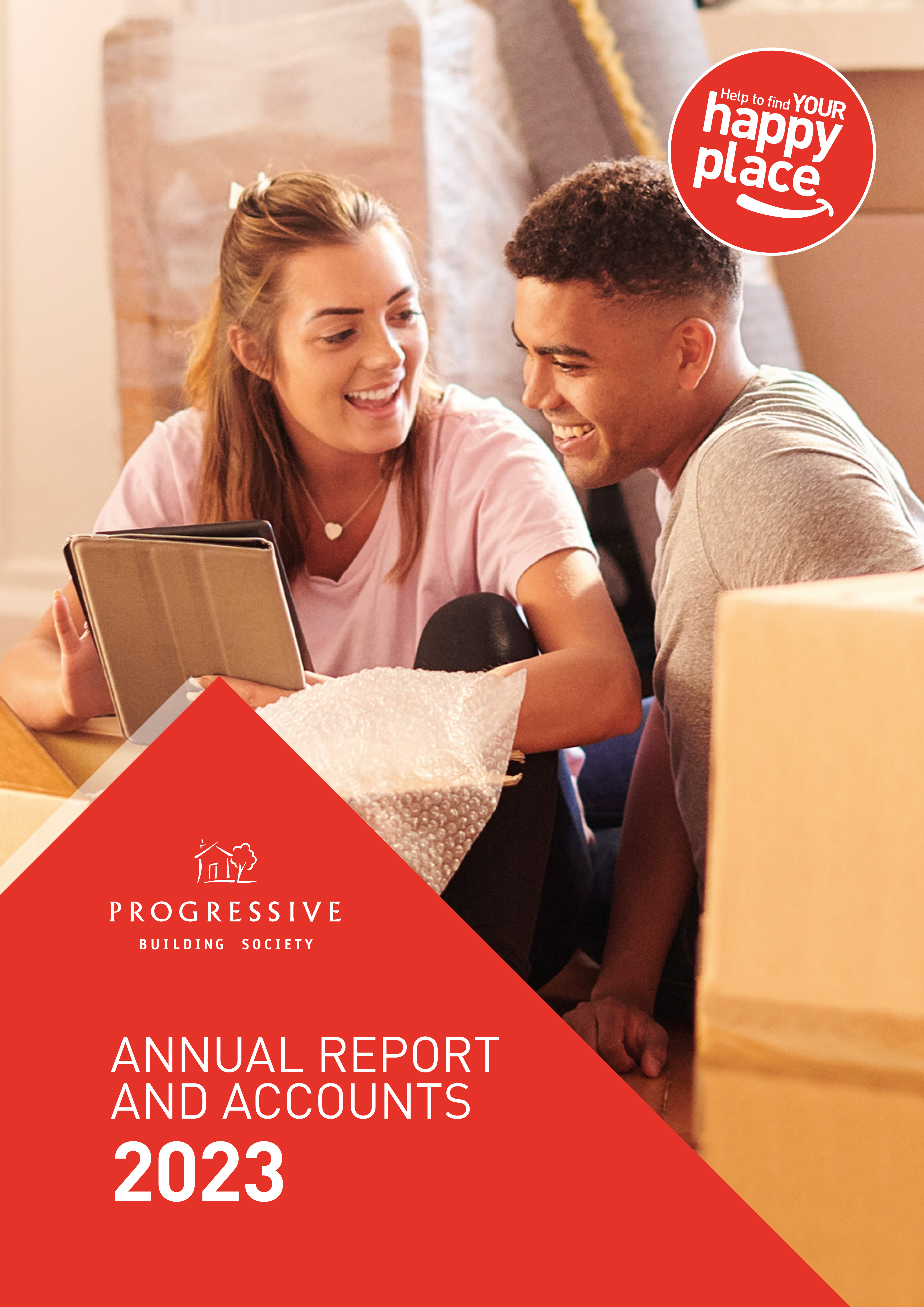
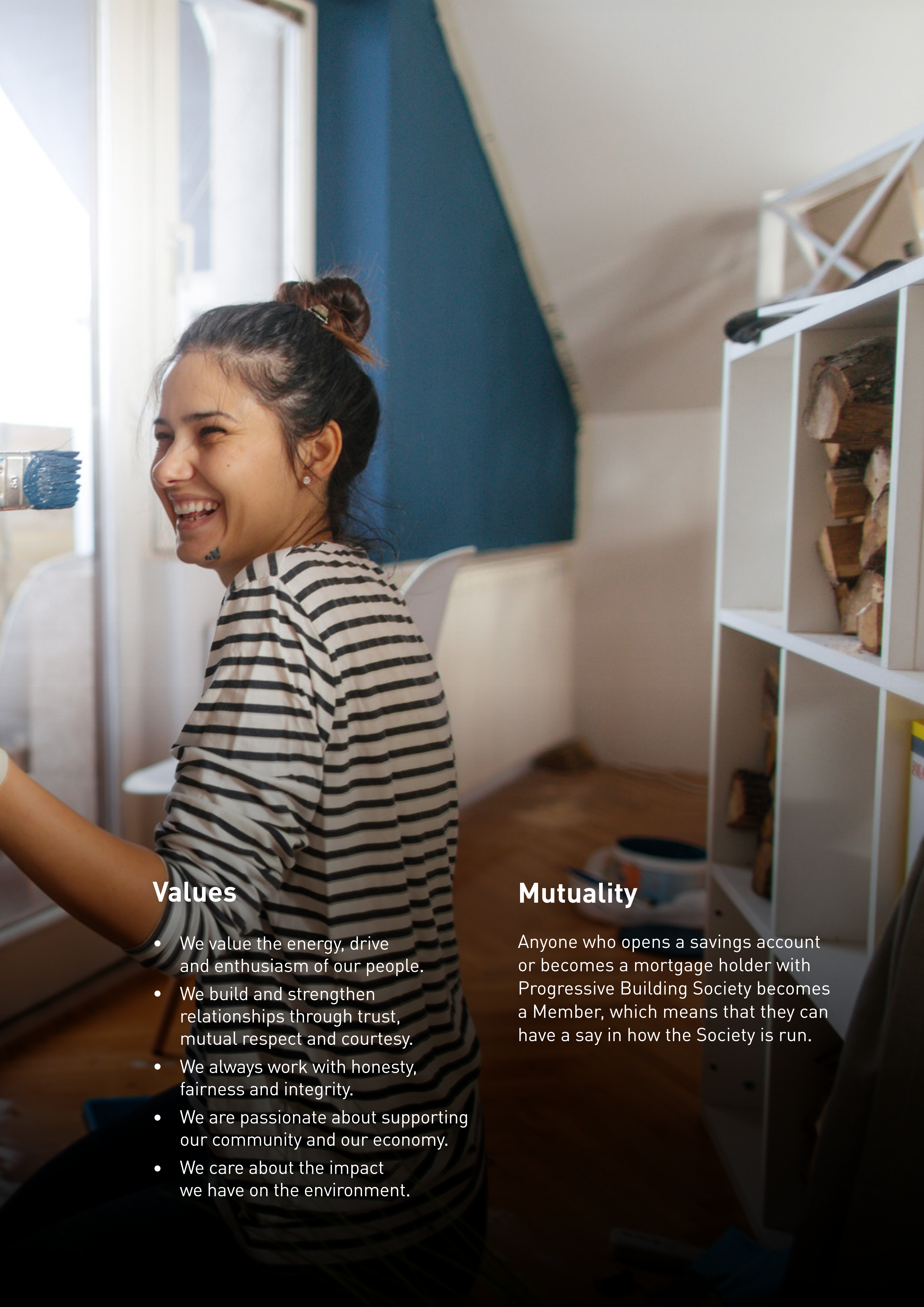


PROGRESSIVE
BUILDING SOCIETY

ANNUAL REPORT AND ACCOUNTS 2023

Purpose

We are passionate about helping local people to save and champion homeownership through our personal, caring and responsible approach.



Values

- We value the energy, drive and enthusiasm of our people.
- We build and strengthen relationships through trust, mutual respect and courtesy.
- We always work with honesty, fairness and integrity.
- We are passionate about supporting our community and our economy.
- We care about the impact we have on the environment.

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 WELCOME

I am delighted to present Progressive Building Society's Annual Report and Accounts for the year to 31st December 2023, on behalf of your Board.

2023 proved a challenging year on many fronts, which I will outline below, but I am pleased to report that your Society has performed exceptionally well.

The year's challenges included the impact of the Bank of England's bank base rate increases to a 15-year high, alongside high inflation leading to a cost-of-living crisis for consumers, tight labour markets, continued demand and supply imbalances in the local housing market, changes in the Society's executive leadership, and complex technology projects to name but a few.

Despite these issues, 2023 has been a year of significant progress at Progressive in terms of balance sheet growth, strong profits, and investment in technology. More detail on these areas is outlined in the Chief Executive's Report and the Business Review.

GOVERNANCE

Our Chief Executive, Darina Armstrong, retired at the end of October 2023 after 13 years at the helm and over 30 years at Progressive. Darina led the Society in an understated manner, but always exuded an air of quiet, unassuming confidence. Her time managing the Society was a period of many challenges, from the increased regulatory environment, to Brexit, to the pandemic, and finally to the highest inflation levels since the late 1980s. Darina led the Society through these challenges successfully, at the same time strengthening capital, building the technology infrastructure and starting the growth phase of the Board's strategy. She will be missed by Directors and staff alike and I'd like to take this opportunity to wish her well in her next chapter.

Following a robust external recruitment process, we appointed Michael Boyd as Darina's successor. Michael has been with the Society for 28 years in various finance and risk roles, and latterly served as Deputy Chief Executive & Finance Director for the last 13 years. I wish Michael well in his new role. Gareth Robinson has taken over as our Finance Director and will bring his expertise and deep knowledge of the Society to this role.

The Society has a strong framework for succession and refreshing the Board and in August 2023 Gerry McGinn, our Senior Independent Director, retired as planned from the Board. Gerry was previously Chair of the Risk Committee and a former member of each Board Committee. His depth and breadth of experience from the banking and public sectors, along with his people skills, will be missed on the Board.

We have recently begun a process to attract two new non-executive Directors who will join the Board in the coming months to enable a period of induction prior to our next planned retirement in 2024.

THE FUTURE

Our investment in digital technology has produced the technical functionality to enable the Society to remain relevant for Members. We are currently finalising moving our technology infrastructure from data centres to cloud, which will increase efficiency and provide greater resilience and flexibility in storage capacity.

We are soon to launch new online savings functionality to enable savers to open new accounts online. This is an exciting development for the Society, and I look forward to seeing the growth in our functionality which will sit alongside our other online savings and mortgage services.

We will continue to reduce our own impact on the environment, and we will also look at additional ways in which we can support Members in their efforts to reduce their carbon footprint through the range and design of our products and services.

Above all, 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.

The challenges of the last 12 months, and indeed the last number of years, in the political and economic environment, serve to show that it is impossible to predict the future. However, I know that whatever the future holds we will continue to focus on you, our current and future Members, and your mortgage and savings needs.

THANK YOU

We have accomplished so much in the last few years, and this has only been possible because of the continued dedication of the Society's management and staff. I would like to take this opportunity to thank them all.

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.

As I reflect on my second year as Chair of the Board, I am confident that the Society has the ambition, the leadership, the people, the purpose and the strategy to succeed and remain competitive in a fast-changing environment.

Keith Jess

Chair

27th February 2024

CHIEF EXECUTIVE'S REVIEW

In my first report as Chief Executive, I'm pleased to report a strong set of results despite intense competition in the local mortgage and savings markets, and political and economic uncertainty which has impacted households across Northern Ireland.

In uncertain times people look for stability, support and value from their financial providers, and these pillars have been our priority throughout 2023 for Members, colleagues and the communities in which we live and work. Our people have maintained a focus on Members' needs, which is central to what we do at Progressive and something of which I am very proud.

2023 turned out to be a better year economically than many had anticipated. Expected increases in unemployment did not materialise, although inflation remained above 10% for the first quarter before gradually reducing to finish the year at 4%. The levels of inflation in this cycle have been higher than we've seen since 2007 and prompted the Bank of England to increase their base rate to 5.25% in August. Bank base rate stayed at this level for the remainder of the year which meant higher rates for borrowers and savers.

Inflationary pressures impact borrowers' finances as food and energy costs increase, and also impact the Society through salary pressures and the cost of goods and services. In addition, inflationary pressures dent consumer confidence which creates uncertainty in the housing market. We witnessed a reduction in housing transaction volumes during the year. However, the lack of supply in the local housing market meant that house prices remained stable in the year to December 2023.

In many ways 2023 has been rewarding despite the difficulties. Financially, the performance has been pleasing, building up our strong capital base and maintaining high quality liquid assets. Excellent service standards have continued as we align online capabilities alongside our branch network.

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 £280 million of new advances in the year, resulting in gross mortgage assets of £1.6 billion, an increase of £82 million.
- Savings
  - We maintained competitive savings rates for our Members throughout the year. The average savings rate for the year was 2.62% (2022: 0.82%) and we consistently remained at, or near, the top of the local best buy tables.
- Capital
  - We maintained strong capital ratios with the Common Equity Tier 1 (CET1) ratio at 22.28%, the gross captial ratio at 8.96% and the leverage ratio at 7.57%.
- Management expenses
  - The Society's management expenses ratio was 0.92% for the year and this ratio remains among the most efficient in the building society sector.
- Low risk business model
  - The Society operates a business model consistent with its mutual values, attracting savings to fund local home ownership.
- Highly engaged staff
  - Our people focus on customer service delivery. This is achieved through successful recruitment, retention and ongoing training. Similar to all businesses we have witnessed increased churn in the labour market over the last few years, but this is returning to planned levels.

- Supporting local communities
    - In 2023 £147,000 (2022 £136,000) was donated to local charities. The cost-of-living crisis has been felt acutely across the country, so our support was targeted to charities supporting vulnerable people, including homeless, those in need of food banks, those with disabilities, and those with mental health issues. We live and work in the local communities, so it is important that we support them in return.

MORTGAGES AND SAVINGS

Very similar to 2022, the housing market enjoyed a stronger than expected outcome in 2023 with house prices remaining stable over the year to December 2023. According to Ulster University's House Price Index, on average local house prices were almost £207,000 at December, in line with the average twelve months previously. This price stability was driven by demand outstripping supply for much of the year and is all the more remarkable given the combined headwinds of economic and political uncertainty, high levels of inflation, increased interest rates and the cost-of-living crisis.

New lending increased to £280 million (2022: £267 million) despite the challenging economic conditions. During the year we restructured our lending processes to improve efficiencies and develop capacity, as costs increased due to inflationary pressures and as we continued to grow our mortgage book. We offered competitive rates for our core residential mortgage products, while maintaining flexibility where our dedicated underwriting team considered each case on its merits. This approach has served our borrowing Members well and will continue to ensure mortgage loans remain affordable for our borrowers as their incomes become squeezed.

Our lending model is low risk, which has served us well through prudent loan to value levels, providing protection from any potential market or house price disruptions.

In December 2021, the Bank of England increased its base rate to 0.25%, from its historic low of 0.10%. This was the first increase in rates for many years, and by August 2023 the base rate had been raised a further fourteen times to stand at 5.25%. Balancing the interests of borrowers and savers is a key focus for the Society at any time but particularly in a fast-changing interest rate environment.

Returns in the savings market showed a marked improvement in 2023. The Society managed its savings rates consistently at, or near, the top of local market rates throughout the year, with the result that savings balances increased by almost £87 million. The average savings rate paid in the year to our savers was 2.62%.

We linked in with UK Savings Week in September to support a savings culture locally and encourage healthy savings habits. This year we challenged households to start saving by setting aside small amounts each month, and ensuring that savers' money is working for them.

Liquidity balances remain robust at £351 million. Liquid assets are important for a building society to ensure that it will be able to pay liabilities as they fall due. For the Society, the main liabilities would be savers making withdrawals, repaying wholesale funding, and advancing mortgage loans to borrowers. Progressive continues to hold high quality liquid assets well ahead of regulatory requirements.

Total assets increased by £63 million to £1.96 billion, mainly driven by mortgage balance increases.

Profit after tax amounted to £11.8 million. The Society benefitted from an increase in interest receivable on the receipt leg of interest rate swaps. Cost increases were experienced in the year and we expect this to continue into 2024, alongside a reducing interest rate margin. It is pleasing that Progressive improved its financial resilience during 2023 through increased profits and reserves balances.

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.

OUTLOOK

The Northern Ireland and broader UK economies are finely balanced on whether they will drop into recession, caused by inflation and the cost-of-living pressures being felt by households. Unemployment levels may rise, house prices have been flat for a while now and are forecast to dip a little, and competition in the mortgage and savings markets is likely to intensify, all of which leads to a challenging business environment in 2024.

Progressive remains focused on the long term benefits of membership for borrowers and savers and we have a strong financial base to weather the challenges ahead. We will continue to support our Members, partners and colleagues through the challenges ahead, and we will continue investing in our branch network and technology.

Internal processes are being re-engineered to better utilise technology and allow our people to concentrate on more value-added tasks. This also enables the Society to further grow our mortgage and savings membership and balances as we improve efficiencies.

We know that our Members strongly support the face-to-face quality service that is provided through our branch network. We will continue to serve our Members through any channel they choose – branch, telephone, email and digitally.

The Board is committed to providing our Members with products and services that meet their needs. Products must be simple, clear and transparent. We will continue to offer excellent value products which are consistently well placed in the local best buy tables.

Progressive Building Society will continue to support new and existing Members to save and buy, build or improve their homes. Many challenges lie ahead but 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 many savers and borrowers.

I will finish with a few thanks. I wish to thank our Members, customers and partners for their continued loyalty and support. Thank you also to my colleagues across the Society for their drive, determination, passion and commitment towards making Progressive a great place to work.

Michael Boyd

Chief Executive

27th February 2024

PERFORMANCE HIGHLIGHTS

CHARITABLE DONATIONS
£147,000

GROSS MORTGAGE ASSETS
£1.6 BILLION

PROFIT (AFTER TAX)
£11.8 MILLION

TOTAL ASSETS
£1.96 BILLION

BUSINESS REVIEW

For the year ended 31st December 2023

The Directors have pleasure in presenting the Annual Report and Accounts of Progressive Building Society for the year ended 31st December 2023.

YOUR SOCIETY EXPLAINED

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

Savings

Where the money comes from

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

First time buyer | Home mover | Self build

What we use it for

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

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

How we generate income

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

People costs | Technology costs | Property & operating costs

What we incur costs on

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

Capital strength | Improved services | Charitable giving

What we use our profits for

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

BUSINESS OVERVIEW

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 offering a strong customer focus and excellent service standards.

The Society's values drive everything we do. We value the energy, drive and enthusiasm of our people. We build and strengthen relationships through trust, mutual respect and courtesy. We always work with honesty, fairness and integrity. We are passionate about supporting our community and our economy. We care about the impact we have on the environment.

In 2023, the Society strengthened its capital base following another profitable year, thereby further protecting Members' interests.

BUSINESS MODEL

The Society offers savings and mortgage products through its network of branches across Northern Ireland and its improved online functionality. The 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 through its branches and agents as well as its online savings platform. 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 considered this in its five-year Strategic Plan.

Mortgage loans are predominantly secured against prime residential property in Northern Ireland having been sourced through a network of approved mortgage brokers, as well as directly through the branch network. The Society lends principally to first time buyers, home movers, self-builders and re-mortgagors.

To ensure we can meet all our obligations to savers, and to meet the commitments we have made to lend to home buyers, we maintain some of the funds from savers in the form of liquid assets. These liquid assets are invested with strong financial institutions, primarily the Bank of England in the Society's Reserve Account, and in UK government backed securities including Gilts and Treasury Bills. Security of, and accessibility to, liquidity is 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 costs 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.

Mortgage rates were historically low in recent years to support the economy from the effects of the pandemic. However, inflationary concerns have led to the Bank of England increasing the official bank rate throughout 2022 and 2023. The official bank rate started 2023 at 3.50%, with interest rates being increased at five meetings of the Bank of England's Monetary Policy Committee during the year. This has resulted in a rate at the end of the year of 5.25%. This fast-changing interest rate environment has meant that we have had to actively manage the competing needs of borrowers and savers and our products have consistently remained at the top end of the local best buy tables. 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 highly competitive, and we will need to adapt accordingly in the best interests of our Members. Despite the challenging external environment, we have continued to utilise technology 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 better meet existing and new Members' needs, 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, thus 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 make us different from our competitors. We encourage contact through any of our channels, face-to-face with our branch staff, on the telephone or digitally through our online platforms. Our staff can assist with every step of the saving or borrowing process. 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 through each of our channels.

Lending decisions can be made quickly due to our in-depth knowledge of the local housing market. During 2023 we have been working through a programme of improvements to streamline and focus our processes to provide a faster and more efficient service. We have local people making local decisions. Feedback from Members indicates high levels of satisfaction with the services provided by Progressive staff.

We continue to invest to ensure that we have the right people and skills, systems and infrastructure to be able to continue to serve our existing and new Members' financial needs.

STRATEGY

The Society has developed a strategy to encourage more people to save and become homeowners with us.

This strategy focused on the following areas during the year:

- Remaining consistently at, or near, the top of local best buy tables.
- Refocusing resources on more efficient processes.
- Continuing to develop the IT infrastructure and resilience.
- Improving internal and external communications.
- Maintaining a positive 'one team' culture amongst staff.
- Developing multi-skilled support teams to help customers in achieving their long-term financial goals.
- Attracting and retaining talent.
- Reviewing product offerings ensuring they meet customers needs.

The Directors are pleased to report that the Society made significant progress during 2023 and remains on target for the achievement of its Strategic Plan objectives.

BUSINESS OBJECTIVES

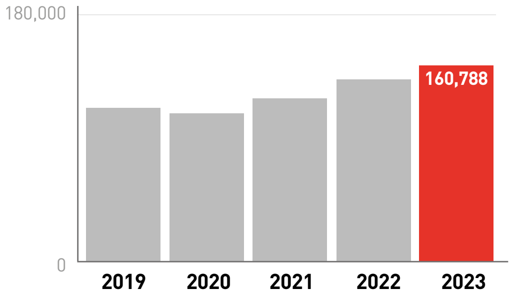
The principal purpose and objective of Progressive Building Society remains encouraging local people to save and become homeowners, through our personal, caring and common-sense approach, nurturing financial wellbeing through the generations. The Board strongly believes that this purpose is best served 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 that being an independent mutual building society provides the right environment and structure for the achievement of the Society's objectives.

KEY PERFORMANCE INDICATORS

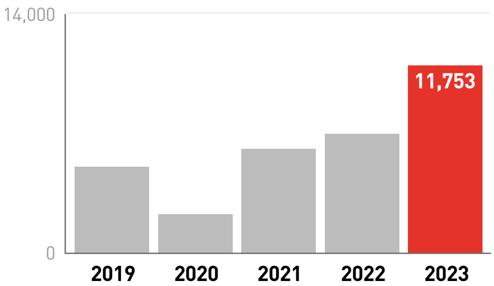
The following graphs set out a number of key indicators which the Directors use to monitor the development, performance and position of the Society on an ongoing basis. These are included to give Members a more comprehensive understanding of the Society's progress.

Total Reserves £000



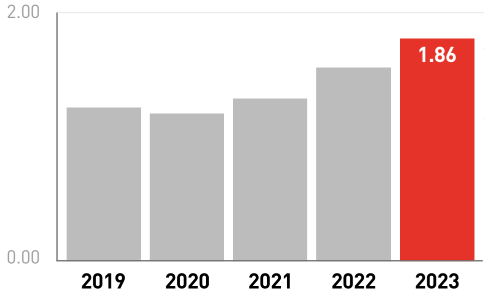
Reserves are held to enable the Society to invest in systems, technology, premises and people and to provide protection against losses from lending. The Society generates reserves from profit made from normal business activities and this provides long term security for the Society and its Members, while meeting regulatory capital requirements. The Society's reserves increased in the year due to profits after tax of £11.8 million.

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 £11.8 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

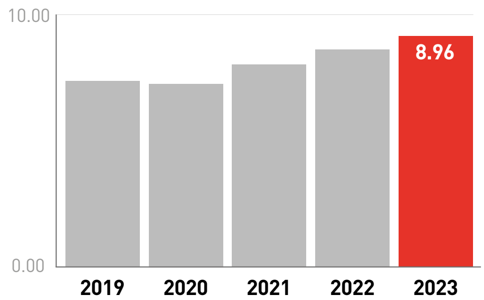


Net interest margin is interest receivable less interest payable, expressed as a percentage of the simple average of the Society's total assets at the beginning and end of the financial year.

The mortgage market remained highly competitive throughout the year and the Society kept pace with the competition as evidenced by increased lending in the year. The average mortgage rate charged to borrowers was 3.82%.

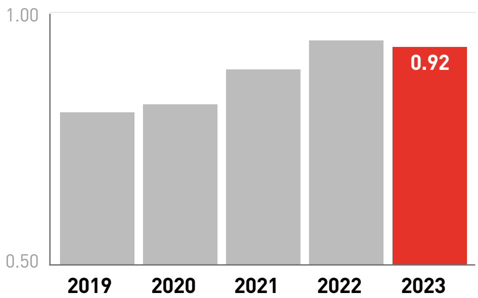
Savings rates were monitored throughout 2023 to ensure that the Society was able to control the flows of new savings balances whilst maintaining the balances already on our books. The Bank of England's base rate increased throughout the year from 3.50% at the beginning of the year to 5.25% at year end. We actively passed these rate changes onto Members as the savings market adjusted. We remained at, or near, the top of the local best buy tables throughout the year. The average savings rate offered by the Society was 2.62%. 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 remained robust in 2023 at £11.8 million.

Management Expenses as a % of Mean Total Assets

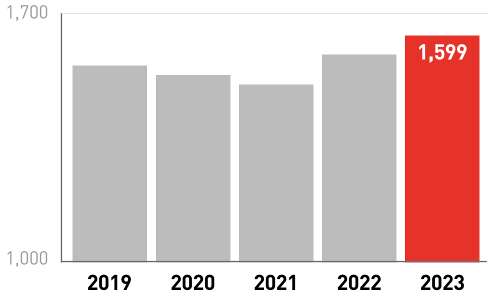


Management expenses are the Society's administrative expenses and represent the ordinary costs of running the organisation. They comprise mainly the costs of employing staff and maintaining the branch network, back-office functions, and the Society's IT infrastructure. The management expenses ratio measures 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 seeks to control this ratio while at the same time ensuring the Society has sufficient resources to operate effectively in a competitive and heavily regulated market.

The management expenses ratio decreased slightly in 2023 to 0.92% primarily due to asset growth.

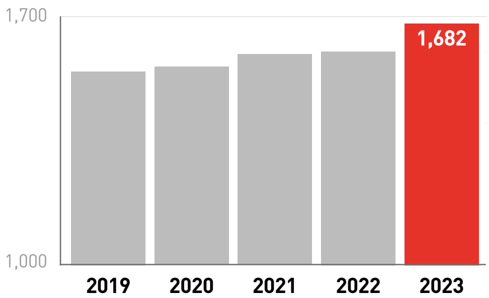
Mortgage Balances £m



This shows the movement in the Society's mortgage book in the year.

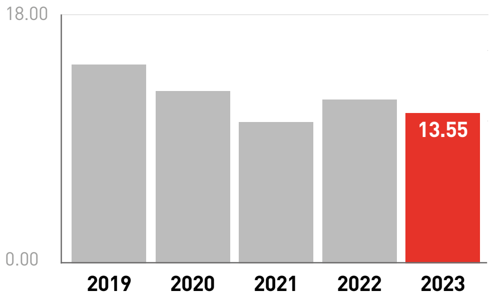
Mortgage balances increased during 2023 due to the Society's competitive mortgage offerings backed by its prudent lending approach.

Savings Balances £m



This shows the movement in savings balances held by the Society. Savings balances increased during 2023 due to the Society's competitive product offerings, backed by its strong branch, agent and online network.

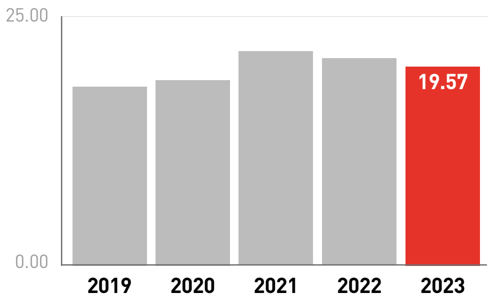
Funding Ratio as a % of Shares and Deposit Liabilities



This ratio shows the level of shares and deposits other than shares held by individuals as a proportion of shares and deposit liabilities. 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 2023.

Liquid Assets as a % of Shares and Deposit Liabilities



This ratio shows the level of the Society's liquid asset balances as a proportion of the Society's shares and deposits. 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 decreased during 2023 reflecting increased lending volumes.

FINANCIAL PERFORMANCE

Performance Overview

Progressive Building Society delivered a strong performance in 2023, with profit after tax of £11.8 million (2022: £7.9 million).

The Society has maintained a stable savings book and increased mortgage balances in a competitive environment, through a combination of value-for-money products and excellent customer service. The impact of high inflation on affordability for some borrowers resulted in additional charges for bad and doubtful debts in 2023, resulting in a charge of £0.9 million (2022: £1.7 million) in the year.

Income Statement

Profit before tax amounted to £15.6 million (2022: £9.2 million). The profitability was ahead of budget, resulting from improved interest income due to higher than anticipated market rates and increased lending volumes.

Net Interest Income

Net interest income of £35.9 million (2022: £29.1 million) remained robust whilst the Society's net interest margin increased to 1.86% (2022: 1.56%). This was driven by movements in market interest rates.

The Bank of England base rate increased on five of the occasions the Bank's Monetary Policy Committee met in 2023, with the rate increasing from 3.50% to 5.25%. This fast-changing interest rate environment meant that the Society had to assess interest rates on products in line with its competitors and with those in the wider markets.

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 excellent deals continued throughout the year with new and existing Members benefiting from some of the most competitive rates in the market.

The Society's savings rates remained at, or near, the top of the best buy tables throughout the year. The savings balances increased throughout the year, demonstrating value for money products for our Members.

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 (2022: £0.8 million) as the Society continued to offer fee-free mortgage products during the year. Fees and commissions payable amounted to £2.2 million (2022: £1.9 million) reflecting increased lending volumes.

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 2023 resulted in a loss of £0.2 million (2022: £0.4 million gain).

Management Expenses

The Society continues to maintain a low-cost base relative to other building societies. However, management expenses (administration costs and depreciation) increased to £17.8 million (2022: £17.4 million) due to inflationary increases throughout the year. The Society continued to invest in people and technology while keeping a focus on cost control.

The management expenses ratio decreased slightly to 0.92% (2022: 0.94%) primarily due to asset growth. 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 further rises in our cost base in the future, particularly in this high inflation environment.

Provision for Bad and Doubtful Debts

Provisions for bad debts saw an additional net charge of £0.9 million during the year (2022: £1.7 million) due to the increase in arrears cases caused by higher inflation and the squeeze on household incomes. The job market statistics and local house prices have remained remarkably stable during the year. However, we anticipate that 2024 will see further pressures on affordability and house prices. The Society will act responsibly and help borrowers who are struggling with affordability to manage their positions, depending on their individual circumstances.

ASSETS

Total assets of £1,963 million (2022: £1,900 million) increased by £63 million during the year largely due to increased mortgage balances.

Loans and Advances to Customers

The Society's new mortgage lending amounted to £280 million in 2023 (2022: £267 million). This was achieved through focus on growing the loan book in a very competitive mortgage market, by utilising our recently developed technology system capabilities and process transformations.

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 £1,599 million at the year end (2022: £1,517 million). 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. This becomes more apparent in times of high inflation which puts increased pressure on household finances. 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 of 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.

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

Twenty-seven (2022: twenty-one) mortgage accounts (including possessions) were twelve months or more in arrears at the year end. The total amount outstanding on these accounts was £4.3 million (2022: £2.8 million) including arrears of £0.8 million (2022: £0.6 million). There were eleven (2022: twelve) properties in possession at 31st December 2023.

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 2023 was £5.8 million (2022: £5.2 million), which represented 0.36% (2022: 0.34%) of the total mortgage book. This increase in provision resulted from some borrowers experiencing difficulties keeping up with their mortgage payments and a new cohort of borrowers who have recently drawn down on their mortgage but had limited surplus net income under stressed conditions. It is anticipated that this will continue due to the prevailing economic conditions.

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 well in excess of these regulatory requirements in terms of both quality and quantity throughout the year.

RETAIL SAVINGS & FUNDING

The Society continues to be predominantly funded by retail savings, which increased to £1,682 million (2022: £1,595 million). Savings balances from individuals accounted for 86.4% (2022: 84.4%) 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 for a further four-year period 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's capital strength grew during 2023. All capital ratios were significantly in excess of regulatory requirements throughout the year.

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 2023 the CET1 ratio was 22.28% (2022: 22.94%).

SYSTEMS

IT continues to play an important part in supporting the Society's growth strategy by modernising, improving, and implementing new processes and systems across the Society. Some of the transformation of key business processes across the Society have delivered new environmentally sustainable ways of working in our branch and support teams, removing the use of paper across the Society, and helping us to significantly reduce our carbon footprint.

This transformation activity also supports our operational resilience framework and provides assurance on our ability to recover from an IT incident or business continuity request whilst successfully continuing our business activities with minimal impact to our Members.

A move to the cloud has enabled the Society to align with its strategic plans. This provides greater resilience as the Society is no longer reliant on physical data centres so any adverse situations can be resolved without the same level of manual intervention.

The Society continues to invest in cyber security across our systems and processes.

With regard to our online mortgage and savings platforms, the Broker and Customer portals have now moved to a continuous improvement stage, deploying new features and supporting changes as required.

CHARITABLE DONATIONS

The total of our charitable donations in the year was £147,000 (2022: £136,000). The Supporting Our Members, Communities and the Environment 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 better than expected by many commentators. Locally, unemployment was 2.1% at the end of November 2023 following another strong year in the employment market. This fuelled salary inflation. The local housing market performed steadily during the year. House prices remained flat despite falling consumer confidence and increasing interest rates.

The outlook at the time of writing remains uncertain with inflation running at 4%, twice the Bank of England target. The Bank of England is likely to continue to maintain interest rates at current levels for longer in response. 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 unacceptable losses for the Society.

Staff costs will inevitably increase due to inflationary pressures as will the increasing costs of managing and supporting the new digital channel for mortgages and savings, including the costs of ensuring the security of your personal data.

Our strong capital and liquidity bases mean that the impact on the Society's financial stability is lessened, enabling the Board to focus on the strategic developments of our digital programme to improve our relevance to Members' needs.

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 along with high levels of customer 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 2023.

BUSINESS REVIEW

CAPITAL STRENGTH

CHARITABLE GIVING

SAVINGS BALANCE GROWTH

£87M

GROSS MORTGAGE BALANCE GROWTH

£82M

IMPROVED SERVICES

SUPPORTING OUR MEMBERS, COMMUNITIES AND THE ENVIRONMENT

At Progressive, we pride ourselves on taking the time to really understand what our Members need and expect from us, and what role we can play in their lives and that of our staff. As a mutual building society, we work within our communities to bring positive outcomes for our fellow citizens and to do our bit in protecting our planet's precious resources. We stand for fairness, transparency and, above all, doing business in an empathetic and ethical way. In this report we have highlighted four key areas where we have made positive impacts in 2023. During the year we also developed a detailed Sustainability Report which will be published on our website www.theprogressive.com.

SUPPORTING OUR MEMBERS

We are passionate about helping local people to save and champion homeownership through our personal, caring and responsible approach, and in 2023 this was more important than ever.

We understand that the cost-of-living crisis has been difficult for many of our Members both personally and financially, and we have 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 financial hardship.

Our Vulnerable Customer Group has continued to engage with charities and other organisations to ensure that we have built upon an already strong foundation of knowledge, understanding and empathy in how we support Members most affected by financial worries.

With shrinking access to cash and banking services in our main towns and cities, we recognise just how important our presence on local high streets is to our Members. Our branch network offers something a bit different and, with a mortgage advisor and investment expert in every branch across key locations, our friendly staff are on hand to exceed Member service expectations.

As a modern and vibrant building society, we believe in offering choice through our enhanced digital mortgage and savings platforms which augment our province-wide branch network. Whichever channel our Members choose, we can guarantee that they can speak directly to one of our highly skilled staff members who are on hand to respond to customer queries in real time.

2023 Highlights:

- 2023 was the second year of an ambitious and exciting growth phase for the Society. We continued to develop our Online Savings Portal, embedded dedicated business development roles aligned to three defined business regions, and re-engineered our mortgage application process to support our central underwriting team. Our Online Savings Portal offers our Members greater choice in how they interact with us by giving them access to their savings accounts from the comfort of their own homes.

- The introduction of an online appointment booking system to augment face-to-face mortgage appointments and video appointments has once again provided our Members with the choice of meeting in person or remotely with our experienced mortgage advisors across our branch network.

- Increased provision of support to Members, particularly vulnerable customers experiencing financial difficulties. We also signed up to the Mortgage Charter to provide Members in short term financial difficulty greater flexibility.

- Investment in branch specialist training, supported by our renewed engagement with NOW, the social enterprise behind the 'Just a Minute' initiative, enhances our ability to tailor our approach to specific Member needs.

- Our participation at the Self Build Show which was an opportunity for us to share our expertise on helping people with their finances whilst building their own home.

- The publication and promotion of the Northern Ireland Quarterly House Price Index in partnership with Ulster University and the NI Housing Executive which provided our Members, potential customers and the business community with ongoing insights into the local housing market.

SUPPORTING OUR COMMUNITIES

At Progressive we are strongly committed to being part of, and supportive of, the local community.

Social responsibility is important to our business. As a local organisation, we have a responsibility towards our community and its economy. In addition to our charitable donations and community involvement, our staff are involved with local organisations, sports clubs and voluntary projects outside of work.

2023 Highlights:

- We are delighted to continue our partnership with Disability Sport NI. We have been working closely with Disability Sport NI since 2019, supporting their leaders and volunteers to deliver a range of local sport and active recreation sessions for disabled people across Northern Ireland.
- As part of the Society's Savings Week initiative in September 2023, we partnered with the Building Society's Association to provide access to useful tips and advice on saving during challenging times.
- Throughout 2023, the Society made charitable donations of £147,000, including sponsorship to key community partners as well as donations to Action Cancer, Simon Community and Wooden Spoon initiatives.
- Our branch teams were delighted to support a number of charities in their local areas: The Welcome Organisation, Mourne Community First Responders, North Down Community Network, Ballymena Gateway Club, Alternative Medicine Theatre, Age Concern Causeway, Kinship Care NI, Aisling Centre, Fermanagh Down Syndrome Support Group, Dunlewey Addiction Services, Oasis Youth Centre, Women's Aid, Stepping Stones and Emerge Counselling Services.
- In December, our Head Office and branch teams collected food and non-food items to distribute to The Trussell Trust, Northern Ireland's largest food bank network.

SUPPORTING OUR PEOPLE

As an Investors in People recognised employer, we are committed to providing our staff with the support and development they need to ensure that a consistently high standard of customer service is extended to all of our Members. We recognise how important it is to have engaged and competent staff to provide our Members with the supportive service they deserve and have come to expect.

We embrace diversity and inclusion and place high importance on ensuring that staff feel passionate about what they do and how they serve our Members every day. Maintaining equality and being transparent as we continue on our digital journey have been central to ensuring staff buy in at this exciting time of change for the Society. We look for opportunities to enrich careers and build competency in our caring and committed staff who take great pride in representing our values when engaging with Members.

We encourage our staff to exercise self-care and we take steps to protect them from harm with staff safety and wellbeing forming a key part of our People Strategy.

Cultivating an inclusive working environment where everyone feels their contribution matters and individual differences are valued is important to us. We value one another and believe in treating each other with respect as we work together.

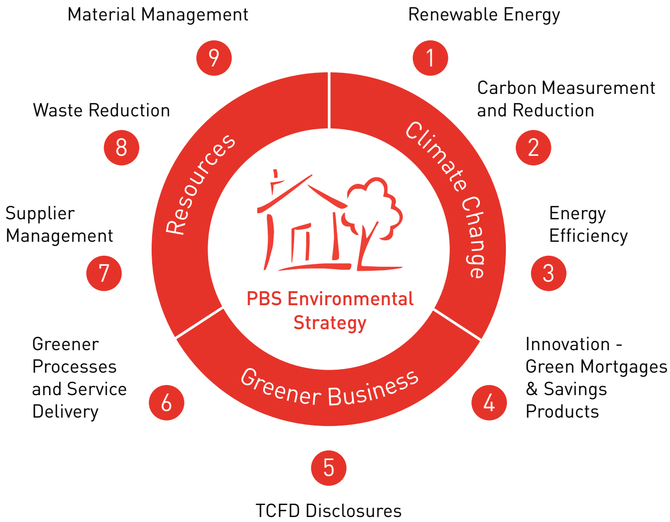
2023 Highlights:

- We reorganised our branch and operational staff resources to enhance Member engagement and build capacity in support of our growth strategy, creating significant new opportunities for promotion and career development.
- We made a significant investment in technologies and skills development, allowing us to access and retain the best talent the market has to offer and build on our culture of continuous learning and personal growth. By combining the technical expertise of our long-serving staff with our newly-hired staff, we have sustained the same high standard of customer service that we are proud of in a digitally enhanced, multi-channel environment.
- We successfully underwent an external review of our people processes through the reaccreditation of our Investors in People gold standard with results demonstrating an open and transparent culture and high levels of trust in our leadership. These results mirror those of our annual employee opinion survey with an overall engagement score of 90%.
- We undertook a Culture and Behaviours audit led by PwC which highlighted that staff are encouraged to drive for excellence, to always do the right thing and to behave in a way that aligns with our culture of openness, integrity and respect.
- We introduced a highly engaging monthly staff activity calendar which promoted team working and community engagement through themed events including volunteering and charity fundraising opportunities.
- We rolled out staff wellbeing checks in partnership with Chest, Heart and Stroke and worked with Action Mental Health in promoting positive mental health through training and awareness sessions, supported by access to wellbeing resources and services.
- We actively sought to involve our staff and garner their opinions in focus group discussions on our culture and purpose, mission and values to enhance our standing as a great place to work.

SUPPORTING OUR ENVIRONMENT

We are committed to improving our environmental footprint and offering products which align to our environmental strategic goal. We continue to deliver on our Board-approved Environmental Strategy through our Environmental Working Group comprised of dedicated staff from across the Society. Further detailed information is provided in our Sustainability Report.

Our Environmental Strategy provides a framework for the Society to improve its environmental performance across 3 core areas which have been segmented into 9 workstreams. The 3 core areas are: Fighting Climate Change, Doing Greener Business, and Managing Resources In A Sustainable Way. These areas are interlinked, highlighting the importance of having a holistic approach to implementing change.



We recognise that we have a responsibility to lead within our communities in tackling climate change, working together to play our part in protecting earth's precious resources. We are conscious of taking a sustainable approach to reducing our carbon footprint and this is high on our agenda with our Board placing significant importance on this area for the future of the Society and our Members.

We believe in the importance of being a 'green' employer with strong environmental credentials that we share with our staff from day one as we take steps to encourage responsible behaviour in all areas of Society life.

We recognise that a significant proportion of Northern Ireland's total carbon emissions are produced by our homes. As we transition to a low carbon economy, it is likely that homeowners will be required to enhance the energy efficiency of their properties to meet new standards. While these standards are yet to be fully defined by regulation, the Society considers that it has a responsibility to support our Members in making this transition, through our product proposition and communications.

During 2023, we successfully embedded our green finance products to encourage the retrofit of more energy-efficient homes and enable Members to reduce their carbon output and lower energy costs. We intend to develop our proposition further in 2024 in response to growing customer demand for green products.

The Society is committed to reducing the climate change impacts from its own operations and is working towards alignment to a 2050 net zero emissions pathway. In this context, the Society established a target to be net carbon neutral by 2030. We will continue to review the scope of our carbon reporting so that we can best analyse and improve on our actions.

The Society has put in place an Environmental Committee to raise awareness of climate change issues and help to deliver the Board's Environmental Strategy. This Committee is chaired by the Chief Risk Officer who has Senior Management responsibility in this area. During 2023, this Committee developed key actions to help reduce the Society's carbon output, to deliver the Society's Environmental Strategy and to assist in achieving environmental improvements in the Society's core market.

Most notably, the Society:

- Refreshed and updated our Environmental and Waste Management Policies.
- Sourced electricity supply from 'green' source providers. The Society also generates its own electricity via solar panels where appropriate.
- Re-engineered many processes which provided a significant reduction in the use of paper and printing in daily operations.

SUMMARY OF PROGRESS AGAINST TCFD RECOMMENDATIONS

Below is the Society's set of disclosures under the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The TCFD framework is structured around four key pillars and aims to provide consistent climate-related financial risk disclosures and information on the Society's exposure to, and management of, climate risks and opportunities.

The Society tracked its progress against TCFD requirements during 2023 and is committed to implementing the recommendations in full in line with the principles of mutual business strategy and requirements under the Prudential Regulation Authority's (PRA's) Supervisory Statement 3/19 (SS3/19) – Enhancing banks' and insurers' approaches to managing the financial risks from climate change. Good progress has been made during the year against the 11 TCFD recommendations, with several important activities completed to enhance our understanding of climate risks and opportunities and further develop our strategic targets and response plans. We recognise that this is just the start of the journey and further work is planned in 2024, and beyond, to support the orderly transition to a greener, net zero economy.

TCFD PILLAR	TCFD RECOMMENDATION	KEY PROGRESS AREAS IN 2023	FUTURE PLANS
Strategy	Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	Society wide view of climate risks and opportunities, and their potential impacts have been documented in the Society Environmental Risk Register. This was discussed at Board Risk Committee.	Invest in capabilities to enable development of decarbonisation plans and targets aligned with the net zero pathway.
	Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	Defined our initial climate strategic aims and targets as part of our purpose-led responsible business strategy. Development and roll-out of our Green Mortgage offerings has continued with three products available in our market.	Refinement of our assessment of climate risks and opportunities, including further development of our scenario testing capabilities.
	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C scenario.	Stress testing of our potential climate risk exposures completed in line with regulatory requirements.	Wider stakeholder engagement across our value-chain and within the Northern Ireland mortgage market.
Governance	Describe the Board's oversight of climate-related risks and opportunities.	Responsibilities defined and embedded into our established governance structure.	Review and approval of net zero plans and targets.
	Describe management's role in assessing and managing climate-related risks and opportunities.	Revised Target Operating Model for the management of climate risks and opportunities agreed. Climate Risk Working Group in place to deliver the Board Environmental Strategy.	Embedding of the new climate operating model and alignment of climate objectives with defined accountabilities. Climate risk training to be delivered to all relevant Society Directors and staff.

TCFD PILLAR	TCFD RECOMMENDATION	KEY PROGRESS AREAS IN 2023	FUTURE PLANS
Risk Management	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	Processes for identifying, assessing, and managing climate risks defined and embedded into our Risk Management Framework.	Update and refinement of our climate risk appetite in line with development of net zero plans and targets and additional insights on climate risks and opportunities.
	Describe the organisation's processes for identifying and assessing climate related risks.	Initial risk appetite for the management of climate risks defined and agreed by Board Risk Committee. Climate impact and risks embedded into the Society's Lending Policy and mortgage decision-making process.	Further analysis of climate transition risks following government policy announcements.
	Describe the organisation's processes for managing climate-related risks.	A sample of climate data from our mortgage book sourced and analysed to quantify potential physical and transition climate risks. This shows minimal future risk across all models.	Inclusion of climate risk factors into the Society's due diligence processes for third party suppliers.
Metric and Targets	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Initial climate-related Key Risk Indicators (KRIs) and Management Information (MI) defined and implemented in internal reporting and the Society's Balanced Scorecard.	Further development and refinement of climate-related internal MI and KRIs, and external disclosures within the Society's Annual Report and Accounts.
	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	Management Information designed to reduce the carbon output of the Society and measure and reduce waste to landfill.	Development and agreement of decarbonisation targets aligned with the net zero pathway.
	Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas (GHG) emissions, and the related risks.	21% reduction in our carbon footprint since 2019.	Continue to work towards verification as carbon neutral (scope 1, 2 and 3) and external disclosures within the Society's Annual Report and Accounts.

Note: The production of these disclosures is governed by a policy standard which covers adequacy, verification, frequency and medium of publication of the disclosures. There is currently no external audit requirement in relation to these disclosures.

COMMUNITY ENGAGEMENT

DSNI PARTNERSHIP

MENCAP VOLUNTEER DAY

JAM CARD PARTNERSHIP

BROKER
ENGAGEMENT
EVENT

DSNI PARTNERSHIP

MOURNE COMMUNITY
FIRST RESPONDERS
CHARITY DONATION

AGM CHARITY
PARTNER

SELF-BUILD LIVE

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. A Risk Committee is in operation to assist the Board with these duties. This Committee has clear Terms of Reference and delegated responsibilities to consider all risk matters relating to the ongoing safety and soundness of the Society and the execution of services to Members. These areas include, but are not limited to, credit risk, liquidity risk, capital risk, market risk, funding risk, business risk, conduct risk, reputational risk, operational risk, strategic risk and regulatory risk.

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

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

RISK MANAGEMENT FRAMEWORK

The Society's Risk Management Framework comprises five elements:

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

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

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

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

These Committees include:

- Audit Committee
- Risk Committee

c. Internal Governance Framework

The Society operates an Internal Governance Framework that reflects the model promulgated by the Committee of Sponsoring Organisations (COSO), the European Banking Authority (EBA), the Financial Conduct Authority (FCA) 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 and 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 periodic basis. The Cyber Security Advisor also seeks to continually improve the processes and controls around information governance and cyber security. In 2023, the Society introduced a transaction monitoring tool delivered by Jade Third Eye which is a secure solution purpose-built to automate transaction monitoring, customer screening and AML reporting. This provides the Society with an additional layer of defence to help compliance with regulations.

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

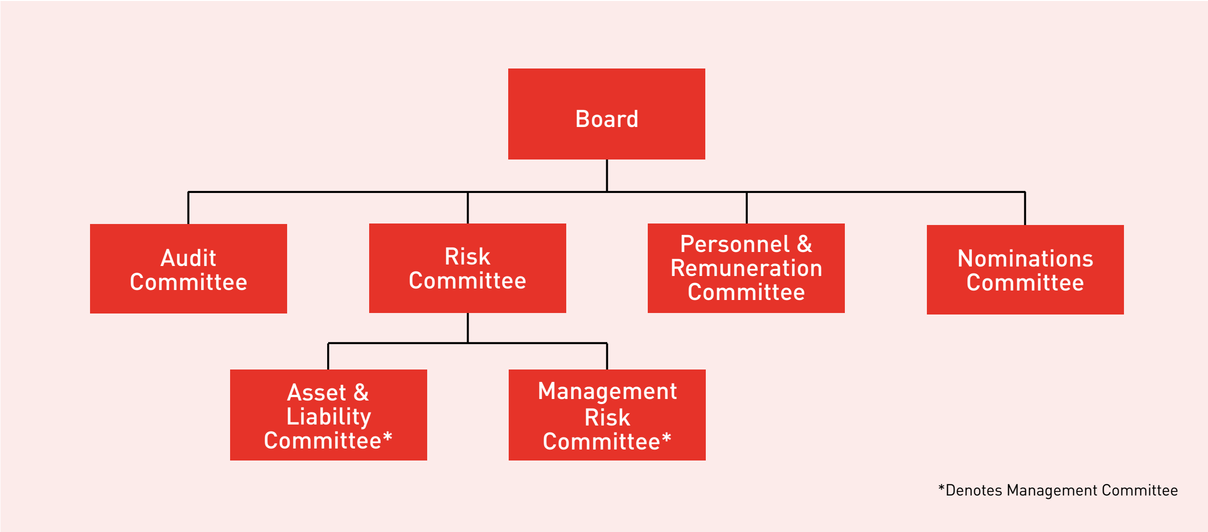
The Board sets high-level risk appetite statements and associated measurable limits to provide a framework for business decision-making and to identify and articulate the risks that the Board is willing to take in delivering the Strategic Plan of the Society. The Society operates as a prudent organisation 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 ALCO and examined on a quarterly basis by the Board Risk Committee. Exceptions are escalated to the Board.

THE WORK OF THE BOARD RISK COMMITTEE

The Society Board and Committee structure in 2023 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 2023 comprised four non-executive Directors and its meetings were also attended by at least 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 2023 the Committee met seven times (2022: seven times) and the matters considered included:

Review and recommendation to Board for approval of:

- 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.
- Society approach to Consumer Duty.

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 arrangements.
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.
Cost-of-Living Crisis	Due to the ongoing macro-economic uncertainty, a variety of stress scenarios have been designed and reviewed in 2023. This work is likely to continue in 2024 as the full impact of the cost-of-living crisis becomes clearer.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Credit risk

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

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

The Board is responsible for the approval of treasury counterparties, regular review of their credit risk and setting limits on wholesale market credit exposures. Management Risk Committee and Board Risk Committee review these limits prior to Board approval. During 2023 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 2023, 86.4% (2022: 84.4%) 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 2023, 83.3% (2022: 81.2%) of the Society's liquid assets were placed with the Bank of England or in highly liquid UK Government Securities. The Society's Statement of Financial Position is stress tested monthly, with results reported to ALCO, to ensure the Society can withstand extreme cash outflows.

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

Market and interest rate risk

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

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

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

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

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

Operational risk

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

The six principal operational risk categories are:

- **Legal & regulatory**
  Fines, censure, supervisory intervention or legal enforcement action due to failure to comply with applicable laws, regulations, codes of conduct or legal obligations.
- **IT systems**
  Failure in the development, delivery and maintenance of effective IT solutions for the Society.
- **Information security**
  Failure to ensure the security, confidentiality, availability and completeness of the Society's data and information. This includes data protection and cyber security. This also includes adherence to the Data Protection Act 2018 and UK General Data Protection Regulations (UK 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 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 resources. It recognises that operational risks can never be fully eliminated and that the cost of some controls implemented may outweigh the potential benefits. There is regular reporting of risks to the Risk Committee, the Audit Committee and the Board.

Capital management

The Society continues to comply with the capital adequacy rules of the PRA by adopting the Standardised Approach to credit risk and the Basic Indicator Approach to operational risk. The Society conducts an Internal Capital Adequacy Assessment Process (ICAAP) at least annually, which is approved by the Board. The ICAAP identifies all the major risks faced by the Society and allocates capital as appropriate. The ICAAP is reviewed by the PRA in setting the Society's capital requirements. The Society maintains capital in excess of that required by the regulator. The regulatory requirement for the Society is to hold a minimum amount of capital based on Risk Weighted Assets and a static add-on for pension risk. This equates to a capital requirement of £69.3 million as at 31st December 2023. The Society's capital amounted to £160.0 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 endeavours 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 the business.

In July 2023, the FCA brought into force the Consumer Duty which was a package of measures comprised of:

- A new Consumer Principle (Principle 12) that provides a high-level expectation of conduct and associated outcomes.
- A set of overarching cross-cutting rules which develop and amplify the standards of conduct that the FCA expects under the Consumer Principle.
- The four outcomes, which are a suite of rules and guidance setting more detailed expectations for a firm's conduct according to the four specific outcomes that represent the key elements of the firm and its consumer relationships.

To ensure the Society fulfills its obligations a significant amount of work was undertaken to review all Member interactions with the Society (including all processes and correspondences). This work was completed within the regulator's timeframe and the Board oversaw and agreed the changes to processes and procedures that were deemed necessary. The Board will perform an annual review of Society alignment with Consumer Duty arrangements going forward.

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 managers 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 that 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 change

The Society also recognises the risks and challenges posed by climate change. Work in addressing these risks has started apace across the Society. It 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. Transitional 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. The Society has developed a range of products to assist Members improve the energy efficiency of their homes and reduce the impact of these homes on the environment.

As a building society, Progressive's own 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 its 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.

FUTURE DEVELOPMENTS

The work of all Board Committees is continually developing, including the oversight of the risk management through the work of the Risk Committee. All Committees perform evaluation exercises identifying areas for development and refinement and the Board regularly 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.

Paul Leonard

Chair of the Risk Committee

27th February 2024

The Society's risk management and governance arrangements provide processes for identifying and managing the most significant risks to the Society's objectives.

DIRECTORS' PROFILES

Non-Executive Directors

Keith Jess 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 was appointed Chair of the Board in April 2022. During the year he served as Chair of the Nominations Committee and as a member of the Personnel & Remuneration Committee.

Martin Pitt Vice-Chair

Martin Pitt was appointed to the Board with effect from January 2020 and became Vice-Chair in April 2022. He too is a Chartered Accountant by profession and, until his retirement, was a partner in a leading accountancy practice. As a result, he brings to the Board considerable financial, audit, governance and risk experience. Martin also brings significant Board experience from both the public and charitable sectors. During the year he served as Chair of the Audit Committee and as a member of the Risk Committee and the Nominations Committee.

Karen Furlong Senior Independent 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 Chair of the Personnel & Remuneration Committee, and as a member of the Risk Committee and the Nominations Committee. In addition, Karen was appointed as the Society's Senior Independent Director in September 2023.

Clare Guinness Non-Executive Director

Clare Guinness is a Chartered Director and 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. During the year Clare served as a member of the Audit Committee and the Personnel & Remuneration Committee.

Paul Leonard
Non-Executive Director

Paul Leonard was appointed to the Society's Board in May 2022. He has over 40 years experience working as a Chartered Accountant in senior roles in banking, venture capital, corporate finance and in accountancy practice in Belfast, Dublin and London. Consequently, Paul brings extensive risk, credit and financial knowledge to the Board. In addition, he brings Board experience from a number of local companies in the financial and property sectors. During the year Paul served as a member and then as Chair of the Risk Committee and as a member of the Audit 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 knowledge to the Board. In addition, he also brings Board experience from the private sector. During the year Stephen served as a member of the Risk Committee and the Personnel & Remuneration Committee.

Gerard McGinn
Former Non-Executive 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 has 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 was the Society's Senior Independent Director until his retirement from the Board in August 2023. Until this date he also served as Chair and as a member of the Risk Committee, and as a member of the Audit Committee and the Nominations Committee.

Executive Directors

Michael Boyd — Chief Executive

Michael Boyd was appointed to the Society's Board in April 2011. He is a Chartered Accountant and has been employed by the Society since 1996 in various finance and risk roles, most recently as Deputy Chief Executive & Finance Director. Michael was appointed as the Society's Chief Executive with effect from November 2023. He therefore has overall responsibility for running the business of Progressive within the strategic framework set by the Board. During the year Michael served as a member of the Nominations Committee.

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 30 years and has worked in the building society sector for more than 35 years. His roles have included branch and area management and responsibility for sales, marketing and branch operations.

Gareth Robinson — Finance Director

Gareth Robinson was appointed to the Society's Board in November 2023 when he became the Society's Finance Director. He is a Chartered Management Accountant and has an extensive background in audit. Gareth has been employed by the Society for over 10 years, serving as the Society's Chief Risk Officer since 2019.

Darina Armstrong — Former Chief Executive

Darina Armstrong was appointed to the Society's Board in January 2005. She is a Chartered Accountant and was employed by the Society for over 30 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 and held this position until her retirement from the Board in October 2023. During the year Darina served as a member of the Nominations Committee.

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 2023 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 met on eight occasions during 2023 and, in addition, attended a Strategy Day in which the Society's overarching principles of strategic intent were discussed, debated and consolidated. 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, Mrs Karen Furlong, 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 for 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 Committee meetings 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 establishing its capital and liquidity management frameworks. The Committee is also responsible for reviewing and questioning 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 the 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, for monitoring the Society's exposure to interest rate variations, and for reviewing 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
K Jess	8(8)	4(4)	*	4(4)	*
M Pitt	8(8)	*	4(4)	4(4)	7(7)
K Furlong	8(8)	4(4)	*	1(1)	6(7)
C Guinness	8(8)	3(4)	4(4)	*	*
P Leonard	8(8)	*	4(4)	*	7(7)
S Mitcham	8(8)	4(4)	*	*	5(7)
G McGinn[1]	6(6)	*	2(2)	2(3)	3(4)
M S Boyd	8(8)	*	*	1(1)	*
D Moore	8(8)	*	*	*	*
G Robinson	2(2)	*	*	*	*
D Armstrong[2]	6(6)	*	*	3(3)	*

[1] Retired from the Board 31st August 2023
[2] Retired from the Board 31st October 2023

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, 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 provide the opportunity for Members to give feedback to the Society on any aspect of its activities. Since 2020 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. 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 Keith Jess is the Society's Chair and the post of Chief Executive is held by Mr Michael Boyd. 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

The Board consisted of seven non-executive Directors until 31st August 2023, after which it had six. 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 with no other connection to 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 aware that following Darina Armstrong's retirement at the end of October 2023 the objective of having at least 30% female membership on the Board is no longer being met but is satisfied that this will be addressed during 2024. The Board is satisfied 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 2023 is summarised below:

Grade	Females	Males
Non-executive Directors	2	4
Executive Directors	0	3
Senior management	4	0

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 on 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 the 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 that 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 Keith Jess, 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 2023 by means of a self-assessment questionnaire. 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. The Board plans to be subject to an external evaluation again in 2024.

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

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

The Committee considers the adequacy of internal controls. It 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.

Keith Jess

Chair

27th February 2024

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). Martin Pitt chaired the Committee throughout the year. 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 Finance Director, the Operations Director and the Chief Risk Officer. Other relevant senior management are also invited to attend certain meetings 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 to gain insight into the workings 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 2023

The Committee met four 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 Chief Executive, Finance Director, and the Financial Controller, 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 its role requires. The primary areas of judgement considered by the Committee in relation to the 2023 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.
- pension scheme
    - review of key assumptions used to calculate the value of pension scheme liabilities, specifically the discount rates, pension in payment increases and inflation rates.

In considering whether the 2023 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 reports 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 2023.

2. Internal Audit

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

Prior to the commencement of each financial year, the Committee receives, considers and approves PwC LLP's annual work plan. Key reviews which were completed during the year included areas of internal control significance, for example, treasury operations, Consumer Duty, regulatory reporting (SCV), operational resilience, data classification, the mortgage application process, and the savings process and administration.

Internal audit findings and thematic issues identified were considered by the Committee, as well as management's responses and the tracking and completion of outstanding actions.

The Committee considered 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 fulfilled 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 2024 include prudential risk, vulnerable customers, payment operations, arrears management and payroll.

During the year the Committee carried out a review of the effectiveness of the internal audit function provided by PwC LLP and concluded that the services supplied operated in line with the agreed plan, delivering appropriate assurance on the Society's operations. The review determined 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 2023 were:

- conduct related;
- prudential related;
- internal audit plans;
- control observations from the external auditor, Deloitte (NI) Limited, in relation to the financial reporting process arising from the external audit;
- 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; and
- the three 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 2023 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 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, the 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.

The Committee considered Deloitte (NI) Limited's independence policies and procedural expectations which are based on the Code of Ethics for Professional Accountants. The external auditor expects its people to act with integrity in accordance with high ethical standards and these expectations are embedded in the firm's Code of Conduct. The Society is content that Deloitte (NI) Limited provides an ethical audit service. This was evidenced through discussions with the audit partner, a review of the firm's 2023 Transparency Report, and consideration of the competencies of audit staff and the conduct of the year end audit.

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 2023 results was the second for the current audit partner, David McCaffrey, 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 2023 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 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. This ensures that individual terms of engagement are put in place for any such assignment.

5. Audit Committee Effectiveness

The Committee conducts a formal self-assessment review to monitor its effectiveness annually. This 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 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

27th February 2024

DIRECTORS' REMUNERATION REPORT

For the year ended 31st December 2023

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 four independent, non-executive Directors. Karen Furlong serves as Chair, with Keith Jess, Clare Guinness and Stephen Mitcham serving as Committee members. 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 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.

During 2023, the Committee:

- Considered the outturn of the 2022 balanced scorecard key performance indicators for the staff bonus scheme and approved measures for the 2023 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.
- Reviewed the Society's Cultural Dashboard.

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, thereby acting 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) and 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 its 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 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

At 31st December 2023 there were three executive Directors in post. During 2023, Darina Armstrong retired as Chief Executive and was replaced by Michael Boyd who had previously been Deputy Chief Executive & Finance Director. Gareth Robinson was then appointed as Finance Director. Declan Moore served throughout the year as Operations Director.

Executive Director duties are carried out in line with formally approved job descriptions. Their base pay remuneration 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 Directors' fixed remuneration at least every three years in line with Board-approved policy on the determination of fixed executive Director pay.

This review was completed in 2023 in relation to 2023 salaries.

In conducting this review, a peer group was selected by the Committee based on their comparability to the Society in terms of asset 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 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

Three of the executive Directors in post during 2023 are members of the Society's defined benefit pension scheme and participate in an unfunded arrangement. They contribute a total of 8% of their salaries to the defined benefit scheme. Darina Armstrong was one of these three executive Directors and she retired during the year. The other executive Director is a member of the Society's defined contribution 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 2023, 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 and 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 through usage of the mortgage portal,
- creating and maintaining the desired culture for the Society,
- enabling staff to share in the success of the Society,
- providing a focus for sustainable growth.

The performance-related metrics established for 2023 fall into one of the following key areas:

- Mortgage growth
- Savings growth
- Online mortgage platform usage
- Customer satisfaction
- Diversity & Inclusion
- Environmental, Society, Governance

The executive Directors have continued to deliver strong performance in line with the Society's strategy. The remuneration of the executive Directors in 2023 included an earned performance-related pay element of 7.0% (2022: 9.25%) 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 2024. This will be a tiered scheme depending on liquidity and capital preservation and 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 2024.

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

2023	**Salary £000**	**Performance related £000**	**Benefits £000**	**Total £000**
M Boyd (Chief Executive from November 2023, Deputy Chief Executive & Finance Director to October 2023)	**194**	**14**	**14**	**222**
D Moore (Operations Director)	**166**	**12**	**9**	**187**
G Robinson (Finance Director from November 2023)	**28**	**2**	**2**	**32**
D Armstrong (Chief Executive to October 2023, retired October 2023)	**208**	**15**	**13**	**236**
				677

2022	Salary £000	Performance related £000	Benefits £000	Total £000
D Armstrong (Chief Executive)	235	22	16	273
M Boyd (Deputy Chief Executive & Finance Director)	176	16	13	205
D Moore (Operations Director)	157	15	12	184
				662

The increase in accrued pension for D Armstrong, M Boyd and D Moore in 2023 was £3,000 (2022: £5,000), £5,000 (2022: £5,000) and £5,000 (2022: £4,000) respectively.

REMUNERATION POLICY FOR NON-EXECUTIVE DIRECTORS

The review and setting of fees for non-executive Directors is principles based. The 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 have service contracts. They 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 are analysed as follows:

Non-executive Directors' fees	Fees 2023 £000	Fees 2022 £000
K Jess (Chair from April 2022, Vice-Chair to April 2022)	**54**	47
M Pitt (Vice-Chair from April 2022)	**41**	36
K Furlong (Senior Independent Director from September 2023)	**34**	31
C Guinness	**30**	28
P Leonard (co-opted 1st May 2022)	**34**	19
S Mitcham	**30**	28
G McGinn (Senior Independent Director to August 2023, retired August 2023)	**22**	35
M W Parrott (Chair, retired April 2022)	**-**	18
	245	242

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		54
Standard non-executive Director		30
Additional fees:		
	Vice-Chair	7
	Senior Independent Director	3
Committee Chairs:		
	Audit	4
	Personnel & Remuneration	3
	Risk	4

During 2023, M Pitt and C Guinness each received additional amounts of £1,704 (2022: K Jess, M Pitt and C Guinness received additional amounts of £536, £1,607 and £1,072 respectively) for their roles as pension scheme trustees.

Karen Furlong

Chair of the Personnel & Remuneration Committee

27th February 2024

DIRECTORS' REPORT

For the year ended 31st December 2023

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

DIRECTORS

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

Non-Executive Directors

Keith Jess (Chair)
Martin Pitt (Vice-Chair)
Karen Furlong (Senior Independent Director from September 2023)
Clare Guinness
Paul Leonard
Stephen Mitcham
Gerard McGinn (Senior Independent Director to August 2023, retired August 2023)

Executive Directors

Michael Boyd (Chief Executive from November 2023, Deputy Chief Executive & Finance Director to October 2023)
Declan Moore (Operations Director)
Gareth Robinson (Finance Director from November 2023)
Darina Armstrong (Chief Executive to October 2023, retired October 2023)

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 £15.6 million (2022: £9.2 million) and after tax the amount transferred to general reserves was £11.8 million (2022: £7.9 million).

The Society's general reserves at 31st December 2023 were £160.0 million (2022: £149.9 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 twelve months or more in arrears at 31st December 2023.

GOING CONCERN AND VIABILITY STATEMENT

The Directors are required to consider whether the Society will continue as a going concern for a period of twelve 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 24 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, interest rate views and the impact of the inflationary environment on borrowers' ability to maintain mortgage payments.

Operational resilience has been assessed and is effective. The Society has maintained strong liquidity and capital positions in recent years and the Directors are satisfied that this will continue.

In conclusion, the Directors are satisfied the Society has adequate resources to continue in operational existence for at least the next twelve months and to meet its liabilities over the five-year planning period and, therefore, it is appropriate to 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.

Keith Jess

Chair

27th February 2024

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 2023 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 28.

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 • Pension scheme liabilities. 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 £785,000 which was determined on the basis of less than 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.
Significant changes in our approach	In the prior year we have included revenue recognition as a Key Audit Matter. For the current year, we have assessed that this is no longer a key audit matter due to the nature and audit effort required. There are no other significant changes to note.

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, strategy 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 £5.78 million of provisions for bad and doubtful debts at the year-end (2022: £5.22 million) against total loans and advances to customers of £1,599 million (2022: £1,517 million). 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. 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 collateralised 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, the current macro-economic environment, coupled with 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 71 and details about judgements in the application of accounting policies and critical accounting estimates are on page 74. In addition, the matter is described on page 43 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, 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 challenges to both the assumptions and the data used by management. We challenged the appropriateness of management's 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 key assumptions using the Society's historical data and also market information. We 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 macro-economic environment. We evaluated and assessed the adequacy of disclosures made in the financial statements.
Key observations	Based on the evidence obtained, we found that the loan loss provisioning was within a range of reasonable outcomes.

5.2. Pension scheme liabilities

Key audit matter description	Determining the key assumptions used to calculate the value of pension scheme liabilities of £39.6 million (2022: £38.1 million) requires significant management judgement in relation to the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates. As a result of this high degree of estimation and judgement in the calculation of pension scheme liabilities we have identified a key audit matter. There is a degree of estimation and judgement in the calculation of pension scheme liabilities. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, pension in payment increases and inflation rates. The Directors' associated accounting policies are detailed on page 72 and details about judgements in the application of accounting policies and critical accounting estimates are on page 74. There is a reconciliation of pension scheme liabilities and assumptions used in Note 26 – Pension Scheme. In addition, the matter is further described on page 43 of the Audit Committee Report.
How the scope of our audit responded to the key audit matter	We evaluated the design, determined the implementation of the relevant controls for determining the actuarial assumptions. We utilised Actuarial Specialists as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on discount rates, pension in payment increases and inflation rates. Our work included inquiries with management and their actuaries to understand the processes and assumptions used in calculating the pension scheme liabilities. We benchmarked economic and demographic assumptions against market data and assessed management adjustments to market rates for Society and scheme specific information. For scheme specific assumptions, we considered the scheme rules, historic practice and other information relevant to the selection of the assumptions. We evaluated and assessed the adequacy of disclosures made in the financial statements.
Key observations	Based on the evidence obtained, we concluded that assumptions used by management in the actuarial valuations for pension scheme liabilities are within a range we consider to be reasonable.

6. Our application of materiality

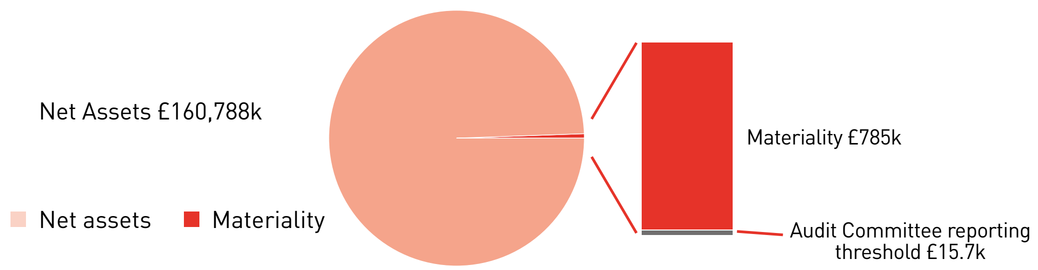
6.1. Materiality

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	£785,000 (2022: £700,000)
Basis for determining materiality	Less than 0.5% of net assets
Rationale for the benchmark applied	We have considered net assets to be a critical component for determining materiality as it is one of the principal measures for users of the financial statements in assessing the Society's financial position. We have considered quantitative and qualitative factors such as our understanding of the entity and its environment, history of misstatements, complexity of the Society and the reliability of the control environment.



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 2023 audit (2022: 70%).

In determining performance materiality, we considered the following factors:

- our understanding of the Society and its environment;
- the reliability of the Society's internal control over financial reporting and whether we were able to rely on controls; and
- the nature, volume and size of misstatements (corrected and / or uncorrected) in the previous audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £15,700 (2022: £14,000), 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 a 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 actuarial, 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: 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.

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

11.2. Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning as a key audit matter 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;
- in addressing the risk of fraud in relation to revenue recognition, testing the relevant IT controls, selecting a sample of manual journals and evaluating the appropriateness of these journals; 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 2023 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 51;
- 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 52;
- the Directors' statement on fair, balanced and understandable set out on page 53;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 52;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 44; and
- the section describing the work of the Audit Committee set out on page 43.

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 2023 to audit the financial statements for the year ending 31st December 2023 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 17 years, covering the years ending 31st December 2007 to 31st December 2023.

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.

David McCaffrey FCA

(Senior Statutory Auditor)

For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, United Kingdom

29th February 2024

Notes: an audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

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

INCOME STATEMENT

for the year ended 31st December 2023

	Note	2023 £000	2022 £000
Interest receivable and similar income	3	**84,235**	43,975
Interest payable and similar charges	4	**(48,308)**	(14,871)
Net interest receivable		**35,927**	29,104
Fees and commissions receivable		**847**	787
Fees and commissions payable		**(2,151)**	(1,851)
Other operating income		**177**	160
Other fair value (losses) / gains	5	**(178)**	377
Total income		**34,622**	28,577
Administrative expenses	6	**(16,448)**	(16,119)
Depreciation and amortisation	16 & 17	**(1,309)**	(1,319)
Other operating charges		**(349)**	(275)
		16,516	10,864
Provisions for bad and doubtful debts	15	**(925)**	(1,670)
Operating profit and profit for the year before taxation		**15,591**	9,194
Tax on profit on ordinary activities	9	**(3,838)**	(1,272)
PROFIT FOR THE FINANCIAL YEAR	22	**11,753**	7,922

All results in the current and prior years were derived from continuing operations.
The Notes on pages 69 to 103 form part of these Annual Accounts.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31st December 2023

	Note	**2023 £000**	2022 £000
Profit for financial year	22	**11,753**	7,922
Actuarial (loss) / gain recognised in the pension scheme	26	**(2,155)**	11,651
Movement in deferred tax relating to the pension scheme	26	**532**	(2,913)
Items that may be reclassified subsequently to profit and loss:			
Net movement on available-for-sale assets	23	**1,153**	(466)
Total comprehensive income for the year		**11,283**	16,194

The Notes on pages 69 to 103 form part of these Annual Accounts.

STATEMENT OF FINANCIAL POSITION

as at 31st December 2023

	Note	2023 £000	2023 £000	2022 £000	2022 £000
ASSETS					
Liquid assets					
Cash in hand and balances with the Bank of England		**153,213**		130,233	
Loans and advances to credit institutions	10	**58,481**		69,011	
Debt securities	11	**139,681**		169,129	
			351,375		368,373
Derivative financial instruments	12		**9,056**		19,928
Loans and advances to customers	14				
Loans fully secured on residential property		**1,585,039**		1,491,458	
Other loans fully secured on land		**2,683**		2,884	
			1,587,722		1,494,342
Tangible fixed assets	16		**6,899**		7,182
Intangible fixed assets	17		**3,672**		3,115
Other assets	9		**-**		796
Prepayments and accrued income			**1,252**		1,401
Pension asset	26		**3,379**		5,067
TOTAL ASSETS			**1,963,355**		1,900,204
LIABILITIES					
Shares	18		**1,682,123**		1,595,513
Amounts owed to credit institutions	19		**64,720**		77,535
Amounts owed to other customers	20		**48,365**		73,191
Derivative financial instruments	12		**2,228**		873
Other liabilities	21		**5,131**		3,587
			1,802,567		1,750,699
Reserves					
General reserves	22		**160,032**		149,903
Other reserves	23		**756**		(398)
TOTAL LIABILITIES & RESERVES			**1,963,355**		1,900,204

The Notes on pages 69 to 103 form part of these Annual Accounts.
The Accounts on pages 64 to 103 were approved by the Board of Directors on 27th February 2024 and were signed on its behalf by:

Keith Jess
Chair

Martin Pitt
Vice-Chair

Michael Boyd
Chief Executive

STATEMENT OF CHANGES IN MEMBERS' INTERESTS

as at 31st December 2023

	General reserves £000	Available-for-sale reserve £000	Revaluation reserve £000	Total £000
2023				
As at 1st January 2023	149,903	(467)	69	149,505
Profit for the year	11,753	-	-	11,753
Other comprehensive income for the period				
Net movement from changes in fair value	-	1,153	-	1,153
Transfer of amount equivalent to additional depreciation on revalued assets	(1)	-	1	-
Remeasurement of defined benefit obligation	(1,623)	-	-	(1,623)
Total comprehensive income for the period	10,129	1,153	1	11,283
As at 31st December 2023	**160,032**	**686**	**70**	**160,788**
2022				
As at 1st January 2022	133,244	(1)	68	133,311
Profit for the year	7,922	-	-	7,922
Other comprehensive income for the period				
Net movement from changes in fair value	-	(466)	-	(466)
Transfer of amount equivalent to additional depreciation on revalued assets	(1)	-	1	-
Remeasurement of defined benefit obligation	8,738	-	-	8,738
Total comprehensive income / (expense) for the period	16,659	(466)	1	16,194
As at 31st December 2022	149,903	(467)	69	149,505

The Notes on pages 69 to 103 form part of these Annual Accounts.

CASH FLOW STATEMENT

for the year ended 31st December 2023

	2023 £000	2022 £000
Net cash flow from operating activities (see below)	**(5,021)**	(1,392)
Cash flows from investing activities		
Purchase of tangible and intangible fixed assets	**(1,583)**	(1,193)
Disposal of tangible and intangible fixed assets	**-**	26
Purchase of debt securities	**(136,012)**	(168,531)
Disposal of debt securities	**167,287**	100,025
Net cash flows from investing activities	**29,692**	(69,673)
Net increase / (decrease) in cash and cash equivalents	**24,671**	(71,065)
Cash and cash equivalents at beginning of year	**144,240**	215,305
Cash and cash equivalents at end of year	**168,911**	144,240
Cash flows from operating activities		
Profit before tax	**15,591**	9,194
Provisions for bad and doubtful debts	**996**	1,646
Depreciation and amortisation	**1,309**	1,319
Loss on disposal of fixed assets	**-**	17
Defined benefit pension charges	**175**	1,203
Movement in derivative financial instruments	**12,227**	(17,562)
Movement in fair value adjustments	**(12,049)**	17,185
Net cash flow from operating activities before movement in operating assets and liabilities	**18,249**	13,002
Movement in operating assets and liabilities:		
Loans and advances to customers	**(82,123)**	(67,126)
Shares	**86,610**	904
Amounts owed to credit institutions and other customers	**(37,641)**	67,875
Loans and advances to credit institutions	**12,221**	(12,155)
Prepayments and accrued income	**(154)**	(539)
Accruals and deferred income	**(202)**	(298)
Other liabilities	**511**	274
Defined benefit pension contributions	**(642)**	(1,888)
Taxation paid	**(1,850)**	(1,441)
Net cash flow from operating activities	**(5,021)**	(1,392)
Cash and cash equivalents:		
Cash in hand and balances with Bank of England	**153,213**	130,233
Loans and advances to credit institutions repayable on demand	**15,698**	14,007
	168,911	144,240

The Notes on pages 69 to 103 form part of these Annual Accounts.

NOTES TO THE ACCOUNTS

for the year ended 31st December 2023

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 2023

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.

The Society recognises software purchases which meet the definition of Software as a Service (SaaS) in line with a decision by the International Financial Reporting Standards (IFRS) Interpretations Committee. If the Society controls the software, costs are capitalised in accordance with FRS102. If the Society does not control the software and the expenditure does not give rise to a separate intangible asset, costs will be expensed.

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

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

1. ACCOUNTING POLICIES (Continued)

at amortised cost using the Effective Interest Rate method less provisions for impairment.

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

(b) Available-for-sale financial assets

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

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

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

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

(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 is 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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

1. ACCOUNTING POLICIES (Continued)

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

Other provisions and contingent liabilities

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

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

Borrowings

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

Retirement benefits

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

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 24.

(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 as 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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

1. ACCOUNTING POLICIES (Continued)

Note 24 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 2023

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 26.

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

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2023 £000	2022 £000
On loans fully secured on residential property	**59,265**	38,865
On other loans	**212**	150
On debt securities	**4,582**	1,285
On other liquid assets	**8,934**	2,594
Net income on financial instruments used to hedge assets	**11,242**	1,081
	84,235	43,975

4. INTEREST PAYABLE AND SIMILAR CHARGES

	2023 £000	2022 £000
On shares held by individuals	**40,169**	12,804
On deposits and other borrowings	**5,408**	1,865
On other shares	**2,731**	202
	48,308	14,871

5. OTHER FAIR VALUE GAINS AND LOSSES

	2023 £000	2022 £000
(Loss) / gain on derivatives	**(12,227)**	17,562
Gain / (loss) on hedged items attributable to the hedged risk	**12,049**	(17,185)
	(178)	377

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 2023

6. ADMINISTRATIVE EXPENSES

	2023 £000	2022 £000
Staff costs:		
• Wages and salaries	**7,010**	6,510
• Social security costs	**765**	719
• Other pension costs (Note 26)	**838**	1,727
	8,613	8,956
Other administrative expenses	**7,835**	7,163
	16,448	16,119
Other administrative expenses include:		
Fees payable to the Society's auditors:		
Audit fees for Society's statutory audit	**194**	150
Total audit & audit related assurance services (inclusive of VAT)	**194**	150
Operating lease charges include:		
Property	**140**	139
Loss on disposal of fixed assets	**-**	(17)

7. EMPLOYEES

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

	2023 Full Time	2022 Full Time	2023 Part Time	2022 Part Time
Head office	**97**	77	**19**	16
Branch offices	**48**	51	**15**	26
	145	128	**34**	42

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 £922,000 (2022: £904,000).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

9. TAXATION

a. Analysis of taxation charge in the period	2023 £000	2022 £000
Current tax:		
UK corporation tax on profits of the current year	**3,777**	1,358
Adjustments in respect of prior periods	**399**	(987)
Total current tax	**4,176**	371
Deferred tax:		
Origination and reversal of timing differences	**(74)**	213
Effect of changes in tax rate	**(5)**	48
Adjustment in respect of prior periods	**(259)**	640
Total deferred tax	**(338)**	901
Tax charge for the period	**3,838**	1,272

b. Factors affecting the current tax charge for the period

The effective tax rate is 24.62% (2022: 13.84%), which is lower (2022: lower) than the standard rate of corporation tax in the UK of 25.00% (2022: 19.00%). The differences are explained below:

	2023 £000	2022 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**15,591**	9,194
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 23.52% (2022: 19.00%)	**3,667**	1,747
Effects of:		
Expenses not deductible for tax purposes	**36**	29
Research & Development claim	**-**	(205)
Tax rate changes	**(5)**	48
Prior period adjustments	**140**	(347)
Tax charge for period (see above)	**3,838**	1,272

At 31st December 2023 “Other liabilities” (2022: “Other assets”) on the face of the Statement of Financial Position includes a corporation tax liability of £1,407,000 (2022: asset £796,000).

Research and Development (R&D) claims involve judgement in assessing the eligibility of product development expenditure incurred and included on R&D tax claims. The assessment of eligible expenditure must align with the definition of R&D as issued by BEIS. This assessment involves estimate and judgement in determining what the qualifying R&D costs are and the eligibility of these costs for the R&D claim. Such judgements can be subject to challenge by HMRC. Total tax credits in 2022 amounted to £552,000 covering the period 2020-2022.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

9. TAXATION (Continued)

c. Deferred Taxation	2023 £000	2022 £000
Movement in deferred tax balance in period		
Deferred tax (liability) / asset as at 1st January	**(1,650)**	2,008
Adjustment in respect of prior periods	**259**	(640)
Charge to Income Statement	**79**	(261)
Charge to Other Comprehensive Income	**37**	(2,757)
Deferred tax liability as at 31st December	**(1,275)**	(1,650)
Analysis of deferred tax balance		
Accelerated capital allowances	**(278)**	(689)
Timing differences - pensions	**(845)**	(1,267)
Other timing differences	**(152)**	306
	(1,275)	(1,650)

The deferred tax liability of £1,275,000 (2022: £1,650,000) is included within "Other Liabilities" 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.

10. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	2023 £000	2022 £000
Loans and advances to credit institutions have remaining maturities as follows:		
Repayable on demand	**15,698**	14,007
Other loans and advances by residual maturity repayable:		
In not more than three months	**8,000**	40,000
In more than three months but not more than one year	**32,803**	13,884
	56,501	67,891
Accrued interest	**1,980**	1,120
	58,481	69,011

Included in the above amount is £1m (2022: £1m) deposited as collateral under Credit Support Annex (CSA) agreements.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

11. DEBT SECURITIES

	2023 £000	2022 £000
Issued by UK Government	**139,681**	169,129
	139,681	169,129

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

	2023 £000	2022 £000
Debt securities have remaining maturities as follows:		
In not more than one year	**138,652**	158,753
In more than one year	**-**	9,636
	138,652	168,389
Accrued interest	**1,029**	740
	139,681	169,129

	2023 £000	2022 £000
Analysis of debt securities (excluding accrued interest):		
Transferable securities		
Listed	**138,652**	168,389
	138,652	168,389

	2023 £000	2022 £000
The movement in available-for-sale debt securities is summarised as follows:		
As at 1st January	**168,389**	100,505
Additions	**136,012**	168,531
Disposals and maturities	**(167,287)**	(100,025)
Changes in fair value	**1,538**	(622)
As at 31st December	**138,652**	168,389

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

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	
	2023 £000	2022 £000	**2023 £000**	2022 £000
Derivative assets held for hedging purposes and designated fair value hedges				
Interest rate swaps	**247,000**	432,000	**9,056**	19,928
Total recognised derivative assets	**247,000**	432,000	**9,056**	19,928
Derivative liabilities held for hedging purposes and designated fair value hedges				
Interest rate swaps	**70,000**	25,000	**2,228**	873
Total recognised derivative liabilities	**70,000**	25,000	**2,228**	873

13. ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	2023 £000	**Level 1 £000**	**Level 2 £000**
Financial assets at fair value through profit or loss:			
Derivative financial instruments	**9,056**	-	9,056
Available-for-sale financial assets:			
Debt securities	**139,681**	139,681	-
	148,737	139,681	9,056
Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	**2,228**	-	2,228
	2,228	-	2,228

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

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

	2022 £000	Level 1 £000	Level 2 £000
Financial assets at fair value through profit or loss:			
Derivative financial instruments	19,928	-	19,928
Available-for-sale financial assets:			
Debt securities	169,129	169,129	-
	189,057	169,129	19,928

Financial liabilities at fair value through profit or loss:			
Derivative financial instruments	873	-	873
	873	-	873

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 2023 (2022: none).

14. LOANS AND ADVANCES TO CUSTOMERS

	2023 £000	2022 £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	**3,584**	4,240
Other loans and advances by residual maturity repayable:		
In not more than three months	**18,386**	18,707
In more than three months but not more than one year	**51,337**	54,709
In more than one year but not more than five years	**299,991**	311,752
In more than five years	**1,225,778**	1,127,981
	1,599,076	1,517,389
Unamortised loan origination fees	**1,226**	1,022
Provisions for bad and doubtful debts (Note 15)	**(5,782)**	(5,222)
Fair value adjustment for hedged risk	**(6,798)**	(18,847)
Total loans and advances to customers	**1,587,722**	1,494,342

At 31st December 2023 £84m (2022: £98m) of loans have been pledged as collateral to the Bank of England to facilitate funding under TFSME.

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 2023

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 (2022: all).

Loan to value (LTV) analysis

	2023		2022	
LTV	**£m**	**%**	£m	%
0%-50%	**690**	**43**	662	44
50%-60%	**310**	**19**	300	20
60%-70%	**288**	**18**	265	17
70%-80%	**187**	**12**	181	12
80%-90%	**92**	**6**	81	5
90%-100%	**23**	**1**	16	1
100% +	**9**	**1**	12	1
	1,599	**100%**	1,517	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

	2023 £m	2022 £m
Neither past due nor impaired	**1,553**	1,479
Past due up to three months	**32**	28
Past due more than three months but not more than one year	**8**	6
Past due more than one year	**4**	2
Possessions	**2**	2
	1,599	1,517

The table above shows the arrears status of the Society's loan portfolio. The status 'past due' includes any asset where a payment due is received late or missed. The amount included is the entire loan amount rather than just the overdue amount.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

14. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Arrears analysis (loan balance of arrears cases)

Arrears % of mortgage balance	**2023** **£m**	2022 £m
1.50%-2.50%	**4.4**	3.1
2.50%-5.00%	**4.4**	2.9
5.00%-7.50%	**1.7**	1.8
7.50%-10.00%	**2.0**	1.1
10.00% +	**3.3**	3.3
Possessions	**2.2**	0.8
	18.0	13.0

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 timeframe appropriate to the borrower's circumstances.

The Society provided the following forbearance measures to customers during 2023:

- A temporary change of repayment type - 23 cases (2022: 16 cases).
- A payment deferral of the full normal monthly payment due – 1 case (2022: 0 cases).
- A payment concession of less than the normal monthly payment due - 1 case (2022: 1 case).

No extra provision 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 2023

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 2023			
Collective provision	2,399	-	2,399
Specific provision	2,592	231	2,823
	4,991	231	5,222
Amounts written off during the year			
Specific provision	436	-	436
	436	-	436
Income Statement			
Collective provision	62	-	62
Specific provision	887	47	934
	949	47	996
At 31st December 2023			
Collective provision	**2,461**	**-**	**2,461**
Specific provision	**3,043**	**278**	**3,321**
	5,504	**278**	**5,782**

The debit of £925,000 (2022: debit £1,670,000) in the Income Statement consists of the debit of £996,000 (2022: debit £1,646,000) above and credits of £71,000 (2022: debits £24,000).

Amounts written off during the year amounted to £436,000 (2022: £384,000).

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 relate 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 £100,000.
A 10% increase in the forced sale discount assumptions would increase the provisions by £89,000.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

16. TANGIBLE FIXED ASSETS

	Land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Total £000
Cost or valuation			
At 1st January 2023	8,121	5,547	13,668
Additions during year	5	80	85
Disposals during year	-	(141)	(141)
At 31st December 2023	**8,126**	**5,486**	**13,612**
Depreciation			
At 1st January 2023	1,535	4,951	6,486
Charge for the year	105	263	368
Disposals	-	(141)	(141)
At 31st December 2023	**1,640**	**5,073**	**6,713**
Net book value			
At 31st December 2023	**6,486**	**413**	**6,899**
At 31st December 2022	6,586	596	7,182

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

16. TANGIBLE FIXED ASSETS (Continued)

	2023 £000	2022 £000
The net book value of land and buildings comprises:		
Freehold	**5,525**	5,583
Long leasehold	**830**	837
Short leasehold	**131**	166
	6,486	6,586
Analysed as follows:		
Land	**1,885**	1,885
Buildings	**4,601**	4,701
	6,486	6,586
The net book value of land and buildings occupied by the Society for its own activities:		
At 31st December	**4,873**	4,940
If land and buildings had not been revalued they would have been included at the following amounts:		
Cost	**8,394**	8,388
Aggregate depreciation based on cost	**(1,958)**	(1,852)
Net book value based on cost	**6,436**	6,536

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 2023

17. INTANGIBLE ASSETS

	Total £000
Cost	
At 1st January 2023	8,817
Additions during the year	1,498
Disposals during the year	(80)
At 31st December 2023	**10,235**
Amortisation	
At 1st January 2023	5,702
Charge for the year	941
Disposals	(80)
At 31st December 2023	**6,563**
Net book value	
At 31st December 2023	**3,672**
At 31st December 2022	3,115

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

18. SHARES

	2023 £000	2022 £000
Held by individuals	**1,551,944**	1,473,753
Other shares	**130,179**	121,760
	1,682,123	1,595,513
Shares are repayable from the date of the Statement of Financial Position in the ordinary course of business as follows:		
Accrued interest	**33,962**	10,498
Repayable on demand	**749,687**	872,906
Other shares by residual maturity repayable:		
In not more than three months	**154,868**	106,417
In more than three months but not more than one year	**426,258**	314,722
In more than one year but not more than five years	**317,348**	290,970
	1,682,123	1,595,513

19. AMOUNTS OWED TO CREDIT INSTITUTIONS

	2023 £000	2022 £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	**780**	505
Other amounts owed to credit institutions by residual maturity repayable:		
In not more than three months	**8,440**	22,530
In more than three months but not more than one year	**5,500**	4,500
In more than one year but not more than five years	**50,000**	50,000
	64,720	77,535

Included in the above amount is:

- £50m drawndown against the Bank of England TFSME (2022: £50m).
- £8.4m held as collateral under Credit Support Annex (CSA) agreements (2022: £19.5m).

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

20. AMOUNTS OWED TO OTHER CUSTOMERS

	2023 £000	2022 £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	**1,050**	611
Other amounts owed to other customers by residual maturity repayable:		
In not more than three months	**15,815**	32,330
In more than three months but not more than one year	**31,500**	40,250
	48,365	73,191

21. OTHER LIABILITIES

	2023 £000	2022 £000
Corporation tax	**1,407**	-
Deferred tax	**1,275**	1,650
Income tax	**161**	132
Social security	**143**	122
Other creditors	**2,145**	1,683
	5,131	3,587

22. GENERAL RESERVES

	2023 £000	2022 £000
At 1st January	**149,903**	133,244
Profit for the financial year	**11,753**	7,922
Transfer of amount equivalent to additional depreciation on revalued assets	**(1)**	(1)
Net pension scheme movement in Statement of Other Comprehensive Income	**(1,623)**	8,738
At 31st December	**160,032**	149,903
The general reserves can be analysed into the following components:		
Relating to defined benefit pension asset	**3,379**	5,067
Other elements	**156,653**	144,836
	160,032	149,903

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

23. OTHER RESERVES

	Revaluation reserve		Available-for-sale reserve	
	2023 £000	2022 £000	**2023 £000**	2022 £000
At 1st January	**69**	68	**(467)**	(1)
Transfer of amount equivalent to additional depreciation on revalued assets	**1**	1	**-**	-
Net fair value movement	**-**	-	**1,153**	(466)
At 31st December	**70**	69	**686**	(467)

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

24. 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.

	2023 £000	2022 £000
Notional principal amounts	**317,000**	457,000

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

24. 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 2023. 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	251,290	89,060	4,500	-	6,525	351,375
Derivative financial instruments	-	-	-	-	9,056	9,056
Loans and advances to customers	779,157	87,667	119,390	612,862	(11,354)	1,587,722
Tangible fixed assets	-	-	-	-	6,899	6,899
Intangible fixed assets	-	-	-	-	3,672	3,672
Prepayments and accrued income	-	-	-	-	1,252	1,252
Pension asset	-	-	-	-	3,379	3,379
Total assets	1,030,447	176,727	123,890	612,862	19,429	1,963,355
Liabilities						
Shares	978,457	102,141	265,377	302,186	33,962	1,682,123
Amounts owed to credit institutions	58,440	4,500	1,000	-	780	64,720
Amounts owed to other customers	15,815	28,000	3,500	-	1,050	48,365
Derivative financial instruments	-	-	-	-	2,228	2,228
Other liabilities	-	-	-	-	5,131	5,131
Reserves	-	-	-	-	160,788	160,788
Total liabilities and reserves	1,052,712	134,641	269,877	302,186	203,939	1,963,355
Net assets / (liabilities)	(22,265)	42,086	(145,987)	310,676	(184,510)	-
Impact of derivative instruments	317,000	(65,000)	(25,000)	(227,000)	-	-
Interest rate sensitivity gap	294,735	(22,914)	(170,987)	83,676	(184,510)	-

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 2023

24. FINANCIAL INSTRUMENTS (Continued)

The repricing mismatch comparatives as at 31st December 2022 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	238,866	20,340	94,054	9,636	5,477	368,373
Derivative financial instruments	-	-	-	-	19,928	19,928
Loans and advances to customers	628,764	89,980	187,483	611,162	(23,047)	1,494,342
Tangible fixed assets	-	-	-	-	7,182	7,182
Intangible fixed assets	-	-	-	-	3,115	3,115
Other assets	-	-	-	-	796	796
Prepayments and accrued income	-	-	-	-	1,401	1,401
Pension asset	-	-	-	-	5,067	5,067
Total assets	867,630	110,320	281,537	620,798	19,919	1,900,204
Liabilities						
Shares	1,022,327	60,856	219,047	282,785	10,498	1,595,513
Amounts owed to credit institutions	72,530	2,500	2,000	-	505	77,535
Amounts owed to other customers	32,330	31,500	8,750	-	611	73,191
Derivative financial instruments	-	-	-	-	873	873
Other liabilities	-	-	-	-	3,587	3,587
Reserves	-	-	-	-	149,505	149,505
Total liabilities and reserves	1,127,187	94,856	229,797	282,785	165,579	1,900,204
Net assets / (liabilities)	(259,557)	15,464	51,740	338,013	(145,660)	-
Impact of derivative instruments	429,000	(40,000)	(117,000)	(272,000)	-	-
Interest rate sensitivity gap	169,443	(24,536)	(65,260)	66,013	(145,660)	-

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

24. 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 2023. 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.

	2023 Book value £000	**2023 Fair value £000**	2022 Book value £000	2022 Fair value £000
Assets				
Liquid assets	**351,375**	**348,836**	368,373	362,924
Loans and advances to customers	**1,587,722**	**1,506,098**	1,494,342	1,411,411
Derivative financial instruments	**9,056**	**9,056**	19,928	19,928
Total	**1,948,153**	**1,863,990**	1,882,643	1,794,263
Liabilities				
Shares	**1,682,123**	**1,682,123**	1,595,513	1,595,513
Wholesale liabilities	**113,085**	**112,146**	150,726	149,434
Derivative financial instruments	**2,228**	**2,228**	873	873
Total	**1,797,436**	**1,796,497**	1,747,112	1,745,820

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 2023

24. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2023 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	153,213	-	-	-	153,213
Loans and advances to credit institutions	-	58,481	-	-	58,481
Debt securities	-	-	139,681	-	139,681
Derivative financial instruments	-	-	-	9,056	9,056
Loans and advances to customers	-	1,587,722	-	-	1,587,722
Total financial assets	153,213	1,646,203	139,681	9,056	1,948,153
Total non-financial assets					15,202
Total assets					1,963,355
Liabilities					
Shares	1,682,123	-	-	-	1,682,123
Amounts owed to credit institutions	64,720	-	-	-	64,720
Amounts owed to other customers	48,365	-	-	-	48,365
Derivative financial instruments	-	-	-	2,228	2,228
Total financial liabilities	1,795,208	-	-	2,228	1,797,436
Total non-financial liabilities					5,131
Reserves					160,788
Total liabilities and reserves					1,963,355

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

24. FINANCIAL INSTRUMENTS (Continued)

The categories of financial instruments as at 31st December 2022 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	130,233	-	-	-	130,233
Loans and advances to credit institutions	-	69,011	-	-	69,011
Debt securities	-	-	169,129	-	169,129
Derivative financial instruments	-	-	-	19,928	19,928
Loans and advances to customers	-	1,494,342	-	-	1,494,342
Total financial assets	130,233	1,563,353	169,129	19,928	1,882,643
Total non-financial assets					17,561
Total assets					1,900,204
Liabilities					
Shares	1,595,513	-	-	-	1,595,513
Amounts owed to credit institutions	77,535	-	-	-	77,535
Amounts owed to other customers	73,191	-	-	-	73,191
Derivative financial instruments	-	-	-	873	873
Total financial liabilities	1,746,239	-	-	873	1,747,112
Total non-financial liabilities					3,587
Reserves					149,505
Total liabilities and reserves					1,900,204

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

24. FINANCIAL INSTRUMENTS (Continued)

The gross contractual cash flows of financial liabilities by maturity time band are shown below. The maturity date is based on the earliest contractual repayment date and does not reflect the expected due date.
For variable rate financial liabilities disclosure is based on contractual conditions at year end.

The contractual due dates of financial liabilities as at 31st December 2023 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	Total £000
Shares	918,219	108,858	326,982	332,219	1,686,278
Amounts owed to credit institutions	63,882	4,640	1,056	-	69,578
Amounts owed to other customers	16,148	29,320	3,662	-	49,130
Derivative financial instruments	-	-	-	2,228	2,228
Total financial liabilities	998,249	142,818	331,700	334,447	1,807,214

The contractual due dates of financial liabilities as at 31st December 2022 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	Total £000
Shares	991,291	75,819	239,314	296,212	1,602,636
Amounts owed to credit institutions	77,621	2,544	2,067	-	82,232
Amounts owed to other customers	32,654	32,054	9,001	-	73,709
Derivative financial instruments	-	-	-	873	873
Total financial liabilities	1,101,566	110,417	250,382	297,085	1,759,450

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

25. FINANCIAL COMMITMENTS

	2023 **£000**	2022 £000
Capital commitments		
Capital commitments at 31st December for which no provision has been made:		
Contracted but not provided for	**-**	-
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	**85**	84
After five years	**398**	529
	483	613
Memorandum items		
Irrevocable undrawn mortgage loan facilities	**130,179**	113,226

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

26. 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 £663,000 (2022: £524,000) 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 two current and one former executive Directors. The defined benefit scheme has been closed to new employees from April 2001.

The valuation as at 31st December 2023 used for FRS 102 disclosures has been undertaken by a qualified actuary in order to assess the liabilities of the scheme at 31st December 2023 using the Projected Unit Credit Method. Pension scheme assets were restated at their market value at 31st December 2023.

The scheme has a surplus on the FRS102 valuation assumptions as at 31st December 2023. The Directors believe they can achieve economic benefit from the surplus and so have decided to recognise the full surplus. A surplus in the funded scheme cannot be used to fund the unfunded scheme.

The major assumptions used by the actuary were:

	At 31st Dec 2023 %	At 31st Dec 2022 %
Rate of increase of pensions in payment	**2.98**	3.07
Discount rate	**4.51**	4.77
Retail Price Index inflation	**3.16**	3.28
Salary inflation	**3.36**	3.48

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

	2023 £000	2022 £000
The amount relating to operating costs was as follows:		
Included within 'Administrative expenses':		
Current service cost	**422**	1,073
	422	1,073

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NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

26. PENSION SCHEME (Continued)

	2023 £000	2022 £000
The amount relating to other pension costs within staff costs (Note 6) was as follows:		
Current service cost	**422**	1,073
Net finance (income) / charge	**(247)**	130
Defined contribution scheme charge	**663**	524
	838	1,727
The amount relating to the finance charge was as follows:		
Expected return on pension scheme assets	**2,044**	1,088
Interest on pension scheme liabilities	**(1,797)**	(1,218)
Net income / (charge) (included within 'Administrative expenses')	**247**	(130)
Actuarial gains and losses have been reported in the Statement of Other Comprehensive Income as follows:		
Actuarial (loss) / gain recognised in pension scheme	**(2,155)**	11,651
Movement in deferred tax relating to pension scheme	**532**	(2,913)
Actuarial (loss) / gain recognised in the Statement of Other Comprehensive Income	**(1,623)**	8,738

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 2023 £000	Value at 31st Dec 2022 £000
Fair value of pension scheme assets	**43,019**	43,165
Present value of pension scheme liabilities	**(39,640)**	(38,098)
Surplus in pension scheme	**3,379**	5,067

The pension asset of £3,379,000 comprises £5,279,000 asset for the funded pension scheme and £1,900,000 liability for the unfunded arrangement. The asset relating to the funded pension scheme cannot be used to directly fund the liability for the unfunded arrangement.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

26. PENSION SCHEME (Continued)

	2023 £000	2022 £000
Movements in the present value of scheme liabilities in the current period were as follows:		
At 1st January	**38,098**	64,262
Current service cost	**422**	1,073
Interest cost	**1,797**	1,218
Contributions from scheme members	**165**	162
Actuarial loss / (gain)	**601**	(27,468)
Benefits paid	**(1,443)**	(1,149)
At 31st December	**39,640**	38,098
Movements in the present value of scheme assets in the current period were as follows:		
At 1st January	**43,165**	56,993
Expected return on scheme assets	**2,044**	1,088
Actuarial loss	**(1,554)**	(15,817)
Contributions from the Society	**642**	1,888
Contributions from scheme members	**165**	162
Benefits paid	**(1,443)**	(1,149)
At 31st December	**43,019**	43,165

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	
	2023 £000	2022 £000
Equity instruments	**2,383**	2,582
Debt instruments	**28,525**	28,767
Property instruments	**3,200**	3,663
Liability driven instruments	**7,093**	6,043
Other assets	**1,818**	2,110
	43,019	43,165

The expected blended return on scheme assets is 4.51% (2022: 4.77%).

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, 2024, is £501,000 consisting of £358,000 from the Society and £143,000 from the members.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

27. 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 2023 the Society has also 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.

NOTES TO THE ACCOUNTS (CONTINUED)

for the year ended 31st December 2023

28. 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 on pages 46 to 50.

Loans to Directors

At 31st December 2023, there were four (2022: three) mortgage loans outstanding granted in the ordinary course of business on normal commercial terms to Directors and their connected persons, amounting in aggregate to £382,000 (2022: £270,000).

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 2023, 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 2023

1. STATUTORY RATIOS AND PERCENTAGES

	31st Dec 2023 %	Statutory Limit %
Proportion of business assets not in the form of loans fully secured on residential property (lending limit)	**1.04**	25
Proportion of shares and borrowings not in the form of shares held by individuals (funding limit)	**13.55**	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 2023 %	31st Dec 2022 %
As a percentage of shares and borrowings:		
Gross capital	**8.96**	8.56
Free capital	**8.50**	8.11
Liquid assets	**19.57**	21.10
As a percentage of mean total assets:	**For 2023**	For 2022
Profit after taxation	**0.61**	0.43
Management expenses	**0.92**	0.94

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 2023

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS AT 31st DECEMBER 2023

DIRECTORS

Name and Date of Birth	Date of Appointment	Business Occupation	Other Directorships
Keith Jess BSSc FCA (02/02/57)	01/08/17	Retired Chartered Accountant	NIE Networks Limited
Martin Pitt BSSc MAcc FCA (31/12/63)	01/01/20	Retired Chartered Accountant	Northern Ireland Audit Office Odyssey Group Trust Limited Ulster Independent Clinic Limited Radius Housing Association Belfast Bible College Limited Salt Factory Sports Limited Abaana Ulster Rugby Foundation
Karen Furlong BA (Hons) (19/08/69)	01/01/19	Company Director	Personal Injuries Assessment Board Tridos Bank VHI Healthcare VHI Health & Wellbeing
Clare Guinness BSc (Hons) CDir (15/05/75)	01/01/22	Company Director	Belfast Chamber of Trade & Commerce Peace Players
Paul Leonard BSc (Hons) MSc (20/02/60)	01/05/22	Retired Chartered Accountant	UK Finance NI Committee Whiterock Finance Advisory Board Choice Housing (Ireland) Limited Maple & May Limited Maple & May (Homes) Limited Northern Ireland Investment Fund – Investment Scrutiny Board
Stephen Mitcham BA (Hons) (27/10/63)	01/11/21	Retired Building Society Chief Executive	Mutual Vision Technologies Moneyfacts UK
Michael S Boyd BSc (Hons) FCA (01/10/69)	01/04/11	Building Society Chief Executive	None
Declan Moore BA MBA (02/03/65)	21/07/14	Building Society Operations Director	None
Gareth T J Robinson BSc (Hons) CGMA (26/04/76)	01/11/23	Building Society Finance 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 had a service contract with the Society, which was entered into in January 2005 and subsequently amended in February 2012. Mrs Armstrong's contract as Director terminated on 31st October 2023 with a six months' notice period having been observed.

Mr Michael Boyd, Mr Declan Moore and Mr Gareth Robinson each have a service contract with the Society, which is terminable by the Director on six months' notice. Mr Boyd's contract was entered into in February 2012 and was amended in November 2023 to reflect his appointment to Chief Executive and Mr Moore's contract was entered into in July 2014. Mr Robinson's contract was entered into in November 2023 on his appointment to Finance Director.

ANNUAL BUSINESS STATEMENT (CONTINUED)

for the year ended 31st December 2023

3. INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS AT 31st DECEMBER 2023 (Continued)

OFFICERS

Name	Business Occupation	Directorships
Sarah McKegney BSc (Hons) ACA	Head of Operations	Go Baby Limited
Ailsa L McNeill BA (Hons) PgDip	Head of Human Resources	None
Kyle McRoberts BSc (Hons) ACA	Society Secretary	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

BRANCH OFFICES

Ballymena
79 / 81 Wellington Street
BT43 6AD

Bangor
6 Castle Street
BT20 4ST

Belfast
33 / 37 Wellington Place
BT1 6HH

Coleraine
9 The Diamond
BT52 1DE

Enniskillen
24 High Street
BT74 7EH

Glengormley
323 Antrim Road
BT36 5DY

Lisburn
3 Market Place
BT28 1AN

Londonderry
3 Millennium Forum
BT48 6EB

Newtownards
4 Conway Square
BT23 4DD

Omagh
40 High Street
BT78 1BP

Portadown
12 Market Street
BT62 3JY

SAVINGS HELPLINE

Phone: 028 9016 0950
Opening Hours: Monday - Friday, 9am - 5pm

MORTGAGE HELPLINE

Phone: 028 9016 0949
Opening Hours: Monday - Friday, 9am - 5pm

WEB ADDRESS

www.theprogressive.com

NOTES

Information correct at the time of going to print (March 2024).

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