risk**
  The virus has obviously had a huge impact on everyone. This is likely to increase the number of vulnerable customers across the Society's Member base, mentally, physically and financially. Members already vulnerable have experienced a particularly difficult 2021. The Society reviewed and updated many procedures to assist all Members but especially those most vulnerable to the impact of the pandemic. Updated communications on the website and within branches were provided on a regular basis. Staff were made aware of fraud scams to help them to be alerted to unusual requests from Members. The Society also heavily invested in staff training on their own mental resilience and well-being to help and support staff during the pandemic.

- **Operational**
  The requirement for a swift roll out of home-working, the introduction of Covid-secure working practices for the Society's branches and head office and the increase in cyber challenges have resulted in alteration to many of the Society's operational practices and controls. In order to address the potential risk that has arisen from these changes, additional controls have been introduced and have bedded down which include process automation, application improvements, additional fraud controls and ensuring the scope of second-line assurance work incorporates the changes.

To ensure the potential financial implications of Covid-19 are fully understood, the Society has undertaken additional stress and scenario testing of the potential outcomes. This analysis has shown that the Society has sufficient capital resources to withstand a range of severe stress scenarios. The Strategic Plan and the strategic objectives also take into consideration the expected difficult market conditions in 2022.

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 £62.3 million as at 31st December 2021. The Society's capital amounted to £133.2 million at year end, which is well in excess of regulatory requirements.

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 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.

Climate

The Society also recognises the risks and challenges posed by climate change. Work in addressing these risks has started apace across the Society. The Society has reviewed lending policies to tighten controls in relation to future climate risks and performed a full review of the risks posed by existing loans. The Society is aware of two principal types of risks: physical and transitional. Physical risks relate to specific weather events such as flooding, or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. This could lead to a changing regulatory expectation in terms of the way the Society is expected to run its own business, including who it uses as suppliers. It may also impact property held as security, for example the energy efficiency expectations of mortgaged properties.

As a building society, Progressive's impact on the environment relates mainly to travel, heating and air conditioning. The Society will continue to reduce its impact on the planet through increased recycling, reduced waste, reduced travel and the use of greener fuels. The Chief Risk Officer has responsibility for monitoring climate change risk across the Society, with oversight provided by the Risk Committee.

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 continued to cause increased levels of economic uncertainty in 2021. This has caused uncertainty within the housing market and businesses regarding investment decisions. For the Society, the impact of Brexit will be indirect and will relate to any changes to the demand for mortgage products, or the affordability of loans for current borrowers through reduced income and unemployment. These impacts 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 2021 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, including the oversight of risk management through the work of 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 and improved.

Gerard McGinn

Chair of the Risk Committee

24th February 2022

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.

Keith Jess — Vice-Chair

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. Keith is Vice-Chair of the Board. During the year he also served as member of the Audit Committee (and as Chair until April) and as a member of the Risk Committee, the Personnel & Remuneration Committee and the Nominations Committee.

Gerard McGinn — Senior Independent Director

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 Year Honours list Gerard was awarded a CBE for services to the local economy. Gerard is the Senior Independent Director. During the year he also served as Chair of the Risk Committee, and as a member of 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 a member of the Personnel & Remuneration Committee (and as Chair until April) and as a member of the Risk Committee. Margaret retired from the Board on 31st December 2021.

Karen Furlong
Non-Executive Director

Karen Furlong was appointed to the Board in 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 (and as Chair from May) of the Personnel & Remuneration Committee and as a member of the Risk Committee.

Martin Pitt
Non-Executive Director

Martin Pitt was appointed to the Board in January 2020. 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, audit, governance and risk experience. Martin also brings significant Board experience from both the public and charitable sectors. During the year Martin served as a member (and as Chair from May) of the Audit Committee and as a member of the Risk Committee and the Personnel & Remuneration Committee.

Stephen Mitcham
Non-Executive Director

Stephen Mitcham was appointed to the Society's Board in November 2021. Until his retirement he was the Chief Executive of a regional building society in England having spent almost 30 years of his career at that organisation. From 2017 to 2019 he was also Vice-Chair / Chair of the Building Societies Association. Accordingly, Stephen brings extensive building society experience to the Board. In addition, he also brings Board experience from the private sector.

Clare Guinness
Non-Executive Director

Clare Guinness was appointed to the Society's Board in January 2022. Clare is a senior strategic and commercial leader with 25 years of diversified experience across a variety of industries including Banking, Real Estate, Agribusiness and Infrastructure. She brings extensive experience in driving multi-year strategy reviews and performance improvement transformations, with a proven track record of delivering strong financial and operational results. Accordingly, Clare brings significant commercial and strategic experience to the Board.

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. In the 2020 Queen's Birthday Honours, Darina was awarded an MBE for services to economic development in Northern Ireland. 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.

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 25 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 Society's Board in July 2014 and is the Society's Operations Director. 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 responsibility for sales, marketing and branch operations.

CORPORATE GOVERNANCE

INTRODUCTION

The Directors are committed to best practice in Corporate Governance. The Financial Reporting Council (FRC) issued its latest revision to the 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 2021 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.

SECTION 1: 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. They have approved a Culture Dashboard which seeks to capture the Society's cultural aspirations, how it influences them, how it measures its success in achieving them and how its behaviours and beliefs underpin performance. The Society has also developed a behavioural framework for staff and all of these elements are incorporated into the Culture Dashboard. A review of Key Performance Indicators enables 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 2021. 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, Mr Gerard McGinn, 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 the Society's website or 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 Committee also considers conduct risk matters with regard to the Society delivering business in a clear, transparent and fair manner.

The principal management committees reporting to the Risk Committee are the Management Risk Committee and the Asset and Liability Committee. The Management Risk Committee is responsible for the ongoing identification and management of risks to the Society's business. 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.

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
M W Parrott	11(11)	*	*	6(6)	*
G McGinn	10(11)	*	5(5)	6(6)	7(7)
A Coles (retired 27th April 2021)	3(3)	1(1)	1(1)	3(3)	*
M Cullen	11(11)	4(4)	*	*	7(7)
K Furlong	11(11)	4(4)	*	*	7(7)
K Jess	11(11)	3(3)	5(5)	3(3)	3(3)
M Pitt	11(11)	1(1)	5(5)	*	4(4)
S Mitcham (Appointed 1st Nov 2021)	1(1)	*	*	*	*
D Armstrong	11(11)	*	*	6(6)	*
M S Boyd	11(11)	*	*	*	*
D Moore	11(11)	*	*	*	*

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 Annual General Meeting (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 (although this was not possible in 2020 or 2021 as a consequence of the pandemic), 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 AGM and other communications with Members provides the opportunity for Members to give feedback to the Society on any aspect of its activities. For the 2020 and 2021 AGMs, Members have been given the opportunity to submit questions to the Society by email.

The Board engages with the Society's workforce through employee surveys and non-executive Director unaccompanied visits or contact with branches and departments. Reports from visits or contacts 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.

SECTION 2: 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. Mr Michael Parrott is the Society's Chair and the post of Chief Executive is held by Mrs 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 executive Directors 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.

SECTION 3: COMPOSITION, SUCCESSION AND EVALUATION

During the year the Board consisted of seven non-executive Directors (although this reduced to six during the period 27th April to 1st November) 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 with due regard for the benefits of diversity, including gender diversity, in the context of the overall balance of skills, experience and backgrounds needed to maintain an effective 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 Board has approved a Diversity & Inclusion Policy which includes objectives for achieving diversity and inclusion on the Board and this is reviewed annually by the Nominations Committee. The Board is satisfied that all of these objectives were met during the year, including the maintenance of at least 30% female membership on the Board and ensuring that approximately half of senior management roles continue to be held by females.

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 2021 is summarised below:

Grade	Females	Males
Non-executive Directors	2	5
Executive Directors	1	2
Senior management	4	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 Mr 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 2021 with reference to a set of questions to facilitate the assessment. The results of the Board Committee assessments are reported to 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, engaged Mazars LLP to complete an evaluation in 2020. Mazars LLP found, 'the Progressive's Board and Committees to be fit for purpose and effective, with deep building society, prudential and compliance experience. The Board is collegiate and the provision of challenge in the boardroom was deemed to be polite but robust. The Board is committed to mutuality and maintaining the highest standards of corporate governance and adheres to the UK Corporate Governance Code in all material respects.' The review identified a number of recommendations most of which have been accepted and implemented by the Board.

SECTION 4: 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 currently comprises four 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, both the external and internal 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 2019 contains 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 the provision of services allowable under the Revised Ethical Standard.

SECTION 5: 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

24th February 2022

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 the 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.

The Committee comprises independent non-executive Directors (as detailed in the Corporate Governance Report). Keith Jess chaired the Committee at the start of the year until the AGM in April, thereafter, he served as a member of the Committee when Martin Pitt took the Chair. The Committee members have been selected to provide the wide range of financial, commercial and sector 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 who are members of the Committee, 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 and understanding of key issues and developments. On occasion, other non-executive Directors may attend Committee meetings as part of their induction to the Board or, in the case of the Board Chair, to gain insight to the workings and effectiveness of the Committee. The outsourced internal auditor, PwC LLP, and the external auditor, Deloitte (NI) Limited, 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 2021

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 & 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;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor; and
- consideration of the appropriateness of the adoption of the going concern basis in preparing the Annual Report & Accounts.

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 (NI) Limited in displaying the necessary professional scepticism their role requires. The primary areas of judgement considered by the Committee in relation to the 2021 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 2021 Annual Report & Accounts were fair, balanced and understandable, the Committee satisfied itself that there was a robust process of review and challenge. The Committee compared the Annual Report & Accounts to internal reporting to ensure consistency and reviewed drafts of the words and numbers.

The Audit Committee also reviewed in detail management's papers on going concern reflecting on the risks that could impact the Society's capital, liquidity and financial position over the next year and its viability throughout the period of the five year Strategic Plan. The Committee recommended to the Board that the Society should continue to adopt the going concern basis in preparing the Annual Report & Accounts.

The Audit Committee fully discharged its responsibilities in relation to financial reporting of the Annual Report & Accounts 2021.

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 an 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 which were completed during the year including areas of internal control significance, (e.g. Brexit, cash management, HR, underwriting procedures and treasury operations) and compliance with regulatory guidance (e.g. regulatory reporting, regulatory returns, negative interest rates preparations, financial crime, Cash ISA Code of Conduct and operational resilience).

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.

Annually, the Committee outlines areas for consideration in the following year's internal audit work programme. Some key areas for review in 2022 include the online savings portal, the Society's culture and staff wellbeing.

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, including a review of the effectiveness of internal controls.

The main internal control matters which were reviewed by the Committee in 2021 were:

- conduct related;
- prudential related;
- internal audit plans;
- control reports from the external auditor, Deloitte (NI) Limited, in relation to the financial reporting process arising from the external audit. During the year, Deloitte (NI) Limited 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;
- 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, Martin Pitt. 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;

- information risk management and cyber security – the Committee considered presentations made by the Society's Head of IT and Cyber Security Advisor;
- Covid-19 related conduct issues – the Chief Risk Officer reported to the Committee on areas of risk which helped inform areas for future internal audit consideration; and
- the 3 lines of defence model – including the effectiveness of the processes and procedures in place.

The information received and considered by the Committee provided reasonable assurance that during 2021 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 (NI) Limited 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. Results of the review and the Committee's discussions confirm that Deloitte (NI) Limited 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 five years. The audit in relation to the 2021 results was the fifth for the current audit partner, Brian O'Callaghan, following the reappointment of Deloitte (NI) Limited as a result of a competitive tendering process during 2016.

The Committee approved the fees for audit services for 2021 after a review of the level and nature of the work to be performed, including a review of the audit fees of peer building societies, 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 provided by Deloitte (NI) Limited during the year for the audit of a Bank of England return (TFSME) followed the Society's policy and hence the objectivity and independence of Deloitte (NI) Limited 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 a questionnaire as a framework for open and transparent discussion around areas in which the Committee performs effectively and areas for further consideration.

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.

Martin Pitt

Chair of the Audit Committee

24th February 2022

DIRECTORS' REMUNERATION REPORT

For the year ended 31st December 2021

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. Margaret Cullen chaired the Committee until the AGM in 2021, when Karen Furlong took over as Chair. Dr Cullen remained a member of the Committee for the remainder of year. Adrian Coles left the Committee following the AGM in 2021 when he retired from the Board, while Martin Pitt also left the Committee as he took on the role of Chair of the Audit Committee. Keith Jess joined the Committee from the beginning of May. This was part of planned rotation of all of the Society's Committees' membership to inject fresh thinking and continue the development of non-executive Directors. 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 on the Society's website.

In making its decisions and recommendations relating to executive Directors' 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 2021, the Committee:

- Considered the outturn of the 2020 balanced scorecard key performance indicators for the staff bonus scheme and approved measures for the 2021 scorecard.
- Approved bonus scheme awards for all eligible staff.
- Received and considered reports on various aspects of human resources in the Society.
- Endorsed the Society's remuneration policy.
- Reviewed and endorsed various policies relating to personnel and remuneration.
- Approved the Society's salary review approach.
- Reviewed and approved the Directors' Remuneration Report for the Annual Report.
- Reviewed and approved the Committee's Terms of Reference.

- Reviewed the annual Health and Safety Report.
- Considered the nature and effectiveness of employee engagement.
- Considered the Society's approach to Diversity and Inclusion.
- Continued a review of pension provision for all staff.

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 is 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 2021. 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 balance sheet size. 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 2021, the scheme was subject to a cap of 10% 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 Human Resources, Head of IT, Head of Lending & Savings, Head of Operations) 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 2021 (linked to the Society's Purpose and Values) fall into one of four key areas:

- Behaviours and Culture
- Strategy
- 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 2021 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 10% of salary for 2022. This will be a tiered scheme depending on the underlying financial performance.

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 2022.

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

2021	**Salary £000**	**Performance related £000**	**Benefits £000**	**Total £000**
D Armstrong (Chief Executive)	**228**	**17**	**16**	**261**
M Boyd (Deputy Chief Executive & Finance Director)	**170**	**13**	**13**	**196**
D Moore (Operations Director)	**152**	**11**	**14**	**177**
				634

2020	Salary £000	Performance related £000	Benefits £000	Total £000
D Armstrong (Chief Executive)	224	11	15	250
M Boyd (Deputy Chief Executive & Finance Director)	167	8	13	188
D Moore (Operations Director)	149	7	13	169
				607

The increase in accrued pension for D Armstrong, M S Boyd and D Moore in 2021 was £5,000 (2020: £5,000), £4,000 (2020: £5,000) and £4,000 (2020: £8,000) 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.
- 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 2021 £000	Fees 2020 £000
M W Parrott (Chair)	**51**	50
K Jess (Vice-Chair from April 2021)	**33**	31
G McGinn (Vice-Chair to April 2021, Senior Independent Director from April 2021)	**35**	37
A Coles (Senior Independent Director to April 2021, retired April 2021)	**10**	30
M Cullen	**28**	30
K Furlong	**29**	27
M Pitt	**30**	27
S Mitcham (co-opted 1st November 2021)	**5**	-
	221	232

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	51
Standard non-executive Director	27
Additional fees:	
Vice-Chair	6
Senior Independent Director	3
Committee Chairs:	
Audit	4
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, were due to receive additional taxable amounts in 2020 to cover travel and accommodation costs of £1,500, £1,500 and £600 respectively. These additional amounts were put on hold from March 2020 after which meetings were held virtually. Board and Committee meetings were held virtually throughout 2021.

During 2021 K Jess and M Pitt each received additional amounts of £1,560 for their roles as pension scheme trustees.

Karen Furlong

Chair of the Personnel and Remuneration Committee

24th February 2022

DIRECTORS' REPORT

For the year ended 31st December 2021

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)
Keith Jess (Vice-Chair from April 2021)
Gerard McGinn (Vice-Chair to April 2021), Senior Independent Director from April 2021)
Adrian Coles (Senior Independent Director to April 2021, retired April 2021)
Margaret Cullen (retired December 2021)
Karen Furlong
Stephen Mitcham (appointed November 2021)
Martin Pitt

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.

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 £8.6 million (2020: £4.2 million) and after tax the amount transferred to general reserves was £6.9 million (2020: £3.4 million).

The Society's general reserves at 31st December 2021 were £133.2 million (2020: £120.7 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 2021.

GOING CONCERN AND VIABILITY STATEMENT

The Directors are required to consider whether the Society will continue as a going concern for a period of 12 months from the signing of the accounts. In making the assessment the Directors have reviewed the Society's Strategic Plan and considered risks that could impact on the Society's capital position, financial position and liquidity over that period.

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.

The key judgement in these plans and forecasts is sustainable asset growth over the next few years, as the local economy and consumer sentiment gradually recovers in the aftermath of the pandemic.

Operational resilience has been assessed including the ongoing ability to maintain Covid-secure branches and offices and remote working for non-customer facing staff. These measures have worked effectively maintaining the customer support our Members have come to expect. The Society has maintained strong liquidity and capital positions since the start of the pandemic and the Directors are satisfied that this will continue.

Based on the above, the Directors consider the viability of the Society over a five year period to 31st December 2026. A five year period for viability is determined to be appropriate for the following reasons:

- Uncertainty is inherent in the predictions of economic, competitive and regulatory environments, particularly in the current climate. Going beyond the five year period increases this uncertainty and reduces the reliability of the assessment of viability.
- It is within the period covered by our projections of cash flows, capital and profitability. However, there is nothing in our planning beyond the five years that would cause a change in the Directors' consideration of viability.

The Directors have a reasonable expectation that the Society will be able to continue in operation and meet our liabilities as they fall due, over the five year period to 31st December 2026.

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.

AUDITORS

The Auditors, Deloitte (NI) Limited, 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 & 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 & 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

24th February 2022

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 2021 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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 audit of the financial statements was £635,000 which was determined on the basis of 0.5% 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 the previous year. These continue to be areas that 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.

4. Conclusions relating to going concern

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

Our evaluation of the Directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the Society's business model, objectives, strategies and related business risks, how the Society is structured and financed and the measurement and review of the Society's financial performance, including forecasts, future cash flows, and management's budgeting processes;
- obtaining an understanding of how the Society's risk assessment process:
  i. Identifies business risks (particularly profitability, liquidity and capital adequacy risks) relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern;
  ii. Assesses the significance of those risks, including the likelihood of their occurrence and their potential impact; and
  iii. Addresses those risks;
- challenging and assessing the forecasts prepared by management including their five year Strategic Plan and performing an assessment of the assumptions used in the forecasts, particularly those in relation to sustainable asset growth and interest rate margin movements;
- challenging historical accuracy of forecasts prepared by management and amount of headroom in the forecasts;
- evaluating the relevance and reliability of the underlying data management used to make the assessment; and
- considering the adequacy of the going concern disclosures and whether it reflects a true and fair assessment of the work performed by the Society.

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

In relation to the reporting on how the Society has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 £4.0m of provisions for bad and doubtful debts at the year-end (2020: £5.6m) against total loans and advances to customers of £1,451m (2020: £1,477m). Under IAS 39, management are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately. 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 with consideration of time to default and likelihood of repossession, discounted cash flow rates which reflect projected property values and forced sale discounts, and other impairment indicators, some of which may be sensitive to changes in the economic environment. Key assumptions in determining the provision include the use of propensity to possess ("PtP"), forced sale discount ("FSD") and House Price Index ("HPI") assumptions. Given the high level of management judgement required, coupled with historically low levels of arrears and possessions, we identified our key audit matter in relation to the valuation of the provision and in particular the judgements applied in determining the PtP, FSD and HPI assumptions, including the possibility of management bias on the basis that amendments to these assumptions could give rise to a material misstatement due to fraud or error. Loan loss provision balances are disclosed in Note 15 to the financial statements. The Directors' associated accounting policies are set out on page 70 and details about judgements in the application of accounting policies and critical accounting estimates are on page 72. In addition, the matter is described on page 40 of the Audit Committee Report.
How the scope of our audit responded to the key audit matter	We assessed the design of relevant controls over impairment identification and calculation, and provisioning models. As part of our assessment of the key audit matter, we determined the appropriateness of the loan loss provisioning methodology as applied by the Society, incorporating challenge to the key assumptions and data used. For all modelled cases, we engaged our Credit Modelling Specialist team to provide independent challenge to both the assumptions and the data used by management. We challenged the appropriateness of management's key assumptions used in the impairment calculations for loan receivables, in particular the PtP, FSD and HPI by reference to the Society's historical loss rate data and benchmarking to a range of market information. We challenged the appropriateness of other assumptions used within the loan loss provision such as impairment triggers, expected future cash flows, time horizons to sale and expected costs to sell. Our Credit Modelling Specialist team provided independent challenge to management's assumptions using the Society's historical data and also market information. We also tested the accuracy and completeness of the inputs which were used to determine the loan loss provision back to underlying source data. We tested the completeness of the loan population identified by management as having incurred an impairment event by testing a sample of loans that were not in arrears for other indicators of financial distress. We also considered if any overlays were required to recognise provisions for impairment events that are not captured in its provisioning model, in particular considering the challenging economic environment.
Key observations	Based on the evidence obtained, we found that the recognised provision was reasonably stated within a range of reasonable outcomes.

5.2. Revenue Recognition

Key audit matter description	Total mortgage interest income is £34.4m (2020: £35.4m) 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 reported at the contractual rate. 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. Directors' associated accounting policies are detailed on page 68 and details about judgements in the application of accounting policies and critical accounting estimates are on page 72. There is a reconciliation of interest receivable in Note 3. In addition, the matter is further described on page 40 of the Audit Committee Report.
How the scope of our audit responded to the key audit matter	We evaluated the design, determined the implementation and tested the operating effectiveness of relevant automated and manual controls over the calculation of mortgage interest income. We performed detailed substantive analytical procedures on the mortgage interest income for the year, recalculating mortgage interest income from underlying loan book and interest rate data. We performed test of details on a sample of mortgages, recalculating mortgage interest income at different points of the year to ensure that the interest income was being appropriately calculated by the system, particularly where there was a rate change in the year. We performed procedures analysing the nature and timing of journal postings to mortgage interest income throughout the year to identify any unusual revenue recorded. We considered adjustments, concessions or deferrals for customers in response to the Covid-19 pandemic, particularly in the case of forborne or distressed cases.
Key observations	We consider the revenue recognition policies adopted to be in accordance with FRS 102.

6. Our application of materiality

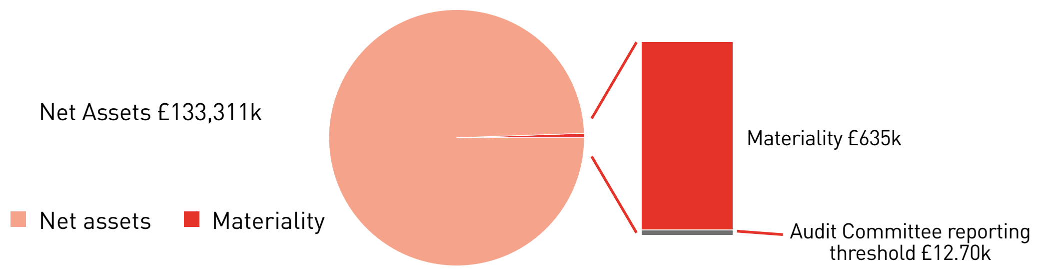
6.1. Materiality

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	£635,000 (2020: £630,000)
Basis for determining materiality	0.5% of net assets
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. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%).

In determining performance materiality, we considered the following factors:

- the quality of the control environment;
- limited history of uncorrected misstatements identified in the audit;
- inherent uncertainty in determining the impact of Covid-19 and Brexit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £12,700 (2020: £12,600), 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 eleven 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 other information comprises the information included in the Annual Report including the Strategic Report, the Directors' Report, the Directors' Profiles, the Corporate Governance Report, the Audit Committee Report, the Directors' Remuneration Report and the Statement of Directors' Responsibilities, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

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

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

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

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, 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.

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. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud.

- 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 the use of the going concern basis of accounting is appropriate and no material uncertainties have been identified, we report these conclusions in the auditor's report. 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.

For public interest entities and those that choose voluntarily to report on how they have applied the UK Corporate Governance Code, we are required to include in the auditor's report an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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, tax legislation and pension legislation; and
- 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, General Data Protection Regulations (GDPR) and money laundering regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning and revenue recognition as key audit matters related to the potential risk of fraud. 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 provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- 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 17 to the financial statements for the financial year ended 31st December 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 48;
- the Directors' explanation as to its assessment of the Society's prospects, the period this assessment covers and why the period is appropriate set out on page 49;
- the Directors' statement on fair, balanced and understandable set out on page 50;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 49;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 41; and
- the section describing the work of the Audit Committee set out on page 40.

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

15.1. 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.

16. Other matters which we are required to address

16.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Members of the Society at the Annual General Meeting on 27th April 2021 to audit the financial statements for the year ending 31st December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ending 31st December 2007 to 31st December 2021.

16.2. 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).

17. 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

25th February 2022

INCOME STATEMENT

for the year ended 31st December 2021

	Note	2021 £000	2020 £000
Interest receivable and similar income	3	**32,717**	35,035
Interest payable and similar charges	4	**(8,989)**	(13,524)
Net interest receivable		**23,728**	21,511
Fees and commissions receivable		**784**	775
Fees and commissions payable		**(1,480)**	(1,650)
Other operating income		**173**	187
Other fair value gains / (losses)	5	**386**	(368)
Total income		**23,591**	20,455
Administrative expenses	6	**(14,528)**	(13,434)
Depreciation and amortisation	16 & 17	**(1,372)**	(1,188)
Other operating charges		**(71)**	(73)
		7,620	5,760
Provisions for bad and doubtful debts	15	**965**	(1,607)
Provision for FSCS credit	22	**-**	26
Operating profit and profit for the year before taxation		**8,585**	4,179
Tax on profit on ordinary activities	9	**(1,724)**	(799)
PROFIT FOR THE FINANCIAL YEAR	23	**6,861**	3,380

All results in the current and prior years were derived from continuing operations.
The Notes on pages 68 to 98 form part of these Annual Accounts.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2021

	Note	2021 £000	2020 £000
Profit for financial year	23	**6,861**	3,380
Actuarial gain / (loss) recognised in the pension scheme	27	**6,402**	(9,596)
Movement in deferred tax relating to the pension scheme	27	**(678)**	1,715
Movement on revaluation of land & buildings	24	**-**	710
Items that may be reclassified subsequently to profit and loss:			
Net movement on available-for-sale assets	24	**(4)**	(86)
Credit in respect of current year taxation on pension scheme	23	**-**	250
Total comprehensive income / (expense) for the year		**12,581**	(3,627)

The Notes on pages 68 to 98 form part of these Annual Accounts.

STATEMENT OF FINANCIAL POSITION

as at 31st December 2021

	Note	2021 £000	2021 £000	2020 £000	2020 £000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		**202,238**		256,312	
Loans and advances to credit institutions	10	**55,916**		59,986	
Debt securities	11	**100,836**		10,075	
			358,990		326,373
Derivative financial instruments	12		**2,149**		-
Loans and advances to customers	14				
Loans fully secured on residential property		**1,442,368**		1,470,991	
Other loans fully secured on land		**3,382**		4,019	
			1,445,750		1,475,010
Tangible fixed assets	16		**7,477**		7,680
Intangible fixed assets	17		**2,989**		2,427
Other assets	9		**2,008**		3,182
Prepayments and accrued income			**1,270**		1,123
TOTAL ASSETS			**1,820,633**		1,815,795
LIABILITIES					
Shares	18		**1,594,609**		1,567,951
Amounts owed to credit institutions	19		**54,008**		57,738
Amounts owed to other customers	20		**28,843**		49,572
Derivative financial instruments	12		**656**		4,248
Other liabilities	21		**1,937**		1,421
Pension liability	27		**7,269**		14,135
			1,687,322		1,695,065
Reserves					
General reserves	23		**133,244**		120,660
Other reserves	24		**67**		70
TOTAL LIABILITIES & RESERVES			**1,820,633**		1,815,795

The Notes on pages 68 to 98 form part of these Annual Accounts.
The Accounts on pages 63 to 98 were approved by the Board of Directors on 24th February 2022 and were signed on its behalf by:

Michael Parrott
Chair

Keith Jess
Vice-Chair

Darina Armstrong
Chief Executive

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

as at 31st December 2021

	General reserves £000	Available-for-sale reserve £000	Revaluation reserve £000	Total £000
2021				
As at 1st January 2021	120,660	3	67	120,730
Profit for the year	6,861	-	-	6,861
Other comprehensive income for the period				
Net movement from changes in fair value	-	(4)	-	(4)
Transfer of amount equivalent to additional depreciation on revalued assets	(1)	-	1	-
Remeasurement of defined benefit obligation	5,724	-	-	5,724
Total comprehensive income / (expense) for the period	12,584	(4)	1	12,581
As at 31st December 2021	**133,244**	**(1)**	**68**	**133,311**
2020				
As at 1st January 2020	124,919	89	(651)	124,357
Profit for the year	3,380	-	-	3,380
Other comprehensive income for the period				
Net movement from changes in fair value	-	(86)	-	(86)
Transfer of amount equivalent to additional depreciation on revalued assets	(8)	-	8	-
Remeasurement of defined benefit obligation	(7,881)	-	-	(7,881)
Credit in respect of current year taxation on pension scheme	250	-	-	250
Movement on revaluation of land & buildings	-	-	710	710
Total comprehensive income / (expense) for the period	(4,259)	(86)	718	(3,627)
As at 31st December 2020	120,660	3	67	120,730

The Notes on pages 68 to 98 form part of these Annual Accounts.

CASH FLOW STATEMENT

for the year ended 31st December 2021

	2021 £000	2020 £000
Net cash flow from operating activities (see below)	**31,699**	27,596
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(1,731)**	(2,275)
Disposal of tangible and intangible fixed assets	**53**	-
Purchase of debt securities	**(150,595)**	(39,965)
Disposal of debt securities	**60,093**	115,953
Net cash flows from investing activities	**(92,180)**	73,713
Net (decrease) / increase in cash and cash equivalents	**(60,481)**	101,309
Cash and cash equivalents at beginning of year	**275,786**	174,477
Cash and cash equivalents at end of year	**215,305**	275,786
Cash flows from operating activities		
Profit before tax	**8,585**	4,179
Provisions for bad and doubtful debts	**(916)**	1,697
Depreciation and amortisation	**1,372**	1,188
(Profit) / loss on disposal of tangible assets	**(53)**	6
Defined benefit pension charges	**1,436**	1,146
Movement in derivative financial instruments	**(5,741)**	2,271
Movement in fair value adjustments	**5,355**	(1,903)
Net cash flow from operating activities before movement in operating assets and liabilities	**10,038**	8,584
Movement in operating assets and liabilities:		
Loans and advances to customers	**25,447**	23,506
Shares	**26,658**	7,690
Amounts owed to credit institutions and other customers	**(24,459)**	(32,298)
Loans and advances to credit institutions	**(2,337)**	27,312
Prepayments and accrued income	**(412)**	264
Accruals and deferred income	**(626)**	(4,311)
Other liabilities	**242**	(140)
Defined benefit pension contributions	**(1,900)**	(2,462)
Taxation paid	**(952)**	(549)
Net cash flow from operating activities	**31,699**	27,596
Cash and cash equivalents:		
Cash in hand and balances with Bank of England	**202,238**	256,312
Loans and advances to credit institutions repayable on demand	**13,067**	19,474
	215,305	275,786

The Notes on pages 68 to 98 form part of these Annual Accounts.

NOTES TO THE ACCOUNTS

for the year ended 31st December 2021

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, the Building Societies Act 1986 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.

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.

Effective interest rate

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 effective rate 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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

1. ACCOUNTING POLICIES (Continued)

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.

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.

Intangible assets and amortisation

Intangible assets are compiled of computer software which has been separately acquired by the Society. These assets are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided on intangible assets at rates calculated to write off the cost of each asset on a straight-line basis from the date the software is active over its expected useful life, as follows:

Computer software	20%

An impairment review is performed whenever there is an indication that the recoverable value is below the carrying value of the intangible asset. If the impairment review indicates that the asset is impaired, an allowance is made for impairment.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

1. ACCOUNTING POLICIES (Continued)

(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.

(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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

1. ACCOUNTING POLICIES (Continued)

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.

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.

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 2021

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.

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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £000	2020 £000
On loans fully secured on residential property	**34,199**	35,238
On other loans	**170**	191
On debt securities	**42**	165
On other liquid assets	**332**	879
Net expenditure on financial instruments used to hedge assets	**(2,026)**	(1,438)
	32,717	35,035

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2021 £000	2020 £000
On shares held by individuals	**7,949**	11,598
On deposits and other borrowings	**270**	803
On other shares	**770**	1,123
	8,989	13,524

5. OTHER FAIR VALUE GAINS AND LOSSES

	2021 £000	2020 £000
Gain / (loss) on derivatives	**5,741**	(2,271)
(Loss) / gain on hedged items attributable to the hedged risk	**(5,355)**	1,903
	386	(368)

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 2021

6. ADMINISTRATIVE EXPENSES

	2021 £000	2020 £000
Staff costs:		
• Wages and salaries	**5,782**	5,628
• Social security costs	**577**	583
• Other pension costs (Note 27)	**1,724**	1,410
	8,083	7,621
Other administrative expenses	**6,445**	5,813
	14,528	13,434
Other administrative expenses include:		
Fees payable to the Society's auditors:		
Audit fees for Society's statutory audit	**126**	102
Other audit related assurance services	**22**	-
Total audit & audit related assurance services (inclusive of VAT)	**148**	102
Operating lease charges include:		
Property	**153**	205
Profit / (loss) on disposal of tangible fixed assets	**53**	(6)

7. EMPLOYEES

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

	2021 Full Time	2020 Full Time	2021 Part Time	2020 Part Time
Head office	**69**	66	**20**	21
Branch offices	**57**	57	**30**	30
	126	123	**50**	51

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 £855,000 (2020: £839,000).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

9. TAXATION

a. Analysis of taxation charge in the period	**2021 £000**	2020 £000
Current tax:		
UK corporation tax on profits of the current year	**1,507**	734
Adjustments in respect of prior periods	**1**	-
Total current tax	**1,508**	734
Deferred tax:		
Origination and reversal of timing differences	**142**	77
Effect of changes in tax rate	**74**	(6)
Adjustment in respect of prior periods	**-**	(6)
Total deferred tax	**216**	65
Tax charge for the period	**1,724**	799

b. Factors affecting the current tax charge for the period

The effective tax rate is 20.08% (2020: 19.12%), which is higher (2020: higher) than the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

	2021 £000	2020 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**8,585**	4,179
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 19.00% (2020: 19.00%)	**1,631**	793
Effects of:		
Expenses not deductible for tax purposes	**18**	18
Tax rate changes	**74**	(6)
Prior period adjustments	**1**	(6)
Tax charge for period (see above)	**1,724**	799

At 31st December 2021 “Other liabilities” on the face of the Statement of Financial Position includes a corporation tax liability of £274,000 (2020: “Other assets” corporation tax asset of £281,000).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

9. TAXATION (Continued)

c. Deferred Taxation	2021 £000	2020 £000
Movement in deferred tax balance in period		
Deferred tax asset as at 1st January	**2,901**	1,234
Adjustment in respect of prior periods	**-**	6
Charge to Income Statement	**(216)**	(71)
(Charge) / credit to Other Comprehensive Income	**(677)**	1,732
Deferred tax asset as at 31st December	**2,008**	2,901
Analysis of deferred tax balance		
Accelerated capital allowances	**(19)**	(21)
Other timing differences	**210**	236
Timing differences - pensions	**1,817**	2,686
	2,008	2,901

The deferred tax asset of £2,008,000 (2020: £2,901,000) is included within "Other assets" on the face of the Statement of Financial Position.

d. Factors that may affect future tax charges

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24th May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1st April 2023. Deferred tax balances have been remeasured accordingly where appropriate.

The potential gross deferred tax on revalued assets, after allowing for any indexation allowances which may be available, is estimated to be £nil (2020: £nil).

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2021 £000	2020 £000
Loans and advances to credit institutions have remaining maturities as follows:		
Repayable on demand	**13,067**	19,474
Other loans and advances by residual maturity repayable:		
In not more than three months	**16,060**	25,140
In more than three months but not more than one year	**26,744**	15,305
	55,871	59,919
Accrued interest	**45**	67
	55,916	59,986

Included in the above amount is £1.1m (2020: £5.6m) deposited as collateral under Credit Support Annex (CSA) agreements.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

11. DEBT SECURITIES

	2021 £000	2020 £000
Issued by UK Government	**100,836**	10,075
	100,836	10,075

Debt securities are held as available-for-sale assets and carried at their fair value.

	2021 £000	2020 £000
Debt securities have remaining maturities as follows:		
In not more than one year	**100,505**	10,008
	100,505	10,008
Accrued interest	**331**	67
	100,836	10,075

	2021 £000	2020 £000
Analysis of debt securities (excluding accrued interest):		
Transferable securities		
Listed	**100,505**	10,008
	100,505	10,008

	2021 £000	2020 £000
The movement in available-for-sale debt securities is summarised as follows:		
As at 1st January	**10,008**	86,100
Additions	**150,595**	39,965
Disposals and maturities	**(60,093)**	(115,953)
Changes in fair value	**(5)**	(104)
As at 31st December	**100,505**	10,008

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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	
	2021 £000	2020 £000	**2021 £000**	2020 £000
Derivative assets held for hedging purposes and designated fair value hedges				
Interest rate swaps	**179,000**	-	**2,149**	-
Total recognised derivative assets	**179,000**	-	**2,149**	-
Derivative liabilities held for hedging purposes and designated fair value hedges				
Interest rate swaps	**165,000**	200,000	**656**	4,248
Total recognised derivative liabilities	**165,000**	200,000	**656**	4,248

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	2021 £000	**Level 1 £000**	**Level 2 £000**
Financial assets at fair value through profit or loss:			
Derivative financial instruments	**2,149**	-	2,149
Available-for-sale financial assets:			
Debt securities	**100,836**	100,836	-
	102,985	100,836	2,149
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	**656**	-	656
	656	-	656

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (Continued)

	2020 £000	Level 1 £000	Level 2 £000
Available-for-sale financial assets:			
Debt securities	10,075	10,075	-
	10,075	10,075	-
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	4,248	-	4,248
	4,248	-	4,248

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 2021 (2020: none).

14. LOANS AND ADVANCES TO CUSTOMERS

	2021 £000	2020 £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	**4,416**	3,433
Other loans and advances by residual maturity repayable:		
In not more than three months	**19,303**	19,683
In more than three months but not more than one year	**58,825**	61,080
In more than one year but not more than five years	**310,919**	306,058
In more than five years	**1,057,184**	1,086,611
	1,450,647	1,476,865
Unamortised loan origination fees	**725**	99
Provisions for bad and doubtful debts (Note 15)	**(3,960)**	(5,647)
Fair value adjustment for hedged risk	**(1,662)**	3,693
Total loans and advances to customers	**1,445,750**	1,475,010

At 31st December 2021 £116m (2020: £136m) of loans have been pledged as collateral to the Bank of England to facilitate funding under TFSME (2020: TFS).

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

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

14. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Loan book analysis

Geographical analysis: All of the Society's loan book is secured on property in Northern Ireland (2020: all)

Loan to value (LTV) analysis

	2021		2020	
LTV	**£m**	**%**	£m	%
0%-50%	**632**	**44**	510	35
50%-60%	**279**	**19**	258	17
60%-70%	**263**	**18**	269	18
70%-80%	**187**	**13**	234	16
80%-90%	**53**	**4**	128	9
90%-100%	**21**	**1**	35	2
100% +	**16**	**1**	43	3
	1,451	**100%**	1,477	100%

Each individual LTV is calculated by comparing the value of the mortgage loan to the value of the collateral held against the loan indexed to current values using the movements in the Ulster University Quarterly House Price Index.

Arrears analysis (loan balance of arrears cases)

	2021	2020
Arrears % of mortgage balance	**£m**	£m
1.50%-2.50%	**3.1**	3.8
2.50%-5.00%	**2.3**	3.2
5.00%-7.50%	**1.6**	1.6
7.50%-10.00%	**1.0**	0.7
10.00% +	**2.0**	2.5
Possessions	**1.4**	1.9
	11.4	13.7

The main factor in a mortgage moving into arrears is a change in the borrower's circumstances, e.g. unemployment, illness, relationship breakdown.

Possession balances represent loans where the Society has taken the underlying security pending its sale.

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 time-frame appropriate to the borrower's circumstances.

The Society provided to customers the following forbearance measures during 2021:

- A temporary change of repayment type - 57 cases (2020: 1,258 cases), of which 28 were Covid-19 related (2020: 1,212).
- A payment deferral of the full normal monthly payment due – 39 cases (2020: 1,125 cases), of which 38 were Covid-19 related (2020: 1,125).
- A payment concession of less than the normal monthly payment due - 7 cases (2020: 90 cases), of which 3 were Covid-19 related (2020: 88).
- 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 2021

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 2021			
Collective provision	1,894	-	1,894
Specific provision	3,432	321	3,753
	5,326	321	5,647
Amounts written off during the year			
Specific provision	771	-	771
	771	-	771
Income Statement			
Collective provision	(668)	-	(668)
Specific provision	(240)	(8)	(248)
	(908)	(8)	(916)
At 31st December 2021			
Collective provision	**1,226**	**-**	**1,226**
Specific provision	**2,421**	**313**	**2,734**
	3,647	**313**	**3,960**

The credit of £965,000 (2020: charge of £1,607,000) in the Income Statement consists of the credit of £916,000 (2020: charge of £1,697,000) above and credits of £49,000 (2020: £90,000) 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.

Amounts written off during the year amounted to £771,000 (2020: £313,000).

A specific provision is an allowance created in respect of specific loans which are known to be facing financial difficulties.

A collective provision is an allowance for loans which are grouped collectively and evaluated for impairment, estimated on the basis of contractual cashflows and historical loss experience for loans with similar characteristics.

Key judgements in the calculations of provisions relates to the assumptions for propensity to possess and the forced sale discount. A 10% increase in the propensity to possess assumptions would increase the provisions by £44,000. A 10% increase in the forced sale discount assumptions would increase the provisions by £49,000.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

16. TANGIBLE FIXED ASSETS

	Land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Total £000
Cost or valuation			
At 1st January 2021	8,169	5,409	13,578
Additions during year	-	285	285
Disposals during year	(61)	(203)	(264)
At 31st December 2021	**8,108**	**5,491**	**13,599**
Depreciation			
At 1st January 2021	1,387	4,511	5,898
Charge for the year	105	383	488
Disposals	(61)	(203)	(264)
At 31st December 2021	**1,431**	**4,691**	**6,122**
Net book value			
At 31st December 2021	**6,677**	**800**	**7,477**
At 31st December 2020	6,782	898	7,680

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

16. TANGIBLE FIXED ASSETS (Continued)

	2021 £000	2020 £000
The net book value of land and buildings comprises:		
Freehold	**5,639**	5,700
Long leasehold	**843**	850
Short leasehold	**195**	232
	6,677	6,782
Analysed as follows:		
Land	**1,885**	1,885
Buildings	**4,792**	4,897
	6,677	6,782
The net book value of land and buildings occupied by the Society for its own activities:		
At 31st December	**5,004**	5,194
If land and buildings had not been revalued they would have been included at the following amounts:		
Cost	**8,376**	8,436
Aggregate depreciation based on cost	**(1,747)**	(1,701)
Net book value based on cost	**6,629**	6,735

Freehold and long leasehold land and buildings were revalued, on a market value basis. The valuations were performed by O'Connor Kennedy Turtle, a firm of independent chartered surveyors, in December 2020.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

17. INTANGIBLE ASSETS

	Total £000
Cost	
At 1st January 2021	7,169
Additions during the year	1,446
Disposals during the year	-
At 31st December 2021	**8,615**
Amortisation	
At 1st January 2021	4,742
Charge for the year	884
Disposals	-
At 31st December 2021	**5,626**
Net book value	
At 31st December 2021	**2,989**
At 31st December 2020	2,427

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

18. SHARES

	2021 £000	2020 £000
Held by individuals	**1,461,291**	1,439,481
Other shares	**133,318**	128,470
	1,594,609	1,567,951
Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	**5,686**	8,277
Repayable on demand	**920,079**	866,510
Other shares by residual maturity repayable:		
In not more than three months	**125,908**	102,027
In more than three months but not more than one year	**283,883**	325,541
In more than one year but not more than five years	**259,053**	265,596
	1,594,609	1,567,951

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2021 £000	2020 £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	**238**	238
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	**3,270**	4,000
In more than three months but not more than one year	**500**	3,500
In more than one year but not more than five years	**50,000**	50,000
	54,008	57,738

Included in the above amount is:

- £50m drawndown against the Bank of England TFSME (2020: £50m TFS).
- £1.3m held as collateral under Credit Support Annex (CSA) agreements (2020: £nil).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2021 £000	2020 £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	**27**	217
Other amounts owed to other customers by residual maturity repayable:		
In not more than three months	**14,316**	20,605
In more than three months but not more than one year	**9,500**	28,750
In more than one year but not more than five years	**5,000**	-
	28,843	49,572

21. OTHER LIABILITIES

	2021 £000	2020 £000
Corporation tax	**274**	-
Income tax	**106**	103
Social security	**108**	102
Other creditors	**1,449**	1,216
	1,937	1,421

22. PROVISIONS FOR LIABILITIES AND CHARGES

	2021 £000	2020 £000
At 1st January	**-**	-
Credit for the year	**-**	(26)
Utilisation of provision	**-**	26
At 31st December	**-**	-

Based on its share of protected deposits, the Society pays 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.

No notifications have been received this year from the Financial Conduct Authority. The Society has not recognised a provision for the FSCS levy (2020: nil).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

23. GENERAL RESERVES

	2021 £000	2020 £000
At 1st January	**120,660**	124,919
Profit for the financial year	**6,861**	3,380
Transfer of amount equivalent to additional depreciation on revalued assets	**(1)**	(8)
Net pension scheme movement in Statement of Other Comprehensive Income	**5,724**	(7,881)
Credit in respect of current year taxation on pension scheme	**-**	250
At 31st December	**133,244**	120,660
The general reserves can be analysed into the following components:		
Relating to defined benefit pension liability	**(7,269)**	(14,135)
Other elements	**140,513**	134,795
	133,244	120,660

24. OTHER RESERVES

	Revaluation reserve		**Available-for-sale reserve**	
	2021 £000	2020 £000	**2021 £000**	2020 £000
At 1st January	**67**	(651)	**3**	89
Transfer of amount equivalent to additonal depreciation on revalued assets	**1**	8	**-**	-
Movement on revaluation	**-**	710	**-**	-
Net fair value movement	**-**	-	**(4)**	(86)
At 31st December	**68**	67	**(1)**	3

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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.

	2021 £000	2020 £000
Notional principal amounts	**344,000**	200,000

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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 2021. 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	241,124	23,996	80,055	9,958	3,857	358,990
Derivative financial instruments	-	-	-	-	2,149	2,149
Loans and advances to customers	699,705	58,886	139,999	552,057	(4,897)	1,445,750
Tangible fixed assets	-	-	-	-	7,477	7,477
Intangible fixed assets	-	-	-	-	2,989	2,989
Other assets	-	-	-	-	2,008	2,008
Prepayments and accrued income	-	-	-	-	1,270	1,270
Total assets	940,829	82,882	220,054	562,015	14,853	1,820,633
Liabilities						
Shares	1,085,615	87,237	174,868	241,203	5,686	1,594,609
Amounts owed to credit institutions	53,270	500	-	-	238	54,008
Amounts owed to other customers	14,316	3,000	6,500	5,000	27	28,843
Derivative financial instruments	-	-	-	-	656	656
Other liabilities	-	-	-	-	1,937	1,937
Net pension liability	-	-	-	-	7,269	7,269
Reserves	-	-	-	-	133,311	133,311
Total liabilities and reserves	1,153,201	90,737	181,368	246,203	149,124	1,820,633
Net assets / (liabilities)	(212,372)	(7,855)	38,686	315,812	(134,271)	-
Impact of derivative instruments	344,000	(10,000)	(65,000)	(269,000)	-	-
Interest rate sensitivity gap	131,628	(17,855)	(26,314)	46,812	(134,271)	-

Derivative instruments are used to manage the interest rate risks of net asset or liability mismatch beyond one year to maturity. Interest rate gaps of less than one year do not pose a significant risk as any asset or liability mismatch is of short duration to repricing.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

25. FINANCIAL INSTRUMENTS (Continued)

The repricing mismatch comparatives as at 31st December 2020 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	310,622	8,000	4,500	-	3,251	326,373
Loans and advances to customers	805,090	58,000	138,186	475,589	(1,855)	1,475,010
Tangible fixed assets	-	-	-	-	7,680	7,680
Intangible fixed assets	-	-	-	-	2,427	2,427
Other assets	-	-	-	-	3,182	3,182
Prepayments and accrued income	-	-	-	-	1,123	1,123
Total assets	1,115,712	66,000	142,686	475,589	15,808	1,815,795
Liabilities						
Shares	1,011,665	81,468	212,273	254,268	8,277	1,567,951
Amounts owed to credit institutions	54,000	500	3,000	-	238	57,738
Amounts owed to other customers	20,605	13,250	15,500	-	217	49,572
Derivative financial instruments	-	-	-	-	4,248	4,248
Other liabilities	-	-	-	-	1,421	1,421
Net pension liability	-	-	-	-	14,135	14,135
Reserves	-	-	-	-	120,730	120,730
Total liabilities and reserves	1,086,270	95,218	230,773	254,268	149,266	1,815,795
Net assets / (liabilities)	29,442	(29,218)	(88,087)	221,321	(133,458)	-
Impact of derivative instruments	195,000	(15,000)	(15,000)	(165,000)	-	-
Interest rate sensitivity gap	224,442	(44,218)	(103,087)	56,321	(133,458)	-

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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 2021. 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.

	2021 Book value £000	**2021 Fair value £000**	2020 Book value £000	2020 Fair value £000
Assets				
Liquid assets	**358,990**	**358,191**	326,373	326,341
Loans and advances to customers	**1,445,750**	**1,426,522**	1,475,010	1,474,448
Derivative financial instruments	**2,149**	**2,149**	-	-
Total	**1,806,889**	**1,786,862**	1,801,383	1,800,789
Liabilities				
Shares	**1,594,609**	**1,594,609**	1,567,951	1,567,951
Wholesale liabilities	**82,851**	**82,639**	107,310	107,302
Derivative financial instruments	**656**	**656**	4,248	4,248
Total	**1,678,116**	**1,677,904**	1,679,509	1,679,501

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 2021

25. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2021 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	202,238	-	-	-	202,238
Loans and advances to credit institutions	-	55,916	-	-	55,916
Debt securities	-	-	100,836	-	100,836
Derivative financial instruments	-	-	-	2,149	2,149
Loans and advances to customers	-	1,445,750	-	-	1,445,750
Total financial assets	202,238	1,501,666	100,836	2,149	1,806,889
Total non-financial assets					13,744
Total assets					1,820,633
Liabilities					
Shares	1,594,609	-	-	-	1,594,609
Amounts owed to credit institutions	54,008	-	-	-	54,008
Amounts owed to other customers	28,843	-	-	-	28,843
Derivative financial instruments	-	-	-	656	656
Total financial liabilities	1,677,460	-	-	656	1,678,116
Total non-financial liabilities					9,206
Reserves					133,311
Total liabilities and reserves					1,820,633

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

25. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2020 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	256,312	-	-	-	256,312
Loans and advances to credit institutions	-	59,986	-	-	59,986
Debt securities	-	-	10,075	-	10,075
Loans and advances to customers	-	1,475,010	-	-	1,475,010
Total financial assets	256,312	1,534,996	10,075	-	1,801,383
Total non-financial assets					14,412
Total assets					1,815,795
Liabilities					
Shares	1,567,951	-	-	-	1,567,951
Amounts owed to credit institutions	57,738	-	-	-	57,738
Amounts owed to other customers	49,572	-	-	-	49,572
Derivative financial instruments	-	-	-	4,248	4,248
Total financial liabilities	1,675,261	-	-	4,248	1,679,509
Total non-financial liabilities					15,556
Reserves					120,730
Total liabilities and reserves					1,815,795

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

26. FINANCIAL COMMITMENTS

	2021 £000	2020 £000
Capital commitments		
Capital commitments at 31st December for which no provision has been made:		
Contracted but not provided for	**14**	141
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	**132**	193
After five years	**611**	693
	743	886
Memorandum items		
Irrevocable undrawn mortgage loan facilities	**97,239**	90,726

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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 £288,000 (2020: £264,000) 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 2021 used for FRS 102 disclosures has been undertaken by a qualified actuary in order to assess the liabilities of the scheme at 31st December 2021 using the Projected Unit Credit Method. Pension scheme assets were restated at their market value at 31st December 2021.

The major assumptions used by the actuary were:

	At 31st Dec 2021 %	At 31st Dec 2020 %
Rate of increase of pensions in payment	**3.19**	2.88
Discount rate	**1.89**	1.34
Inflation	**3.45**	3.03
Salary inflation	**3.65**	3.23

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

	2021 £000	2020 £000
The amount relating to operating costs was as follows:		
Included within 'Administrative expenses':		
Current service cost	**1,241**	911
	1,241	911

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

27. PENSION SCHEME (Continued)

	2021 £000	2020 £000
The amount relating to other pension costs within staff costs (Note 6) was as follows:		
Current service cost	**1,241**	911
Net finance charge	**195**	235
Defined contribution scheme charge	**288**	264
	1,724	1,410
The amount relating to the finance charge was as follows:		
Expected return on pension scheme assets	**714**	1,027
Interest on pension scheme liabilities	**(899)**	(1,137)
Administrative expenses	**(10)**	(125)
Net charge (included within 'Administrative expenses')	**(195)**	(235)
Actuarial gains and losses have been reported in the Statement of Other Comprehensive Income as follows:		
Actuarial gain / (loss) recognised in pension scheme	**6,402**	(9,596)
Movement in deferred tax relating to pension scheme	**(678)**	1,715
Actuarial gain / (loss) recognised in the Statement of Other Comprehensive Income	**5,724**	(7,881)

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 2021 £000	Value at 31st Dec 2020 £000
Fair value of pension scheme assets	**56,993**	53,044
Present value of pension scheme liabilities	**(64,262)**	(67,179)
Deficit in pension scheme	**(7,269)**	(14,135)

The pension liability of £7,269,000 comprises £4,069,000 liability for the funded pension scheme and £3,200,000 liability for the unfunded arrangement.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

27. PENSION SCHEME (Continued)

	2021 £000	2020 £000
Movements in the present value of scheme liabilities in the current period were as follows:		
At 1st January	**67,179**	52,711
Current service cost	**1,241**	911
Interest cost	**899**	1,137
Contributions from scheme members	**170**	177
Actuarial (gain) / loss	**(3,699)**	12,895
Benefits paid	**(1,528)**	(652)
At 31st December	**64,262**	67,179
Movements in the present value of scheme assets in the current period were as follows:		
At 1st January	**53,044**	46,856
Expected return on scheme assets	**714**	1,027
Actuarial gain	**2,703**	3,299
Contributions from the Society	**1,900**	2,462
Contributions from scheme members	**170**	177
Administrative expenses	**(10)**	(125)
Benefits paid	**(1,528)**	(652)
At 31st December	**56,993**	53,044

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

	Fair value of assets	
	2021 £000	2020 £000
Equity instruments	**18,048**	16,224
Debt instruments	**25,029**	19,848
Property instruments	**3,706**	3,430
Liability driven instruments	**7,762**	9,410
Other assets	**2,448**	4,132
	56,993	53,044

The expected blended return on scheme assets is 1.89% (2020: 1.34%).

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, discounted at the appropriate rate, and thus are inherently uncertain.

The estimated values of contributions expected to be paid to the scheme during the current financial year, 2022, is £2,051,000 consisting of £1,881,000 from the Society and £170,000 from the members.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2021

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 2021, 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 2021, there were two (2020: 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 £241,000 (2020: £257,000).

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 2021, 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 2021

1. STATUTORY RATIOS AND PERCENTAGES

	31st Dec 2021 **%**	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (lending limit)	**0.63**	25
Proportion of shares and borrowings not in the form of shares held by individuals (funding limit)	**12.89**	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 2021 **%**	31st Dec 2020 %
As a percentage of shares and borrowings:		
Gross capital	**7.95**	7.21
Free capital	**7.40**	6.72
Liquid assets	**21.40**	19.48
As a percentage of mean total assets:	**For 2021**	For 2020
Profit after taxation	**0.38**	0.19
Management expenses	**0.87**	0.80

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 2021

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS AT 31st DECEMBER 2021

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
Keith Jess BSSc FCA (02/02/57)	01/08/17	Retired Chartered Accountant	NIE Networks Limited
Gerard McGinn CBE BA (Hons) FIB (04/05/57)	20/02/15	Company Director	AXA Insurance dac Strategic Investment Board Belfast Harbour Commissioners
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 Think Governance
Karen Furlong BA (Hons) (19/08/69)	01/01/19	Company Director	AirPOS Limited Personal Injuries Assessment Board Tridos Bank VHI Healthcare VHI Health & Wellbeing
Martin Pitt BSSc MAcc FCA (31/12/63)	01/01/20	Retired Chartered Accountant	Northern Ireland Audit Office Audit Committee Member Health Service Executive (RoI) Odyssey Group Trust Limited Ulster Independent Clinic Limited Radius Housing Association Belfast Bible College Limited Camphill Community (NI) Trust Limited Salt Factory Sports Limited Abaana
Stephen Mitcham BA (Hons) (27/10/63)	01/11/21	Retired Building Society Chief Executive	Mutual Vision Technologies Moneyfacts UK Cambridge & Peterborough Clinical Commissioning Group (NHS)
Darina Armstrong MBE 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
Peter G Lyttle BA	Society Secretary	None
Sarah McKegney BSc (Hons) ACA	Head of Operations	Go Baby Limited
Ailsa L McNeill BA (Hons) 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	028 2564 2845
Bangor 6 Castle Street	028 9127 0348
Belfast 33 / 37 Wellington Place	028 9082 1821
Coleraine 9 The Diamond	028 7032 9999
Enniskillen 24 High Street	028 6632 2470
Glengormley 323 Antrim Road	028 9083 9329
Lisburn 3 Market Place	028 9260 2802
Londonderry 3 Millennium Forum	028 7137 2277
Newtownards 4 Conway Square	028 9181 9709
Omagh 40 High Street	028 8225 0989
Portadown 12 Market Street	028 3833 0103

WEB ADDRESS

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