

Northern Bank Pension Scheme

Annual Report and Financial Statements for the year
ended 31 December 2019

Pension Scheme Registry Number: 10015013

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A TRUSTEE AND ITS ADVISORS

The Trustee

Northern Bank Pension Trust Limited is the Corporate Trustee of the Northern Bank Pension Scheme (“Scheme”). The names of the Directors at the date of approval of this report are set out below.

Changes to the Directors of the Trustee Company during 2019, and changes since 31 December 2019, are detailed in the Compliance Statement on page 48 of this report.

Directors of the Corporate Trustee

Nominated by the employer:

L Bourke	Chairman	(Appointed 1 May 2019)
J-P Coleman		
AI Martin		
D Murphy		
KM Strain		(Appointed 1 May 2019)
BM Telford		

Nominated by the members:

PG Alexander*		
SKC Bloomfield		
SR Johnston		
CW Steele*		(Appointed 1 October 2019)

(*Pensioner-nominated)

Secretary to the Trustee

EB Armstrong

Principal employer

Northern Bank Limited
Donegall Square West
Belfast
BT1 6JS

Participating employer

Danske Bank A/S
Holmens Kanal 2-12
DK 1092
Copenhagen
Denmark

A TRUSTEE AND ITS ADVISORS (*CONTINUED*)**Advisors**

The advisors to the Corporate Trustee at the date of approval of the report of the Trustee are set out below. There have been no changes to the advisors since 31 December 2019.

Actuary

S Yates
Willis Towers Watson
2 Lochrin Square
96 Fountainbridge
Edinburgh EH3 9QA

Investment Advisor

Hymans Robertson LLP
Exchange Place One
1 Semple Street
Edinburgh
EH3 8BL

Legal Advisors

Sacker & Partners LLP
20 Gresham Street
London EC2V 7JE

Johns Elliot
40 Linenhall Street
Belfast BT2 8BA

Burges Salmon LLP
One Glass Wharf
Bristol
BS2 0ZX

Consultancy Services

Lane Clark & Peacock LLP
95 Wigmore Street
London W1U 1DQ

KPMG LLP
Advisory
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

Administrator

Equiniti
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

Bankers

Northern Bank Ltd (t/a Danske Bank)
Donegall Square West
Belfast BT1 6JS

Auditors

Deloitte LLP
Lincoln Building
27-45 Great Victoria Street
Belfast BT2 7SL

Danske Bank A/S
Holmens Kanal 2-12
DK- 1092 Copenhagen

A TRUSTEE AND ITS ADVISORS (*CONTINUED*)

AVC Providers

Standard Life Assurance Limited
Standard Life House
30 Lothian Road
Edinburgh EH1 2DH

Northern Bank Ltd (t/a Danske Bank)
Donegall Square West
Belfast BT1 6JS

Investment Managers

BlackRock
Drapers Gardens
12 Throgmorton Avenue
London EC2N 2DL

Danske Bank A/S
Treasury Division
Holmens Kanal 2-12
DK-1092 Copenhagen

Bulk Purchase Annuity Provider

Prudential Assurance Company Limited
Laurence Pountney Hill
London
EC4R 0HH

Global Custodians

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

The Bank of New York Mellon, London Branch
One Canada Square
Canary Wharf
London E14 5AL

Property Manager

Osborne King
6-9 Donegall Square South
Belfast
BT1 5JA

B REPORT OF THE TRUSTEE

Introduction

The Trustee presents its annual report and the audited financial statements of the Northern Bank Pension Scheme for the year ended 31 December 2019.

The Scheme was established under a Trust Deed and is a registered pension scheme for the purposes of the Finance Act 2004. The Scheme is a Defined Benefit scheme and was closed to future accrual on 30 September 2018. (Active-deferred members retained the right to make Additional Voluntary Contributions (“AVCs”) to secure additional benefits until 30 September 2019.) The Trustee holds Scheme funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed and Rules. Members were previously contracted-out of the additional component of the State Second Pension (S2P) on the salary-related basis until 5 April 2016.

Management of the Scheme

The Principal Employer is responsible for appointing Directors to the Board of the Corporate Trustee. At least one third of the Directors to the Board are member-nominated. During 2019, the balance of representation of member-nominated Directors was two Directors nominated by active-deferred members and two Directors nominated by pensioner members. Employer nominated Directors can serve until removed by the Employer. Member-nominated Directors can serve for a maximum of four years after which they can stand for re-election for one further four-year period.

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

The role of the Directors is to administer the Scheme in accordance with the Trust Deed and Rules. They are responsible for ensuring that the contributions and income received are invested in secure assets so that the funds entrusted to them are sufficient to pay the benefits of the Scheme. Northern Bank Limited, with the consent of the Trustee, is responsible for determining the benefits of the Scheme.

B REPORT OF THE TRUSTEE (*CONTINUED*)

Custody of Investments

The Northern Trust Company provides custodial services to the Northern Bank Pension Scheme in respect of investments managed by BlackRock. The Scheme has purchased units in funds managed by BlackRock, but does not hold the underlying securities directly and therefore there is no direct relationship with the custodian of these holdings.

The Bank of New York Mellon, London Branch, provides custodial services to the Northern Bank Pension Scheme in respect of the collateral (ring-fenced pool of assets) provided by Prudential under the terms of the Bulk Purchase Annuity Policy and managed under the terms of the Account Control Agreement.

Additionally, collateral to secure the Trustee's exposure in its interest-rate hedging portfolio is held through the custody of Danske Bank A/S, the securities being registered under the Danish Securities Trading Act.

Rule changes

There were no amendments to the Rules of the Scheme during 2019.

Corporate Trustee Meetings

There were four Board meetings during the year ended 31 December 2019 at which the Directors considered matters relating to the operation and administration of the Scheme, and to receive reports from the Administration Committee and from the Investment Committee regarding investment policy and performance.

The Administration Committee held four meetings during 2019. The Committee is responsible for ensuring that all benefits are paid correctly as well as keeping members fully informed on all aspects of the Scheme. The Administration Committee's Terms of Reference were reviewed and updated in December 2019. During 2019, the following Directors were members of the Administration Committee:

AI Martin	(Chairman)
SKC Bloomfield	
SR Johnston	
ES McLaughlin	(Resigned 30 April 2019)
KM Strain	(Appointed 4 June 2019)

B REPORT OF THE TRUSTEE (*CONTINUED*)

Corporate Trustee Meetings (Continued)

The Investment Committee held four meetings during 2019. The Committee monitors the investment performance of the Scheme and recommends to the Board the long-term investment strategy. The Investment Committee's Terms of Reference were reviewed and updated in December 2019. During 2019, the following Directors were members of the Investment Committee:

PG Alexander	(Appointed 1 May 2019)
JKH Brown	(Resigned 30 September 2019)
J-P Coleman	
JC Harper	(Resigned 30 April 2019)
D Murphy	
CW Steele	(Appointed 1 October 2019)
BM Telford	(Chairman)

The Trustee Board may, from time to time, appoint a Sub-Committee (or Working Group) to consider matters relating to specific projects relevant to the Scheme.

During 2019, the Trustee agreed that the following Directors and Officer should represent the Trustee on an Investment Working Party. The purpose of the Investment Working Party is to enable certain informal investment-related discussions to take place with the Bank from time to time, as defined in its Terms of Reference, which were agreed with the Bank in 2018.

Investment Working Party:

PG Alexander	(Appointed 4 June 2019)
JC Harper	(Resigned 30 April 2019)
BM Telford	
EB Armstrong	

B REPORT OF THE TRUSTEE (*CONTINUED*)

The Valuation Working Group held three meetings during 2019. The purpose of the Valuation Working Group is to consider and challenge the assumptions proposed by the Scheme Actuary and Covenant Adviser, when completing the triennial valuation and to make recommendations on the triennial valuation and other valuation-related matters to the Board. During 2019, the following Directors were members of the Valuation Working Group:

PG Alexander

L Bourke (Appointed 4 June 2019)

JHK Brown (Resigned 30 September 2019)

JC Harper (Resigned 30 April 2019)

AI Martin (Appointed 4 June 2019)

D Murphy

Administration expenses

The costs associated with the administration of the Scheme were borne directly by the Scheme.

Financial development of the Scheme

The net assets of the Scheme as at 31 December 2019 amounted to £1,463,354k (2018: £1,379,302k). The Financial Statements are set out in further detail on pages 26 to 46 and the Investment Report is set out on pages 12 to 20 of this report.

The financial statements have been prepared and audited in accordance with regulations made under Article 41 (1) and (6) of the Pensions (Northern Ireland) Order 1995. These show how the Scheme's finances have developed over the year. The notes to the financial statements give further information on the various figures shown.

Contributions

The employing companies and the Trustee agree a Schedule of Contributions setting out the rates and dates at which contributions are to be made to the Scheme. Payments under the Schedule of Contributions must be submitted by the 19th of the month following collection.

Whilst employee normal contributions had ceased in 2018, employee AVC contributions were made until September 2019. Employer contributions (including employer contributions covering PPF levies) were remitted during 2019 in accordance with the Schedule of Contributions, dated 30 September 2016. (Employer normal contributions ceased in September 2019 in accordance with the terms of Scheme closure on 30 September 2018.) The employer also made early retirement funding cost contributions to the Scheme (at a level agreed by the Scheme Actuary) in respect of augmented early retirement benefits.

B REPORT OF THE TRUSTEE (*CONTINUED*)

Actuarial Position

An Actuarial valuation is carried out at least every three years, with the last actuarial valuation carried out as at 31 December 2018. The 2018 valuation was not concluded until 2020 and details of the 2018 valuation are shown in the Report on Actuarial Liabilities (page 56).

The next actuarial valuation is expected to be carried out as at 31 December 2021, with results expected in 2022.

The Bank has agreed an objective for the Scheme to be fully funded (100%) on a very low -risk basis (gilts-flat) by 2025.

In accordance with the terms of the Funding Agreement (agreed between the Trustee and the Bank at time of Scheme closure), an 'Escrow account' is held by the Bank at Danske Bank A/S, London Branch, over which the Trustee holds a legal charge. During 2019, the balance in this account did not fall below £30m.

Pension Increases

Pensions in payment and deferment are reviewed annually by the Trustee in consultation with the Principal Employer and the Scheme Actuary. Where the Rules do not specifically provide for increases, discretion is exercised as to the level of increases awarded.

Pensions in payment attributable to service in the Northern Bank Pension Scheme were increased on 1 March 2019 in accordance with the Trust Deed and Rules. Pensions in excess of the Guaranteed Minimum Pension (GMP) and attributable to service up to 5 April 1997 were increased by 2.3%. Pensions attributable to service from 6 April 1997 to 31 December 2007 (including former 'Supplemental Fund' pensions) were increased by 3.2%. Pensions attributable to service from 1 January 2008 were increased by 2.5%.

Pensions in payment in excess of GMP and attributable to service in the Danske Bank (2004) Pension Scheme (the assets and liabilities of which were merged into the Northern Bank Pension Scheme on 31 December 2008) were increased (under their rules) with effect from 1 March 2019 by 5.0% in respect of service up to 20 July 1997, by 2.4% in respect of service from 21 July 1997 to 5 April 2005 and by 2.4% in respect of service from 6 April 2005.

B REPORT OF THE TRUSTEE *(CONTINUED)*

Pension Increases (continued)

The following increases (GMP excess) were made to pensions in payment during the last 10 years.

Year	In respect of NBPS service to 05/04/97 %	In respect of NBPS service from 06/04/97 to 31/12/07 %	In respect of NBPS service after 31/12/07 %	In respect of DBPS service to 20/07/97 %	In respect of DBPS service from 21/07/97 to 05/04/05 %	In respect of DBPS service after 05/04/05 %
2019	2.3	3.2	2.5	5.0	2.4	2.4
2018	2.5	3.9	2.5	5.0	3.0	2.5
2017	1.2	2.2	2.2	5.0	1.0	1.0
2016	0.1	1.1	1.1	5.0	0.0	0.0
2015	1.0	2.0	2.0	5.0	1.2	1.2
2014	2.1	2.6	2.5	5.0	2.7	2.5
2013	2.5	3.0	2.5	5.0	2.2	2.2
2012	5.0	5.0	2.5	5.0	5.0	2.5
2011	4.7	4.7	2.5	5.0	3.1	N/A
2010	0.3	0.3	0.3	5.0	0.0	N/A

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

Fund membership

The number of members and beneficiaries of the Scheme as at 31 December 2019 was as follows:

	2018	2019
Active Deferred members	745	641
Active pensioners (flexible retirement)	36	25
Pensioners	2,169	2,280
Dependants of former members	205	216
Deferred members	1,532	1,466
	<u>4,687</u>	<u>4,628</u>

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

B REPORT OF THE TRUSTEE (*CONTINUED*)

Scheme Closure

Following its consultation with Active Members on future benefits of the Northern Bank Pension Scheme, the Bank's decision led to the closure of the Scheme to future accrual on 30 September 2018. Active-deferred members were permitted to make Additional Voluntary Contributions until 30 September 2019. The Bank's reasons for closing the Scheme were the increasing accounting costs, risks and pension capital requirements associated with providing Defined Benefit pension accrual.

Post Balance Sheet Events

The results of the most recent formal actuarial valuation of the assets and liabilities of the Scheme (as at 31 December 2018) were set out in the Actuary's formal report dated 26 March 2020. The results indicated that the assets at 31 December 2018 would have been sufficient to meet around 105% of the technical provisions (equivalent to a surplus of £63 million). A copy of the report on the Actuarial Valuation as at 31 December 2018 is available on request from the Secretary to the Trustee.

The Actuary provided a certification of the Schedule of Contributions which certified the adequacy of rates of contributions and adherence to the Statement of Funding Principles. The certification of the Schedule of Contributions, the Schedule of Contributions, and the calculation of technical provisions certificate are included as appendices to this report, along with a Report on Actuarial Liabilities. A copy of the certified Schedule of Contributions applicable during 2019 (from 30 September 2016) is also included in the appendices to this report.

The Covid-19 global pandemic significantly destabilised financial markets in early 2020. The Trustee continues to monitor events and is satisfied that the impact of the pandemic does not affect the approval of these financial statements nor does it require them to be adjusted. Further information can be found in Note 27 (page 46).

B REPORT OF THE TRUSTEE (*CONTINUED*)**Approval of the Report of the Trustee**

The Investment Report and the Compliance Statement included in this Annual Report and Financial Statements form part of the Report of the Trustee.

Signed for and on behalf of the Trustee of the Northern Bank Pension Scheme by:

Director:

Director:

Date: 9 June 2020

Date: 9 June 2020

C INVESTMENT REPORT

This investment report forms part of the report of the Trustee.

Investment policy

The Trustee has produced a Statement of Investment Principles in accordance with Article 35 of the Pensions (Northern Ireland) Order 1995. The SIP was last updated during October 2019. A copy is available on request.

The Trustee has elected to delegate the formulation of investment strategy and implementation policy to an Investment Committee consisting of five members of the Board of Northern Bank Pension Trust Limited, however the Board retains decision-making responsibility for all investment matters.

Investment strategy

The Trustee currently sets the Scheme's investment strategy, taking into account considerations such as the strength of the employer covenant, and after receiving professional advice from Hymans Robertson LLP. The Trustee's current objectives are documented within the Statement of Investment Principles. These are as follows:

- The Trustee's statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its Technical Provisions.
- The Trustee's objective with regard to the Scheme's investments is to ensure that the accumulated fund, together with the contributions payable by the Principal Employer in future, are invested in such a manner that the individual benefits for each member can be paid from the Scheme as they arise.
- Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the Actuary in funding the Scheme.

The Trustee intends to ensure that the investment objectives are consistent with the Scheme's Statement of Funding Principles. Within the context of achieving these over-riding funding principles, the Trustee also aims to:

- Only take risk to the extent that is needed to achieve the Trustee's objectives;
- Interpret risk as the risk of not being able to pay members' benefits in the future;
- Reflect an expectation that risk will be rewarded in the long term, although for some risks this will depend on current market conditions;
- Recognise that diversification can help to reduce risk, in particular some of the potential extremes of risk, but it does have its limits;

C INVESTMENT REPORT (*CONTINUED*)

Investment strategy (continued)

- Recognise that managers with appropriate skill can add value through active management, although this skill can be difficult to identify. However, the choice of manager is rarely more important than the decision to invest in the asset class and the choice of an appropriate benchmark. As such, active management will be used sparingly and only in certain situations such as asset classes that have no viable passive approach or for mandates that involve multiple asset classes where the decision to allocate between asset classes can add value as well as stock selection.

The Trustee regularly reviews the Scheme's investment strategy in light of these principles and has taken steps to de-risk the Scheme's investment strategy over the last 12 months.

As at 31 December 2019, the Trustee's target strategy and the actual distribution of assets (excluding the buy-in policy) was as follows:

Asset class	Target Allocation	Actual Allocation
Growth Assets	10.0%	10.9%
UK Equities	3.0%	3.2%
Overseas Equities ^[1]	7.0%	7.7%
Income Assets	25.0%	26.3%
Corporate Bonds	20.0%	21.0%
Property	5.0%	5.3%
Protection Assets	65.0%	62.8%
Cash	1.0%	0.1%
Fixed Interest Gilts	9.9%	5.9%
Index Linked Gilts	43.2%	44.1%
Interest Rate Hedge	9.0%	10.5%
Crystallised buy-in ^[2]	2.0%	2.2%
Total assets	100.0%	100.0%

^[1] The Trustee hedges approximately 70% of currency exposure to the US Dollar, Japanese Yen and Euro.

^[2] A surplus has arisen from the actual experience of the buy-in to date. As this can be crystallised by the Trustee this amount is reflected in the Scheme's asset allocation. Source: Estimate provided by Willis Towers Watson

C INVESTMENT REPORT (*CONTINUED*)

Changes during year

There were a number of changes to the Scheme's investment arrangements over 2019:

- In Q1 the Donegall House property was sold for £9.6m and in Q2 the Newton Mearns property in Glasgow was sold for £12.1m. The Trustee remains invested in the Hampstead and Woodford Green properties with a combined value of £40.5m as at 31 December 2019.
- A de-risking trigger was hit at the end of June which triggered a 5% disinvestment from equities into hedging assets. On 1 July the Trustee disinvested £39.25m from the Scheme's equity investments into gilts and index-linked gilts, increasing the Scheme's target hedge ratio for interest rates and for inflation from 75% to 80%.
- Following the sale of the two property holdings, the Trustee amended the strategic allocation to property from 8% to 5% and increased the strategic allocation to corporate bonds from 17% to 20%. The aim of this was to broadly maintain the same level of expected return.

Investment arrangements

The Trustee invests in an insurance policy, pooled investment vehicles, derivative contracts and has direct property holdings. The Trustee has authorised the use of derivatives by the investment managers in pooled investment vehicles for efficient use in portfolio management purposes and to reduce certain investment risks. The nature and disposition of the investments are set out on the following page.

The Trustee employed the services of a number of organisations to manage and/or provide advice on the management of the Scheme's assets:

- BlackRock is responsible for the management of the majority (excluding the buy-in policy) of the Scheme's investments assets. The Trustee invests in a series of pooled equity and bond funds. Equity assets are managed on a passive basis with bond assets being managed on both an active and passive basis. The Trustee hedges approximately 70% of its overseas equity exposure to the Euro, Yen and US dollar by investing in pooled currency hedged funds managed by BlackRock.
- Osborne King is responsible for providing advice to the Trustee on the Scheme's property assets.
- Danske Bank A/S is responsible for the implementation of the Scheme's interest rate hedging arrangements.
- Prudential Assurance Company Limited (PAC) is responsible for managing an insurance policy entered into by the Trustee in respect of a portion of the Scheme's pensioner liabilities.

C INVESTMENT REPORT (*CONTINUED*)

Asset Class	Segregated Funds (£000)	Pooled Investment Vehicles (£000)	Derivatives (£000)	Total (£000)	%
Insurance policy – bulk annuity	715,200	-	-	715,200	48.9
Equities	-	83,578	-	83,578	5.7
Property	40,540	-	-	40,540	2.8
Corporate Bonds	-	159,371	-	159,371	10.9
Fixed Gilts	-	45,075	-	45,075	3.1
Index-linked gilts	-	337,048	-	337,048	23.0
Derivatives	-	-	80,376	80,376	5.5
Cash	507	-	-	507	0.0
AVC investments	1,458	-	-	1,458	0.1
Total	757,705	625,072	80,376	1,463,153	100.0

Insurance Policy

The Trustee purchased an insurance policy (known as ‘buy-in’) from Prudential Retirement Income Limited¹, a wholly owned subsidiary of The Prudential Assurance Company Limited, on 8 April 2015. The insurance policy (which at the time cost approximately £686m) is an asset of the Scheme, under which Prudential pays a monthly income to the Scheme in respect of specified pensioners and their dependants.

The insurance policy initially covered liabilities in respect of pensions in payment on 31 December 2013, however under the policy terms, the cover was extended to cover liabilities in respect of pensions in payment (excluding ‘Active Pensioner’ liabilities) on 1 February 2015. A balancing payment of £28.1m (which also took into account pensioner changes following a ‘small pot / trivial commutation’ exercise in 2015) was paid to Prudential in October 2016.

¹ During 2016, Prudential, by way of a Part VII transfer (under the Financial Services and Markets Act 2000) transferred the entire business of Prudential Retirement Income Limited (the initial counter-party to the Buy-in policy) to the Prudential Assurance Company Limited (“PAC”).

C INVESTMENT REPORT (*CONTINUED*)

Insurance Policy (continued)

Whilst the policy fully covers the liabilities of the specified members, it does not exactly match the liabilities, but instead pays a fixed 2.5% increase per annum for those pre 6 April 1997 pensions which receive increases under the rules at CPI capped at 2.5% per annum. This may lead to a surplus value in the policy, over the liabilities covered by the policy. The policy is held for the benefit of the Scheme and not for individual members. Under the policy, Prudential is required to hold collateral with an independent third-party custodian in a ring-fenced pool of assets, which must be maintained at agreed levels during the life of the policy.

Property portfolio

The Trustee has a portfolio of two properties which are directly held by the Scheme. The objective of the property portfolio is to provide long-term, inflation linked income from strong covenants. As at 31 December 2019, the total value of this portfolio was £40.5m.

There were two changes to the portfolio during the year, with Donegall House, Belfast, sold for £9.6m in Q1 2019 and the Waitrose store at Greenlaw Village, Newton Mearns, sold in Q2 for £12.1m. The remaining properties held by the Scheme were valued on 31 December 2019 at an open market value by Osborne King, Chartered Surveyors. The two properties in the portfolio were as follows:

- 10 Pond Street, Hampstead, London is a supermarket investment and was acquired in May 2010. The property is let to Marks & Spencer plc under a long term lease expiring January 2031 and was valued at 31 December 2019 at £11.8m. (A full valuation was last undertaken at 16 October 2017.)
- Southend Road, Woodford Green, Essex is a supermarket investment and was acquired in May 2011. The property is let to Tesco under a long term lease expiring June 2039. The property was valued at 31 December 2019 at £28.7m. (A full valuation was last undertaken at 16 October 2017.)

C INVESTMENT REPORT (*CONTINUED*)

Interest rate risk mitigation strategy

As set out in previous annual reports, since 2007, in conjunction with the Bank, the Trustee has sought to reduce the exposure of the Scheme's funding level to falls in long-term interest rates. Through the use of swaption contracts, Danske, on behalf of the Trustee, seeks to hedge a proportion of the Scheme's total interest rate risk. This combines with the Scheme's bond holdings to achieve an overall target level of interest rate hedging of 80% of non buy-in liabilities, although actual levels of hedging vary with market movements.

The portfolio might be expected to increase in value at times when changes in interest rates lead to an increase in the measured value of Scheme liabilities. Conversely the portfolio may fall in value when changes in interest rates lead to a fall in that measured value of the Scheme's liabilities.

Over the course of the year, the interest rate hedging portfolio rose by £20.2m, reflecting the falls in interest rates over the course of the year.

The credit rating of Danske Bank A/S is A3, rated by Moodys. It was downgraded in the fourth quarter of 2019 due to the bank lowering its earnings expectations as the fallout from the bank's alleged money laundering through its Estonian branch between 2007-2015 continues.

Currency risk management

Currency risk arises within the Scheme through exposure to overseas equity investments. Movements in exchange rates can act to offset or enhance the underlying equity market returns and this currency risk is therefore considered to be unrewarded. In order to mitigate this risk, the Trustee introduced a currency hedge programme in August 2009.

The objective of the currency hedge programme is to mitigate 70% of the currency risk arising from the Scheme's equity exposure to the US Dollar, the Euro and the Japanese Yen. Due to cost considerations, the expectation of longer-term currency appreciation and the relatively small exposure to individual currencies, the Trustee does not hedge currency risk in Asia Pacific and Emerging Markets. The Trustee hedges currency risk by investing in currency hedged versions of three passive equity funds managed by BlackRock. The underlying target hedge ratio of these funds is 95% and so the allocation to the three funds (US, European and Japanese equities) was set at 75% of the equivalent exposure.

During the year, Sterling strengthened against the US dollar, the Euro and the Japanese yen. This is set out in the table on the following page.

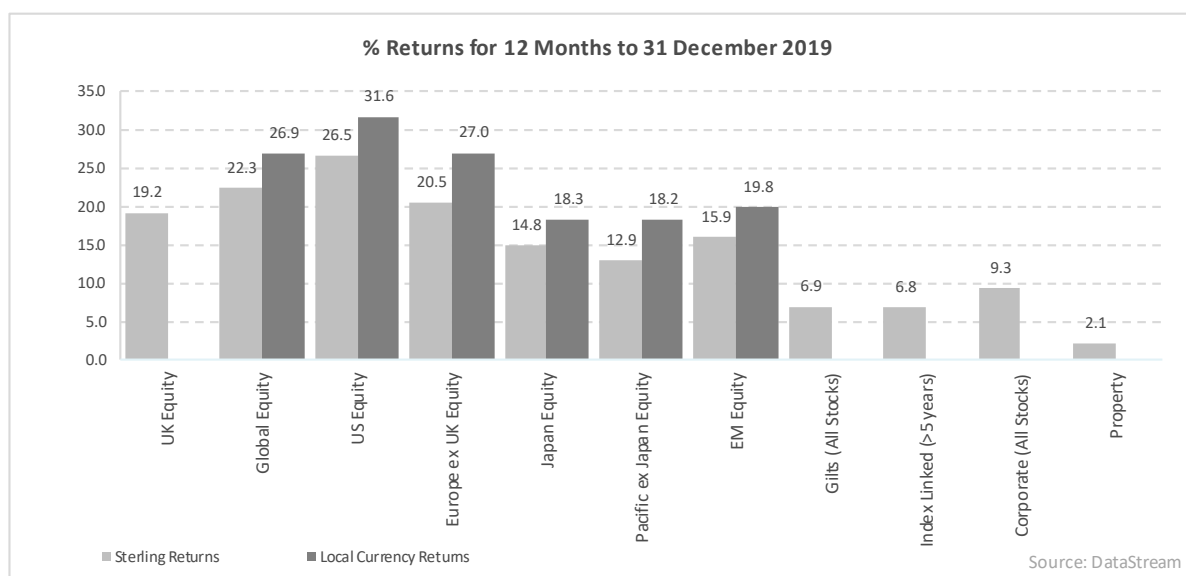
C INVESTMENT REPORT (*CONTINUED*)

Currency	Exchange Rates as at		% change of Sterling over 2018
	31-Dec-18	31-Dec-19	
US dollar	1.274	1.325	4.0%
Euro	1.114	1.180	5.9%
Yen	139.733	143.967	3.0%

Taking account of the appreciation of Sterling, the currency hedge programme would have been a positive to the Scheme.

Market Background

The performance from major asset classes over 2019 is set out below:



Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. US GDP growth continued to outperform its peers. Eurozone growth slowed to 0.9% year-on-year. Despite soft data pointing to a rebound in UK activity at start of 2020, UK GDP growth remained relatively flat.

Although manufacturing purchasing managers indices (PMIs) in the major advanced economies remained at levels consistent with contraction, the global manufacturing PMI moved back in to expansionary territory in November. Services PMIs have generally been more positive and in the US and Europe picked up in Q4. The signing of an initial US-China trade deal has also helped quell growth fears.

C INVESTMENT REPORT (*CONTINUED*)

Market Background (continued)

An ongoing lack of inflationary pressures has allowed central banks to turn more accommodative - the US Federal Reserve cut rates for the third time in three months in October, while the ECB cut rates to -0.5% p.a. and announced the restart of QE in November.

Sovereign bond yields followed deteriorating macroeconomic data lower in 2019, though bond markets did give back some of their gains in Q4 as sentiment improved on the economic outlook. UK nominal gilt yields fell 0.46% p.a. In-line with sterling strength, given a lower perceived chance of a no-deal Brexit, UK implied inflation fell, as real yields fell less than nominal counterparts.

Spreads tightened across global credit markets and speculative-grade bonds outperformed investment-grade equivalents. Falling underlying yields increased total returns in fixed rate markets. Within speculative-grade markets, leveraged loans underperformed as expectations of interest rate cuts lessened the appeal of floating-rate assets.

Global equities returned 27% in local currency terms (22% in sterling terms). Following a sell off at the end of 2018, equity markets bounced back in Q1 and also moved sharply higher in Q4 - indications of progress in global trade disputes, third quarter earnings that were generally better than feared and improvements in macroeconomic data all contributed to the fourth quarter rally.

The US was the best performing region, given increasingly accommodative monetary policy and the market's large exposure to the technology sector, which outperformed. The UK underperformed given Brexit uncertainty and sterling strength, which weighed on the overseas earnings of the index's large international companies. Despite a 23% rise in oil prices, the oil & gas sector underperformed, reflecting concerns over the outlook for demand given a still subdued growth outlook.

UK commercial property market returns continued to slow on a rolling annual basis, returning 2.1% in the 12 months to 31 December 2019, reflecting a sharp drop in comparison to recent years.

C INVESTMENT REPORT (*CONTINUED*)

Scheme performance

The performance (gross of fees) of the Scheme's assets over one year and three year periods ending 31 December 2019 was as follows:

	12 months	3 years (p.a.)
Portfolio Return	13.0%	6.8%

Over 2019, the Scheme's equity investments delivered strong returns. The Scheme's income and bond portfolio was also positive for the year as yields fell and spreads narrowed.

The impact of investment management fees is to reduce gross returns by approximately 0.06% p.a.

D STATEMENT OF TRUSTEE'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

The Trustee is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D STATEMENT OF TRUSTEE'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS (*CONTINUED*)

Trustee Responsibilities in Respect of Contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for adopting risk-based processes to monitor whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule of Contributions occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

On behalf of the Trustee of Northern Bank Pension Scheme by:

Director..... Director.....

Date: 9 June 2020

Date: 9 June 2020

E INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE NORTHERN BANK PENSION SCHEME

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of the Northern Bank Pension Scheme (the 'scheme'):

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2019 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997, made under the Pensions (Northern Ireland) Order 1995.

We have audited the financial statements which comprise:

- the Fund Account;
- the Statement of Net Assets (Available for Benefits);
- the Statement of Accounting Policies; and
- the related notes 1 to 27.

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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the

E INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE NORTHERN BANK PENSION SCHEME (*CONTINUED*)

Basis for opinion (continued)

'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the Report of the Trustee, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

E INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE NORTHERN BANK PENSION SCHEME (*CONTINUED*)

Responsibilities of Trustee

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

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

Auditor's responsibilities for the audit of the financial statements

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

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.

Use of our report

This report is made solely to the Scheme's Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997 made under the Pensions (Northern Ireland) Order 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to 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 Scheme's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte LLP
Statutory Auditor
Belfast, United Kingdom

Date:

F FUND ACCOUNT

	Notes	2019 £'000	2018 £'000
Contributions and benefits			
Contributions receivable			
- Employer	4	8,026	9,852
- Employee	4	87	1,447
Individual transfers in		-	5
Other income	5	29	5
		<u>8,142</u>	<u>11,309</u>
Benefits payable	6	(41,440)	(36,346)
Payments to and on account of leavers	7	(41,183)	(13,472)
Administrative expenses	8	(1,093)	(1,040)
		<u>(83,716)</u>	<u>(50,858)</u>
Net withdrawals from dealings with members		<u>(75,574)</u>	<u>(39,549)</u>
Returns on investments			
Investment income	9	30,617	32,098
Investment management expenses	10	(1,036)	(1,041)
Change in market value of investments	11	130,045	(50,625)
Net returns on investments		<u>159,626</u>	<u>(19,568)</u>
Net increase /(decrease) in the fund during the year		84,052	(59,117)
Total net assets of the scheme at 1 January		1,379,302	1,438,419
Total net assets of the scheme at 31 December		<u><u>1,463,354</u></u>	<u><u>1,379,302</u></u>

The notes on pages 28 to 46 form part of these Financial Statements.

G STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

	Notes	2019 £'000	2018 £'000
Investment assets	11		
Pooled investment vehicles	12	625,072	576,287
Derivatives	13	80,376	60,220
Insurance policy	14	715,200	675,700
Property	15	40,540	61,160
AVC investments	16	1,458	2,320
Cash deposits	17	507	806
		<u>1,463,153</u>	<u>1,376,493</u>
Investment liabilities			
Derivatives	13	-	-
Total investments	11	<u>1,463,153</u>	<u>1,376,493</u>
Current assets	21	1,008	4,373
Current liabilities	22	(807)	(1,564)
Total net assets of the Scheme at 31 December		<u><u>1,463,354</u></u>	<u><u>1,379,302</u></u>

The notes on pages 28 to 46 form part of these Financial Statements.

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take into account any obligation to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities (page 56) and the Actuarial Certificate included in the Annual Report and these Financial Statements should be read in conjunction with them.

Signed for and on behalf of the Trustee of the Northern Bank Pension Scheme by:

Director:

Director:

Date: 9 June 2020

Date: 9 June 2020

H NOTES TO THE FINANCIAL STATEMENTS

1 Background

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland and the guidance set out in the Statement of Recommended Practice (revised November 2018). This is the first year that the Scheme has adopted the 2018 SORP. There were no transitional arrangements required as a result of adopting the 2018 SORP in the current year and accordingly there were no adjustments to comparative balances.

2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustee's Report (page 50).

3 Accounting Policies

a) Contributions

Employer contributions are accounted for on an accruals basis at rates agreed between the Trustee and the employer based on the recommendation of the actuary. Members' additional voluntary contributions (AVCs) and employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid. Other employer contributions are accounted for in accordance with the agreed arrangements.

b) Benefits

Pensions in payment are accounted for in the period to which they relate. Benefits are accounted for in the period in which the members notifies the Trustees of their decision on the type or amount of benefit to be taken, or if there is no member choice, on the date of retiring or leaving.

c) Transfers

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

d) Income

Investment income is accounted for on an accruals basis.

Interest on cash deposits is accounted for by reference to the period to which it relates and is accrued on a daily basis.

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

3 Accounting Policies (continued)

d) *Income (continued)*

Investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in their unit price and reported within change in market value.

Net rental income from properties is accounted for on an accruals basis in accordance with the terms of the lease.

Receipts from annuity policies held by the Trustee to fund benefits payable to scheme members are included within investment income on an accruals basis.

e) *Expenses*

The administrative and investment management expenses of the Scheme are borne by the Scheme, and are accounted for on an accruals basis in the period in which they are incurred.

f) *Investment assets*

As a general principle investment assets are included in the financial statements at their fair value at the year-end:

Pooled Investment Vehicles

Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment manager.

Additional Voluntary Contributions

The market values of the additional voluntary contribution investments are included in the net assets of the Scheme as calculated by the providers of these arrangements and as accepted by the Trustee.

Properties

Properties are included at open market value determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual, with particular regard to UK Practice Statement 1.1, Valuation of financial statements. The properties have been valued by Osborne King, Chartered Surveyors.

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

3 Accounting Policies (continued)

f) *Investments assets (continued)*

Derivatives

Derivatives are stated at fair value.

Over the counter (OTC) derivatives are stated at fair value determined using pricing models and relevant market data as at the year-end date. All gains and losses arising on derivative contracts are reported within “change in market value”. Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

Insurance policies

A bulk annuity policy, which was purchased in the name of the Trustee to fully provide pension benefits for certain members, is included in these Financial Statements at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions and methodology updated for market conditions at the reporting date. Additionally, the annuity includes excess benefits to the associated liability that have been recognised as an asset. Annuity valuations are provided by the Scheme Actuary.

g) *Foreign currencies*

The functional and presentational currency of the Scheme is Sterling.

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Differences arising on investment translation are accounted for in the change in market value of investments during the year.

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

4 Contributions receivable

	2019 £'000	2018 £'000
Employers		
–Normal	5,728	8,002
–Expense	900	900
–Augmentation	1,352	906
–Other	46	44
	<u>8,026</u>	<u>9,852</u>
Members		
–Normal	-	1,035
–Additional voluntary	87	412
	<u>87</u>	<u>1,447</u>
Total contributions	<u>8,113</u>	<u>11,299</u>

The Schedule of Contributions applicable during 2019 was signed on 30 September 2016 and was effective until 30 September 2021. In accordance with the Schedule of Contributions certified on 30 September 2016, the employer contribution rate from 1 January 2019 to 30 September 2019 is based on 31% of pensionable salaries determined by reference to the 30 June 2018 pensionable payroll and the employer contribution rate from 1 October 2019 is NIL (based on 31% of pensionable salaries determined by reference to the 30 June 2019 pensionable payroll – which was NIL, following Scheme closure on 30 September 2018). The employer is also required to pay £0.9m p.a. to the Scheme in respect of the expenses associated with the running of the Scheme, as well as contributions equal to the PPF levies on the Scheme and any additional contributions as agreed by the Trustee and the Bank (for example, to cover any additional costs arising from ill-health retirements and augmentations on early retirement).

5 Other income

	2019 £'000	2018 £'000
Compensation	29	2
Divorce implementation costs	-	3
	<u>29</u>	<u>5</u>

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6 Benefits payable

	2019	2018
	£'000	£'000
Pensions	33,218	31,743
Commutations and retirement lump sums	8,113	4,534
Lump sum death benefits	-	41
Taxation where lifetime allowance exceeded	109	28
	<u>41,440</u>	<u>36,346</u>

7 Payments to and on account of leavers

	2019	2018
	£'000	£'000
Individual transfers to other schemes	41,176	13,472
State scheme premiums	7	-
	<u>41,183</u>	<u>13,472</u>

8 Administrative Expenses

	2019	2018
	£'000	£'000
Administration and processing	336	428
Actuarial and consulting fees	586	459
Audit fees	46	31
Legal fees	79	78
Pension Protection Fund	46	44
	<u>1,093</u>	<u>1,040</u>

9 Investment income

	2019	2018
	£'000	£'000
Net rental income	2,192	2,963
Interest on cash deposits	19	39
Class actions proceeds	1	2
Annuity income (* see below)	28,407	29,093
Currency movements	(2)	1
	<u>30,617</u>	<u>32,098</u>

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

9 Investment income (continued)

Net rents from properties is stated after deducting £3k (2018: £78k) of property related expenses.

(*) Annuity income:-	2019	2018
	£'000	£'000
Monthly pension payments	28,390	28,163
Policy adjustments (e.g. Trivial commutations / Pension sharing order)	17	930
	<u>28,407</u>	<u>29,093</u>

10 Investment management expenses

	2019	2018
	£'000	£'000
Administration, management and custody	569	531
Investment consultancy services	42	75
Collateral management fees	425	435
	<u>1,036</u>	<u>1,041</u>

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

11 Reconciliation of investments

	Opening value as at 1 January 2019 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Closing value as at 31 December 2019 £'000
Pooled investment vehicles	576,287	68,999	(89,736)	69,522	625,072
Derivatives	60,220	-	-	20,156	80,376
Insurance policy	675,700	-	-	39,500	715,200
Property	61,160	-	(21,296)	676	40,540
AVC investments	2,320	95	(1,148)	191	1,458
	<u>1,375,687</u>	<u>69,094</u>	<u>(112,180)</u>	<u>130,045</u>	<u>1,462,646</u>
Cash deposits	<u>806</u>				<u>507</u>
Net investment assets	<u><u>1,376,493</u></u>				<u><u>1,463,153</u></u>

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

Concentration of investments

Scheme investments include the following which represent more than 5% of the total value of the net assets of the Scheme:

	2019 £'000	%	2018 £'000	%
Prudential insurance policy	715,200	48.9	675,700	49.0
Aquila Life Over 5 Year Index Linked S1	231,356	15.8	211,622	15.3
Blackrock Ascent UK Long Corp Bond Fund	137,658	9.4	92,189	6.7

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

12 Pooled investment vehicles ('PIVs')

The Scheme's holdings of PIVs are analysed as follows:

	2019	2018
	£'000	£'000
Equity funds	45,097	56,642
Equity currency hedged funds	38,481	45,400
Fixed interest gilt funds	45,075	53,072
Index-linked gilt funds	337,048	309,247
Corporate bond funds	159,371	111,926
	<u>625,072</u>	<u>576,287</u>

The pooled investment vehicles in which the Scheme has invested are all managed by companies registered in the United Kingdom.

13 Derivatives

As discussed more fully in the Investment Report on page 17, the Trustee has authorised the use of derivatives as part of the investment strategy for the Scheme. Summarised details of the derivatives held at year end are set out below:

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Interest-rate options	80,376	-	60,220	-

Options

The Scheme had outstanding Option contracts at the year-end as follows:

Type of Option	Exercise Date /Termination Date	Nature of option	Notional amount £'000	Market value £'000
Interest swap purchased call OTC	07/09/20 - *07/09/50	Interest swap between fixed and Libor rates	70,000	47,461
Interest swap purchased call OTC	18/01/22 - *18/01/52	Interest swap between fixed and Libor rates	70,000	32,915
Total 2019			<u>140,000</u>	<u>80,376</u>
Total 2018			<u>140,000</u>	<u>60,220</u>

Under the Option contracts (swaptions), Danske Bank A/S, as counterparty has deposited £87,925k (2018: £64,986k) of collateral at year end.

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

14 Insurance policy - annuities

The Scheme held an insurance policy at the year end at market value as follows:

	2019 £'000	2018 £'000
Prudential Assurance Company Limited	715,200	675,700

The insurance policy with Prudential Assurance Company Limited relates to the benefits due for the majority of pensions in payment. The annuity is valued annually by the Scheme Actuary. The valuation includes an over-insurance element (i.e. primarily the difference between the Scheme increases of CPI capped at 2.5% per annum and the fixed 2.5% per annum increases provided under the policy in respect of pre-1997 GMP excess), which amounts to £47 million (2018: £38 million).

Under the insurance policy contract, collateral is held by BNY Mellon, as custodian to Prudential Assurance Company Limited, totalling £827,371k as at 31 December 2019 (2018: £798,380k).

15 Property

	2019 £'000	2018 £'000
Freehold – United Kingdom	40,540	61,160

The properties held by the Scheme were valued on 31 December 2019 at an open market value by Osborne King, Chartered Surveyors.

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

16 AVC investments

The Trustee holds assets invested separately from the main fund which secure additional benefits on a money purchase basis for those members who elected to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held on their behalf and the movements in the year.

The aggregate amounts of these AVC investments analysed by the providers who administer these policies are as follows:

	2019	2018
	£'000	£'000
Standard Life- unitised funds	1,456	2,318
Danske Bank- staff savings account	2	2
	<u>1,458</u>	<u>2,320</u>

17 Cash deposits

	2019	2018
	£'000	£'000
Sterling	507	751
Foreign Currency	-	55
	<u>507</u>	<u>806</u>

18 Transaction costs

Included within the purchases and sales are direct transaction costs of £212k relating to the disposal of freehold properties (2018: £nil). Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

19 Investments Fair Value Hierarchy

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

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

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety. The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 December 2019			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Pooled investment vehicles	-	625,072	-	625,072
Derivatives	-	80,376	-	80,376
Insurance policy	-	-	715,200	715,200
Property	-	-	40,540	40,540
AVC investments	2	-	1,456	1,458
Cash deposits	507	-	-	507
	509	705,448	757,196	1,463,153

	At 31 December 2018			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Pooled investment vehicles	-	576,287	-	576,287
Derivatives	-	60,220	-	60,220
Insurance policy	-	-	675,700	675,700
Property	-	-	61,160	61,160
AVC investments	2	-	2,318	2,320
Cash deposits	806	-	-	806
	808	636,507	739,178	1,376,493

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

20 Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks.

These risks are set out by FRS 102 as follows:

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

Market risk: this comprises currency risk, interest rate risk and other price risk:

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

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee through regular reviews of the investment portfolios.

The Trustees have also identified a number of other key risks that could impact on the funding level. These are:

- cashflow risk — the Trustee manages this risk by taking into account the timing of future payments in order to minimise the probability that there is a shortfall in liquid assets relative to the Scheme's liabilities;

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

20 Investment risks (Continued)

- covenant risk – the Trustees manage this risk by considering the strength of the sponsor when setting investment strategy, and by consulting with the employer as to the suitability of the proposed strategy;
- operational risk – the Trustees manage this risk by ensuring that all advisors and third party service providers are suitably qualified and experienced, and that suitable liability and compensation clauses are included in all contracts for professional services received.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

(i) Credit risk

The Scheme is subject to credit risk from its holdings in its insurance policy, pooled investment vehicles ('PIV's'), derivatives and cash balances.

The table below shows the analysis of direct credit risk at the year end:

Analysis of direct credit risk

At 31 December 2019				
	Investment grade	Non- investment grade	Unrated	Total
Insurance Policy	715,200	-	-	715,200
OTC Derivatives	80,376	-	-	80,376
Cash	-	-	507	507
PIVs	-	-	625,072	625,072
	795,576	-	625,579	1,421,155

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

20 Investment risks (Continued)

At 31 December 2018				
	Investment grade	Non- investment grade	Unrated	Total
Insurance Policy	675,700	-	-	675,700
OTC Derivatives	60,220	-	-	60,220
Cash	-	-	806	806
PIVs	-	-	576,287	576,287
	<u>735,920</u>	<u>-</u>	<u>577,093</u>	<u>1,313,013</u>

The insurance policy held with Prudential Assurance Company Limited is collateralised to reduce credit risk.

Derivative agreements with Danske Bank A/S are collateralised to reduce credit risk.

Direct credit risk arising from PIV's is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks prior to the appointment of new managers and, on an ongoing basis, monitors any changes to the operating environment of the pooled manager.

A summary of PIVs by type of arrangement is as follows:

	2019 £'000	2018 £'000
Open ended investment companies	<u>625,072</u>	<u>576,287</u>

Indirect credit risk arises in relation to underlying investments held in corporate bonds and index-linked gilt pooled investment vehicles.

Cash is predominantly held within a short term money market fund which invests with financial institutions which are at least investment grade credit rated.

(ii) Currency risk

The Scheme is subject to indirect currency risk from a proportion of its investments in equities and other financial instruments held in pooled funds. The Trustee has reduced currency risk by investing in currency hedged pooled funds which hedges approximately 70% of the Scheme's exposure to the US Dollar, Yen and Euro.

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

20 Investment risks (Continued)

The Scheme's total net unhedged indirect exposure by major currency at the year-end was as follows:

	2019 £'000	2018 £'000
Currency		
US Dollar	7,468	8,785
Euro	4,775	5,899
Japanese Yen	2,283	2,918
Other	8,071	10,582
	<u>22,597</u>	<u>28,184</u>

(iii) Interest rate risk

The Scheme is subject to interest rate risk, both in absolute terms and also unhedged risk in relation to the liabilities. The value of the Scheme's bonds, gilts and derivatives, are subject to interest rate risk. However, this risk offsets a proportion (around 82% at 31 December 2019) of the interest rate risk associated with the liabilities (measured on a gilts basis). If interest rates fall, the value of these investments will rise to help match the increase in the actuarial value of the liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these assets will fall in value at the same time as the actuarial value of the liabilities falls because of an increase in the discount rate.

The table below shows the analysis of interest rate risk at the year-end:

	2019 £'000	2018 £'000
Direct		
Interest rate options	80,376	60,220
Cash deposits	507	806
Indirect		
Corporate bond PIVs	159,371	111,926
Index linked gilts PIVs	337,048	309,247
Fixed interest gilts PIVs	45,075	53,072
	<u>622,377</u>	<u>535,271</u>

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

20 Investment risks (Continued)

(iv) Other price risk

Other price risk arises principally from the Scheme's growth and income portfolios, which includes PIVs and property. BlackRock may make limited use of derivatives within pooled funds as a way of obtaining efficient exposure to investment markets.

The Trustees manage other price risk by constructing a diverse portfolio of investments across various markets and with various investment managers.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2019	2018
	£'000	£'000
Direct		
Investment properties	40,540	61,160
Insurance policy	715,200	675,700
Indirect		
Equity PIVs	45,097	56,642
Equity Currency Hedged PIVs	38,481	45,400
Corporate bond PIVs	159,371	111,926
Index linked gilts PIVs	337,048	309,247
Fixed interest gilts PIVs	45,075	53,072
	<u>1,380,812</u>	<u>1,313,147</u>

(v) Summary of risks

The following table summarises the significant exposure to investment risks:

	Credit risk	Foreign exchange risk	Interest rate risk	Other price risk
Insurance policy	✓	-	-	✓
OTC derivatives	✓	-	✓	-
Equity PIVs	✓	✓	-	✓
Equity Currency Hedged PIVs	✓	-	-	✓
Corporate bond PIVs	✓	-	✓	✓
Index linked gilts PIVs	✓	-	✓	✓
Fixed interest gilts PIVs	✓	-	✓	✓
Cash	✓	-	✓	-
Property	-	-	-	✓

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

21 Current assets

	2019	2018
	£'000	£'000
Cash balances	902	4,266
Other debtors	106	107
	<u>1,008</u>	<u>4,373</u>

22 Current liabilities

	2019	2018
	£'000	£'000
Deferred income	405	511
Unpaid benefits	10	634
Accrued expenses	305	298
VAT recoverable	87	121
	<u>807</u>	<u>1,564</u>

23 Related party transactions

Transactions with related parties of the Scheme have been disclosed in the annual report as follows:

- AVCs are held with Danske Bank and the value as at 31 December 2019 was £2k (2018: £2k).
- The Scheme bank account is held with Danske Bank and the balance as at 31 December 2019 was £900k (2018: £4,265k).
- The Scheme holds derivatives contracts through Danske Bank A/S, the principal employer's parent as disclosed in note 13. In addition, the Scheme has bank accounts held with Danske Bank A/S and the balance as at 31 December 2019 was £1k (2018: £2k).

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

23 Related party transactions (continued)

- The Scheme invests in pooled funds, managed by BlackRock, which through normal activity might be expected to include holdings in Danske Bank A/S. The level of the Scheme's pooled fund holdings in Danske Bank A/S at 31 December 2019 was £26k (2018: £49k).
- Contributions receivable from the employer of the Scheme are disclosed in note 4.
- Payments in respect of payroll deductions (e.g. PAYE and GAYE) were paid directly by the employer of the Scheme and subsequently reimbursed by the Scheme.
- Administration costs of £80k (2018: £77k) were paid directly by the employer of the Scheme and subsequently reimbursed by the Scheme.
- During 2019, remuneration amounting to £54k (2018: £28k) was paid from the Scheme to Trustee Directors.
- The Scheme holds a legal charge over an Escrow Account, held at Danske Bank A/S London Branch, as part of a Funding Agreement between the Trustee and the Bank. The balance in the Escrow Account at 31 December 2019 was £30,333k (2018: £30,152k).

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

24 Employer related investments

There were no employer related investments in 2019 (2018: nil).

25 Taxation

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

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

26 Contingent Liability (GMP)

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

27 Post Financial Statements Events

No events have occurred requiring adjustment to the Scheme's financial statements between 31 December 2019 and the date of approval of these financial statements.

During early 2020, the Covid-19 coronavirus pandemic started to destabilise financial markets leading to increased market volatility, which is an example of an underlying risk which could affect funding levels, liquidity, administration and payments, as well as impacting the strength of sponsor covenant. The Trustee continues to monitor events and is satisfied that the impact of the pandemic does not affect the approval of these financial statements nor does it require them to be adjusted.

I COMPLIANCE STATEMENT

This compliance statement forms part of the report of the Trustee.

Tax status

The Scheme has been approved by the Inland Revenue as an exempt approved scheme and as such its income and investment gains are free of taxation. However the Scheme cannot reclaim certain amounts of withholding taxes relating to some overseas investment income. The Scheme was registered for VAT with HMRC on 21 December 2009.

Changes to the Scheme's Trust Deed and Rules

There were no changes to the Scheme's Trust Deed and Rules during 2019.

Statement of Investment Principles

In accordance with the Pensions (Northern Ireland) Order 1995, the Trustee has prepared a Statement of Investment Principles governing investment policy and objectives. A copy is available on request to members.

Data Protection

The Trustee has registered under the Data Protection Act 1998 to hold on computer information regarding members which is necessary for the management of the Scheme. The Trustee also maintains a Data Protection Policy in alignment with its requirements under the General data Protection Regulation, which came into force on 25 May 2018.

Calculation of transfer values

All transfer values paid and received were calculated and verified in accordance with regulations made under the Pension Schemes (Northern Ireland) Act 1993 and include an allowance for guaranteed pension increases.

Changes to the Advisors to the Trustee

During 2019, the Trustee considered that it would be good practice to rotate the role of Scheme auditor. Deloitte were subsequently appointed as Scheme Auditor on 8 January 2020, in succession to KPMG who resigned as auditor with effect from 31 December 2019. KPMG confirmed that they knew of no circumstances connected with their resignation which, in their opinion, significantly affect the interests of the members or prospective members of, or beneficiaries under, the Scheme.

I COMPLIANCE STATEMENT (*CONTINUED*)

Changes to the Advisors to the Trustee (continued)

KPMG LLP were appointed as cyber-security consultants during 2019.

Pricewaterhouse Coopers LLP were re-appointed as Covenant adviser to the Trustee.

There were no other changes to the advisors to the Trustee during 2019.

Changes to the Directors to the Trustee

The following are the changes to the Directors of the Trustee during 2019:

L Bourke	- appointed 1 May 2019
JHK Brown	- resigned 30 September 2019
JC Harper	- resigned 30 April 2019
ES McLaughlin	- resigned 30 April 2019
CW Steele	- appointed 1 October 2019
KM Strain	- appointed 1 May 2019

There have been no changes to the Directors of the Trustee since 31 December 2019.

J FURTHER INFORMATION

The Registrar, TPAS, the Pensions Ombudsman and the Pensions Regulator

In accordance with the Occupational Pensions Schemes (Disclosure of Information) Regulations (Northern Ireland) 1997, as amended, members are advised that:

- Information regarding the Scheme has been given to the Pension Tracing Service of The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU (www.gov.uk/find-pension-contact-details);
- The Pensions Advisory Service (provided by the Money and Pensions Service) of 120 Holborn, London, EC1N 2TD is available to assist members and beneficiaries with difficulties which they cannot resolve with the Trustee or the Scheme administrator;
- In extreme cases, the Pensions Ombudsman of 10 South Colonnade, Canary Wharf, London E14 4PU may investigate and determine any complaint or dispute in relation to how the Scheme is run.

In addition to the above, the Pensions Regulator (tPR) regulates occupational pension schemes and enforces the law as it relates to them. It has wide ranging powers which include the powers to:

- Suspend, disqualify or remove a trustee, or director of a trustee company, for consistently failing to carry out their duties;
- Wind up schemes where necessary;
- Apply for injunctions to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary.

The auditor and actuary have a statutory duty to make an immediate written report to tPR if they believe that there has been a material breach of statutory requirements in relation to the running of the Scheme.

Internal disputes resolution procedure

A disputes resolution procedure has been agreed by the Trustee to resolve any queries raised by members, beneficiaries or potential beneficiaries of the Scheme. Details of this can be obtained by writing to the Secretary, Northern Bank Pension Trust Limited, Donegall Square West, Belfast BT1 6JS.

J FURTHER INFORMATION (*CONTINUED*)

Contact for further information

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

Danske Administration
Equiniti
Sutherland House
Russell Way
Crawley
West Sussex, RH10 1UH
Telephone : 01293 604224
E-Mail : danske.administration@equiniti.com

Scheme Website

Information relating to the Scheme (including information which must be made available to members on a publically available website) can be found on the Scheme's website –

www.northernbankpensionscheme.co.uk .

K INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE NORTHERN BANK PENSION SCHEME

Independent auditor's statement about contributions to the Trustee of the Northern Bank Pension Scheme

We have examined the summary of contributions to the Northern Bank Pension Scheme for the scheme year ended 31 December 2019 which is set out on page 53.

In our opinion contributions for the scheme year ended 31 December 2019 as reported in the Summary of Contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the scheme actuary on 30 September 2016.

Scope of work on statement about contributions

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

Respective responsibilities of trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 53, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions and to report our opinion to you.

Use of our report

This statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997 made under the Pensions (Northern Ireland) Order 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to

K INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS
TO THE TRUSTEE OF THE NORTHERN BANK PENSION SCHEME
(*CONTINUED*)

Use of our report (continued)

anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP
Statutory Auditor
Belfast, United Kingdom
Date

L STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF CONTRIBUTIONS AND TRUSTEE'S SUMMARY OF CONTRIBUTIONS

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the Schedule.

Trustees' Summary of Contributions payable under the Schedule in respect of the Scheme year ended 31 December 2019

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the Employer and member contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 30 September 2016 in respect of the Scheme year ended 31 December 2019. The Scheme auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

Contributions payable under the Schedule in respect of the Scheme year		£'000
Employer:		
Normal contributions		5,728
Expense contributions		900
Other contributions- PPF levy		46
Member:		
Normal contributions		-
Contributions payable under the Schedule		
(as reported on by the Scheme Auditor)		6,674

L STATEMENT OF TRUSTEE'S RESPONSIBILITIES IN RESPECT OF
CONTRIBUTIONS AND TRUSTEE'S SUMMARY OF
CONTRIBUTIONS (*CONTINUED*)

Reconciliation of contributions

Reconciliation of contributions payable under the Schedule of Contributions reported in the
Financial Statements in respect of the Scheme year:

	£'000
Contributions payable under the Schedule (as above)	6,674
Contributions payable in addition to those due under the Schedule (and not reported on by the Scheme auditor):	
Employer augmentation contributions	1,352
Member additional voluntary contributions	87
Total contributions reported in the Financial Statements	<u>8,113</u>

Signed on behalf of the Trustee of the Northern Bank Pension Scheme by:

Director..... Date 9 June 2020

Director..... Date 9 June 2020

APPENDIX 1

Actuarial Statements

REPORT ON ACTUARIAL LIABILITIES (FORMING PART OF THE TRUSTEE'S REPORT)

Report on Actuarial Liabilities

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

The most recent full actuarial valuation of the Scheme was carried out as at 31 December 2018. This showed that on that date:

The value of the technical provisions was: £1,314 million
The value of the assets (excluding AVCs) was: £1,377 million

The method and significant actuarial assumptions used to determine the technical provisions are set out below (all assumptions adopted are set out in the Statement of Funding Principles).

Method

The actuarial method to be used in the calculation of the technical provisions is the projected unit method.

Significant actuarial assumptions

Discount rates: the discount rate curve used to calculate the capital value of future cashflows are determined using the gilt curve (Willis Towers Watson GBP Zero Coupon Nominal curve) plus a margin which, for the 31 December 2018 valuation, is 0.5% per annum.

Future Retail Price Inflation (RPI): a rate derived from the Bank of England fixed interest and index-linked gilt yield curves at an appropriate duration at the valuation date.

Future Consumer Price Inflation (CPI): derived from the assumption for future Retail Price Inflation less 0.9% per annum.

Pension increases: derived from the assumptions for future Retail Price Inflation and Consumer Price Inflation allowing for the caps and floors on pension increases, according to the provisions in the Scheme's rules.

Mortality: mortality before and after retirement is assumed to follow the standard "S3" tables, based on the experience of Self-Administered Pension Schemes ("SAPS") from 2009 to 2016 with improvements from 2013 to 2018 using CMI's 2018 Core Projections (with a rating of 79% for male non-pensioners, 73% for male pensioners, 86% for female non-pensioners and 80% for female pensioners).

There is a further allowance for improvements in mortality after the valuation date in line with the CMI's 2018 Core Projections with a 1.5% per annum long-term trend.

For benefit accrual after 31 December 2007, members bear the cost of any mortality improvements in the period to retirement. No allowance is therefore made, in the funding of benefit accrual after 31 December 2007, for future improvements in mortality over the period to retirement.

Statutory Certificate***Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005***

Name of scheme: Northern Bank Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2018 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 26 March 2020.

Stephen Yates
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company
26 March 2020

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

Schedule of Contributions for a five year period from the date of certification of this Schedule by the Scheme Actuary ie until 26 March 2025.

1	Name of employers:	Northern Bank Limited Danske Bank A/S (collectively known as the Employer)
2	Rates of contribution:	
	Member rate:	None required.
	Employer rate:	None required.
3	Employer contributions towards deficit amortisation	None required.
4	Employer contributions towards the expenses associated with the running of the Scheme	The Employer will pay to the Scheme a sum of £1.0 million per annum (excluding Pension Protection Fund levies), payable by equal monthly instalments.
5	Employer contributions towards PPF levies	The Employer will pay to the Scheme a sum equal to the annual Pension Protection Fund levies when this is due to be paid by the Scheme
6	Other expenses	Expenses related to the investment of the assets are to be paid from the Scheme's assets.
7	Due dates of payment:	
	Member contributions:	None required.
	Employer contributions:	Due no later than the 19 th day of the calendar month following the month to which contributions relate.
8	Additional contributions:	As agreed by the Trustee and the Bank, for example to cover any additional costs arising from ill-health retirements and augmentations on early retirement.

Agreed on behalf of the Trustee of the Northern Bank Pension Scheme	Agreed on behalf of Northern Bank Limited	Agreed on behalf of Danske Bank A/S
Date: 26 March 2020	Date: 26 March 2020	Date: 26 March 2020

Actuary's certification of Schedule of Contributions

Name of Scheme: *Northern Bank Pension Scheme*

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2018 to continue to be met for the period for which this schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 26 March 2020.

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

26 March 2020

Stephen Yates

Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited, a Willis Towers Watson Company

2 Lochrin Square

96 Fountainbridge

Edinburgh EH3 9QA

Northern Bank Pension Scheme

Schedule of Contributions for a five year period from the date of certification of this Schedule by the Scheme Actuary ie until 30 September 2021.

1	Name of employers:	Northern Bank Limited Danske Bank A/S (collectively known as the Employer)
2	Rates of contribution:	
	Member rate:	6% of pensionable salaries unless otherwise payable by the Employer. Members may also pay additional voluntary contributions to the Scheme.
	Employer rate:	£8.4 million payable by twelve monthly instalments of £0.7 million from 1 October 2016. Contributions from 1 October 2017 are payable by twelve equal monthly instalments based on 31% of pensionable salaries, determined by reference to the prior 30 June pensionable payroll. Plus any contributions payable on behalf of members.
3	Employer contributions towards deficit amortisation	None required.
4	Employer contributions towards the expenses associated with the running of the Scheme	The Employer will pay to the Scheme a sum of £0.9 million per annum (excluding Pension Protection Fund levies), payable by equal monthly instalments.
5	Employer contributions towards PPF levies	The Employer will pay to the Scheme a sum equal to the annual Pension Protection Fund levies when this is due to be paid by the Scheme.
6	Other expenses	Expenses related to the investment of the assets are to be paid from the Scheme's assets and allowance for these has been made in the regular contributions above and in the technical provisions.

7	Due dates of payment:	
	Member contributions:	Due no later than the 19 th day of the calendar month after that in which contributions are deducted from earnings.
	Employer contributions:	Due no later than the 19 th day of the calendar month following the month to which contributions relate.
8	Additional contributions:	As agreed by the Trustee and the Bank, for example to cover any additional costs arising from ill-health retirements and augmentations on early retirement.

Agreed on behalf of the Trustee of the Northern Bank Pension Scheme	Agreed on behalf of Northern Bank Limited	Agreed on behalf of Danske Bank A/S
Date: 30 September 2016	Date: 30 September 2016	Date: 30 September 2016

Actuary's certification of Schedule of Contributions

Name of Scheme: *Northern Bank Pension Scheme*

Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2015 to continue to be met for the period for which this schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 30 September 2016.

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

Stephen Yates
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited

2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA

30 September 2016