

Northern Bank Pension Scheme

Annual Report and Financial Statements for the year
ended 31 December 2020

Pension Scheme Registry Number: 10015013

Table of Contents

Section	Page
A Trustee and its Advisors	1-3
B Report of the Trustee	4-10
C Investment Report	11-20
D Statement of Trustee's Responsibilities for the Financial Statements	21-22
E Independent Auditor's Report to the Trustee of the Northern Bank Pension Scheme	23-27
F Fund Account	28
G Statement of Net Assets (Available for Benefits)	29
H Notes (forming part of the Financial Statements)	30-48
I Compliance Statement	49-50
J Further Information	51-52
K Independent Auditor's Statement about Contributions to the Trustee of the Northern Bank Pension Scheme	53-54
L Statement of Trustee's Responsibilities in respect of Contributions and Trustee's Summary of Contributions	55-56
Appendices	57-71
Appendix 1 – Actuarial Statements (including the Actuary's Certification of Schedule of Contributions and the Report on Actuarial Liabilities).	
Appendix 2 – Implementation Statement (Statement of Compliance with the Northern Bank Pension Scheme's Stewardship Policy for the year ending 31 December 2020)	

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 2020, and changes since 31 December 2020, are detailed in the Compliance Statement on page 50 of this report.

Directors of the Corporate Trustee

Nominated by the employer:

L Bourke	Chairman	
AI Martin		
D Murphy		
KM Strain		
PAR Taylor		(Appointed 17 June 2020)
BM Telford		

Nominated by the members:

PG Alexander*
SKC Bloomfield
SR Johnston
CW Steele*

(*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 are set out below. Changes to the Advisors of the Trustee Company during 2020, and changes since 31 December 2020, are detailed in the Compliance Statement on page 50 of this report.

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

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

Administrator

Equiniti
Sutherland House
Russell Way
Crawley
West Sussex RH10 1UH

PricewaterhouseCoopers LLP
Atria One
144 Morrison Street
Edinburgh EH3 8EX

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 2020.

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 2020, 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 provided custodial services to the Northern Bank Pension Scheme in respect of investments managed by BlackRock prior to the transition of assets to a Liability Driven Investment (“LDI”) mandate.

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. The Bank of New York Mellon, London Branch, also commenced providing custodial services to the Northern Bank Pension Scheme in respect of Scheme assets managed by BlackRock following the transition to the LDI mandate.

Additionally, prior to the Trustee terminating its derivative portfolio with Danske Bank A/S, collateral to secure the portfolio’s interest-rate hedging exposure was held in custody by Danske Bank A/S, the securities being registered under the Danish Securities Trading Act.

Rule changes

The Rules of the Scheme were amended by Deed of Variation, dated 30 June 2020. The amendment, which was effective from 1 October 2018 provided for a benefit underpin in respect of ill-health retirement and death in (Active Deferred) service, in keeping with agreed Scheme Closure changes.

Corporate Trustee Meetings

There were five Board meetings during the year ended 31 December 2020 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 2020. 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. During 2020, the following Directors were members of the Administration Committee:

AI Martin (Chairman)

SKC Bloomfield

SR Johnston

KM Strain

B REPORT OF THE TRUSTEE (*CONTINUED*)

Corporate Trustee Meetings (continued)

The Investment Committee held nine meetings during 2020. The Committee monitors the investment performance of the Scheme and recommends to the Board the long-term investment strategy. During 2020, the following Directors were members of the Investment Committee:

PG Alexander

J-P Coleman (Resigned 16 June 2020)

D Murphy

CW Steele

PAR Taylor (Appointed 17 June 2020)

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.

The following Directors and Officer represent the Trustee on its Investment Working Party. The Investment Working Party did not hold any meetings during 2020.

Investment Working Party (Trustee Representatives):

PG Alexander

BM Telford

EB Armstrong

The following Directors (supported by EB Armstrong and ES Thompson) represent the Trustee on the Joint Buy-in Committee. The Joint Buy-in Committee held one meeting during 2020.

Joint Buy-in Committee (Trustee Representatives):

PG Alexander

L Bourke (Chairman)

AI Martin

PAR Taylor

B REPORT OF THE TRUSTEE (*CONTINUED*)

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 2020 amounted to £1,569,136k (2019: £1,463,354k). The Financial Statements are set out in further detail on pages 28 to 48 and the Investment Report is set out on pages 11 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.

No employee contributions were made during 2020. Employer contributions (including employer contributions covering PPF levies) were remitted during 2020 in accordance with the Schedules of Contributions, dated 30 September 2016 and 26 March 2020. 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.

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 concluded in March 2020. Details of the 2018 valuation are shown in the Report on Actuarial Liabilities (page 58).

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.

B REPORT OF THE TRUSTEE (*CONTINUED*)

Actuarial Position (continued)

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 2020, 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 2020 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 1.5%. Pensions attributable to service from 6 April 1997 to 31 December 2007 (including former 'Supplemental Fund' pensions) were increased by 2.2%. Pensions attributable to service from 1 January 2008 were increased by 2.2%.

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 2020 by 5.0% in respect of service up to 20 July 1997, by 1.7% in respect of service from 21 July 1997 to 5 April 2005 and by 1.7% 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
	%	%	%	%	%	%
2020	1.5	2.2	2.2	5.0	1.7	1.7
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

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 2020 was as follows:

	2019	2020
Active Deferred members	641	601
Active pensioners (flexible retirement)	25	26
Pensioners	2,280	2,349
Dependants of former members	216	209
Deferred members	1,466	1,390
	<u>4,628</u>	<u>4,575</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.

Covid-19 Pandemic

The Trustee continues to monitor events relating to the Covid-19 pandemic 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.

Approval of the Report of the Trustee

The Investment Report, Compliance Statement and the Implementation 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: L Bourke

Director: P G Alexander

Date: 21 June 2021

Date: 21 June 2021

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 (SIP) in accordance with Article 35 of the Pensions (Northern Ireland) Order 1995. The SIP was last updated during September 2020. A copy is available on the Scheme's website (www.northernbankpensionscheme.co.uk) or upon request from the Scheme Administrator.

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;

C INVESTMENT REPORT (*CONTINUED*)

Investment strategy (continued)

- 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;
- 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.

As at 31 December 2020, 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%	7.1%
UK Equities	3.0%	1.8%
Overseas Equities ^[1]	7.0%	5.3%
Income Assets	25.0%	25.8%
Corporate Bonds	20.0%	21.4%
Property	5.0%	4.4%
Protection Assets	65.0%	67.1%
LDI Portfolio ^[3]	63.0%	62.9%
Crystallised buy-in ^[2]	2.0%	4.0%
Trustee Bank Account	0.0%	0.2%
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

[3]The LDI Portfolio consists of all hedging assets held with BlackRock plus the Sterling Liquidity Fund, which previously was accounted for separately but now is held as part of the Managed LDI account with BlackRock.

C INVESTMENT REPORT (*CONTINUED*)

Changes during year

There were a number of changes to the Scheme's investment arrangements over 2020:

- In the first quarter of 2020, around c.2.5% of scheme assets (£20m) was disinvested from equities. This was a prudent measure following the start of the coronavirus pandemic to ensure sufficient liquidity to meet pension payments and member transfers over the subsequent 3-6 months.
- During Q3, the Scheme implemented a Managed LDI Account with BlackRock. The swaptions held with Danske Bank were sold over September and October 2020 and the proceeds were directly invested in the Managed Account. This is a bespoke arrangement where BlackRock manage the assets in order to achieve the target level interest rate and inflation hedging for the Scheme. The portfolio invests across a range of physical assets (gilts, index-linked gilts, cash) and derivatives (repos, inflation swaps, interest rate swaps) in order to achieve the hedging objectives of the Scheme.
- Following the transition of Scheme assets in 2020 to the BlackRock LDI portfolio, Bank of New York Mellon were appointed sole custodian for the Trustee. Custodian services provided to the Trustee by Northern Trust Limited ceased on 31 December 2020.

Investment arrangements

The Trustee invests in an insurance policy, pooled investment vehicles, a segregated managed account, and has direct holdings in property. The Trustee has authorised the use of derivatives by the investment managers in pooled investment vehicles and the segregated managed account 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.

C INVESTMENT REPORT (*CONTINUED*)

Asset Class	Segregated Funds (£000)	Pooled Investment Vehicles (£000)	Total (£000)	%
Insurance policy – bulk annuity	748,400	-	748,400	47.7%
Equities	-	60,979	60,979	3.9%
Property	37,190	-	37,190	2.4%
Corporate Bonds	-	182,510	182,510	11.6%
Managed Account ¹	538,149	-	538,149	34.3%
AVC investments	1,304	-	1,304	0.1%
Total	1,325,043	243,489	1,568,532	100%

¹Note that the segregated Managed Account contained a pooled liquidity fund holding £10,555k as at 31 December 2020.

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 and property holdings) of the Scheme's investments assets. The Trustee invests in a series of pooled equity and corporate bond funds as well as the segregated Managed Account for the Scheme's hedging assets. 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.
- BlackRock is responsible for the management of the LDI portfolio and manage the portfolio in line with guidelines set out in the Investment Management Agreement. This includes details such as the liability benchmark, hedging targets, available instruments and counterparty exposure levels.

C INVESTMENT REPORT (*CONTINUED*)

- Osborne King is responsible for providing advice to the Trustee on the Scheme's property assets.
- 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.

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 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 (which also accounted for pensioner changes following a 'small pot / trivial commutation' exercise in 2015) was paid to Prudential in October 2016.

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.

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*)

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 2020, the total value of this portfolio was £37.2m.

The properties held by the Scheme were revalued on 31 December 2020 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 2020 at £10.19m. (A full valuation was last undertaken at 12 October 2020.)
- 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 2020 at £27.0m. (A full valuation was last undertaken at 12 October 2020.)

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. Between August and October, the Trustee transitioned the Scheme's hedging arrangements from pooled fixed and index-linked gilt funds managed by BlackRock and two swaption contracts with Danske Bank, to all being invested in a segregated (LDI) managed account held by BlackRock.

In addition, there are two pooled corporate bond funds that provide some interest rate hedging which is allowed for in the management of the BlackRock Managed Account.

The BlackRock Managed Account combines with the Scheme's corporate bond holdings to achieve an overall target level of 80% interest rate and 70% inflation hedging of non buy-in liabilities (on a gilts basis), 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 and inflation lead to an increase in the measured value of Scheme liabilities. Conversely, the portfolio may fall in value when changes in interest rates and inflation lead to a fall in that measured value of the Scheme's liabilities.

Over the course of the year, the hedging portfolio rose by £75.1m, primarily due to falls in interest rates over the course of the year.

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 target allocation to the three funds (US, European and Japanese equities) was set at 75% of the equivalent exposure.

C INVESTMENT REPORT (*CONTINUED*)

Currency risk management (continued)

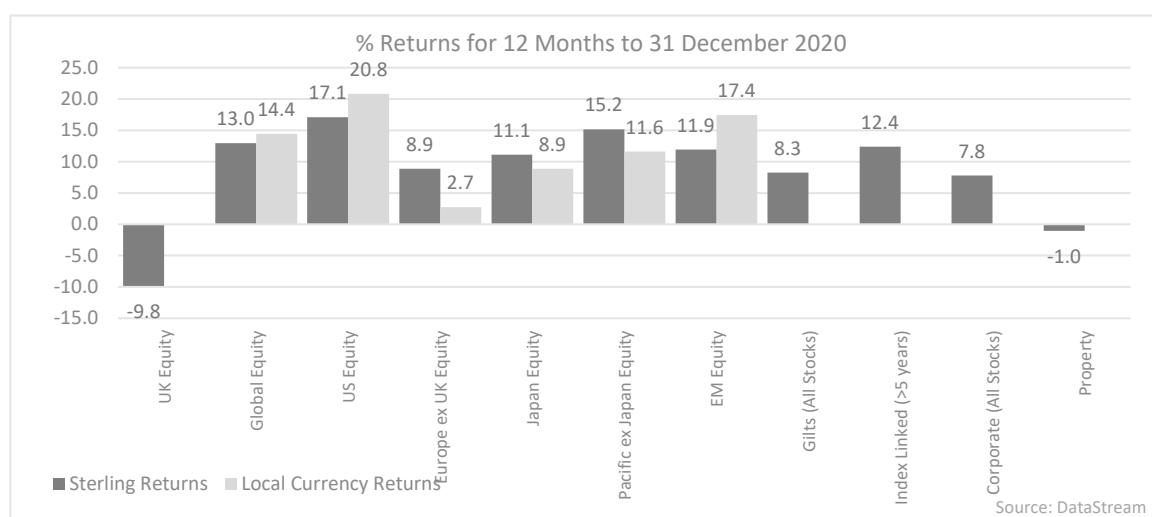
During the year, Sterling strengthened against the US dollar but weakened against the Euro and the Japanese yen. This is set out in the table below.

Currency	Exchange Rates as at		% change of Sterling over 2020
	31-Dec-19	31-Dec-20	
US dollar	1.325	1.367	3.2%
Euro	1.180	1.117	-5.3%
Yen	143.967	141.131	-2.0%

Hedging the US dollar would have been a positive for the Scheme, however hedging the Euro and Japanese Yen detracted from returns.

Market Background

The performance from major asset classes over 2020 is set out below:



Global GDP growth was slowing even before the spread of COVID-19 led to a plunge in activity. Q3 GDP releases show the initial rebound in activity was sharp as the major advanced economies emerged from lockdown but annualised falls in output have been significant. Composite PMIs suggest the UK and Eurozone economies ended 2020 on a weak note but the global equivalent remains at a level signalling expansion, supported by solid readings in the US, China and elsewhere.

C INVESTMENT REPORT (*CONTINUED*)

Market Background (continued)

Though rising COVID 19 cases led to the re-imposition of lockdown measures in the UK and Europe in Q4, many advanced economies could potentially vaccinate a large proportion of their most vulnerable citizens in the first half of 2021.

Inflation has fallen across most countries in the wake of the pandemic – annualised headline UK CPI inflation fell from 1.3% to 0.6% over the period. Despite a partial recovery in prices after touching its lowest level since 2002 in Q1, the price of Brent crude oil fell by 21% over the period.

The US Federal Reserve (the Fed) and the Bank of England (BoE) cut rates to record low levels and the European Central Bank and Bank of Japan joined the Fed and the BoE in announcing large expansions of quantitative easing programs. The Fed's shift to "flexible" average inflation targeting likely means interest rate rises are even further away than previously envisaged.

Sovereign bond yields fell, reflecting the far more subdued outlook for growth, interest rates and inflation. 10-year US and UK government bond yields fell by 0.6% p.a. and 1.0% p.a., respectively. Implied inflation, as measured by the difference between nominal and index-linked gilt yields of equivalent maturity, was broadly unchanged as both nominal and real yields fell.

Despite rising 1.8% p.a. above end-2019 levels during the peak of market stress in March, significant tightening in the wake of central bank interventions saw Global investment grade spreads end the year broadly unchanged.

Following the quickest sell-off in modern history, global equities rebounded strongly, ending the period up 14.4% in local currency terms. Sector composition helps to explain why the US (heavy in technology) leads the regional ranking tables over the year and why the UK (hardly any technology and heavy in oil & gas) brings up the rear. Emerging markets also performed well in 2020, given robust economic data in China and North Asian emerging markets

The rolling 12-month total return on the MSCI UK Property index to end-December was -1.0%, although monthly total returns have been increasingly positive since July. An aggregate capital value decline of 6.3% mostly owes to a 16.9% fall in the retail sector, but office capital values also declined 5.7%. In contrast, industrial capital values rose 3.6%.

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 2020 was as follows:

	12 months	3 years (p.a.)
Portfolio Return	14.1%	8.1%

Over 2020, the Scheme's equity, corporate bond and hedging assets delivered strong returns.

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 (Northern Ireland) 1997 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 (Northern Ireland) Order 1995 and 2005 to consider making reports to The Pensions Regulator and the members.

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

Director L Bourke

Director P G Alexander

Date: 21 June 2021

Date: 21 June 2021

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 2020 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 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).

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

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

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and 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.

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

Responsibilities of Trustee

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

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.

We considered the nature of the scheme's industry and its control environment, and reviewed the scheme's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We obtained an understanding of the legal and regulatory framework that the scheme operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Pensions (Northern Ireland) Order 1995 and the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations (Northern Ireland) 1997; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the scheme's ability to operate or to avoid a material penalty. These included the scheme's regulatory requirements.

We discussed among the audit engagement team, including internal actuarial and property specialists, regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

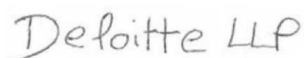
In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

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

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: 23/06/2021

F FUND ACCOUNT

	Notes	2020 £'000	2019 £'000
Contributions and benefits			
Contributions receivable			
- Employer	4	1,109	8,026
- Employee	4	-	87
Other income	5	-	29
		<u>1,109</u>	<u>8,142</u>
Benefits payable	6	(38,544)	(41,440)
Payments to and on account of leavers	7	(17,017)	(41,183)
Administrative expenses	8	(1,309)	(1,093)
		<u>(56,870)</u>	<u>(83,716)</u>
Net withdrawals from dealings with members		<u>(55,761)</u>	<u>(75,574)</u>
Returns on investments			
Investment income	9	32,573	30,617
Investment management expenses	10	(1,215)	(1,036)
Change in market value of investments	11	130,185	130,045
Net returns on investments		<u>161,543</u>	<u>159,626</u>
Net increase in the fund during the year		105,782	84,052
Total net assets of the scheme at 1 January		1,463,354	1,379,302
Total net assets of the scheme at 31 December		<u>1,569,136</u>	<u>1,463,354</u>

The notes on pages 30 to 48 form part of these Financial Statements.

G STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

	Notes	2020 £'000	2019 £'000
Investment assets	11		
Bonds		559,786	-
Pooled investment vehicles	12	254,043	625,072
Derivatives	13	-	80,376
Insurance policy	14	748,400	715,200
Property	15	37,190	40,540
AVC investments	16	1,304	1,458
Cash deposits	17	176	507
Other investment balances	18	1,288	-
		<u>1,602,187</u>	<u>1,463,153</u>
Investment liabilities			
Derivatives	13	(121)	-
Repurchase agreements	18	(33,534)	-
Total investments	11	<u>1,568,532</u>	<u>1,463,153</u>
Current assets	22	1,780	1,008
Current liabilities	23	(1,176)	(807)
Total net assets of the Scheme at 31 December		<u>1,569,136</u>	<u>1,463,354</u>

The notes on pages 30 to 48 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 58) 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: L Bourke

Director: P G Alexander

Date: 21 June 2021

Date: 21 June 2021

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).

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 52).

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 Trustee 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.

Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.

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:

Bonds

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued Interest

Accrued interest is excluded from the market value of bonds and is included in investment income receivable.

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.

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

3 Accounting Policies (*continued*)

f) Investments assets (*continued*)

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.

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.

Repurchase agreements:

The Scheme continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount.

g) Foreign currencies

The functional and presentational currency of the Scheme is Sterling.

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3 Accounting Policies *(continued)*

g) Foreign currencies *(continued)*

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.

4 Contributions receivable

	2020 £'000	2019 £'000
Employers		
–Normal	-	5,728
–Expense	977	900
–Augmentation	86	1,352
–Other	46	46
	<u>1,109</u>	<u>8,026</u>
Members		
–Additional voluntary	-	87
	<u>-</u>	<u>87</u>
Total contributions	<u>1,109</u>	<u>8,113</u>

The Schedules of Contributions applicable during 2020 were signed on 30 September 2016 and on 26 March 2020.

In accordance with the Schedule of Contributions certified on 30 September 2016, the employer contribution rate from 1 January 2020 to 25 March 2020 was 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 was 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).

In accordance with the Schedule of Contributions certified on 26 March 2020, no employer contribution was required for the period from 26 March 2020 to 31 December 2020. The

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

4 Contributions receivable *(continued)*

employer was required to pay £1.0m 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

	2020	2019
	£'000	£'000
Compensation	-	29
	<u>-</u>	<u>29</u>

6 Benefits payable

	2020	2019
	£'000	£'000
Pensions	34,395	33,218
Commutations and retirement lump sums	4,149	8,113
Taxation where lifetime allowance exceeded	-	109
	<u>38,544</u>	<u>41,440</u>

7 Payments to and on account of leavers

	2020	2019
	£'000	£'000
Individual transfers to other schemes	17,017	41,176
State scheme premiums	-	7
	<u>17,017</u>	<u>41,183</u>

8 Administrative Expenses

	2020	2019
	£'000	£'000
Administration and processing	410	336
Actuarial and consulting fees	735	586
Audit fees	34	46
Legal fees	84	79
Pension Protection Fund	46	46
	<u>1,309</u>	<u>1,093</u>

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

9 Investment income

	2020	2019
	£'000	£'000
Income from bonds	1,587	-
Net rental income	1,685	2,192
Income from pooled investment vehicles	960	-
Interest on cash deposits	12	19
Class actions proceeds	-	1
Annuity income (* see below)	28,329	28,407
Currency movements	-	(2)
	<u>32,573</u>	<u>30,617</u>

Net rents from properties is stated after deducting £10k (2019: £3k) of property related expenses.

(*) Annuity income:-	2020	2019
	£'000	£'000
Monthly pension payments	28,329	28,390
Policy adjustments (e.g. Trivial commutations / Pension sharing order)	-	17
	<u>28,329</u>	<u>28,407</u>

10 Investment management expenses

	2020	2019
	£'000	£'000
Administration, management and custody	575	569
Investment consultancy services	217	42
Collateral management fees	423	425
	<u>1,215</u>	<u>1,036</u>

H NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Reconciliation of investments

	Opening value as at 1 January 2020 £'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 2020 £'000
Bonds	-	1,030,747	(484,643)	13,682	559,786
Pooled investment vehicles	625,072	221,731	(652,722)	59,962	254,043
Derivatives	80,376	9	(107,134)	26,628	(121)
Insurance policy	715,200	-	-	33,200	748,400
Property	40,540	-	-	(3,350)	37,190
AVC investments	1,458	-	(217)	63	1,304
	<u>1,462,646</u>	<u>1,252,487</u>	<u>(1,244,716)</u>	<u>130,185</u>	<u>1,600,602</u>
Cash deposits	507				176
Other investment balances	-				(32,246)
Net investment assets	<u>1,463,153</u>			<u>130,185</u>	<u>1,568,532</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:

	2020 £'000	%	2019 £'000	%
Prudential insurance policy	748,400	47.7	715,200	48.9
Aquila Life Over 5 Year Index Linked S1	-	-	231,356	15.8
Blackrock Ascent UK Long Corp Bond Fund	158,947	10.1	137,658	9.4

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

12 Pooled investment vehicles ('PIVs')

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

	2020	2019
	£'000	£'000
Equity funds	31,493	45,097
Equity currency hedged funds	29,486	38,481
Fixed interest gilt funds	-	45,075
Index-linked gilt funds	-	337,048
Corporate bond funds	182,509	159,371
Liquidity	10,555	-
	<u>254,043</u>	<u>625,072</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:

	2020		2019	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Interest-rate options	-	-	80,376	-
Swaps	44	(165)		

A summary of the Scheme's outstanding derivative contracts at the year end:

Options

Type of Option	Exercise Date /Termination Date	Nature of option	Notional amount £'000	Market value £'000
Total 2020			-	-
Total 2019			140,000	80,376

H NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

13 Derivatives *(continued)*

Swaps

Nature	Notional amount £'000	Expires	Asset value £'000	Liability value £'000
Interest rate swaps	6,157	1 - 5 years	4	-
Interest rate swaps	8,473	5 - 10 years	40	-
Inflation rate swaps	10,149	1 - 5 years	-	(94)
Inflation rate swaps	1,516	5 - 10 years	-	(23)
Inflation rate swaps	2,780	10 - 15 years	-	(48)
Total 2020	29,075		44	(165)
Total 2019	-		-	-

14 Insurance policy - annuities

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

	2020 £'000	2019 £'000
Prudential Assurance Company Limited	748,400	715,200

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 £52million (2019: £47 million).

Under the insurance policy contract, collateral is held by BNY Mellon, as custodian to Prudential Assurance Company Limited, totalling £851,238k as at 31 December 2020 (2019: £827,371k).

15 Property

	2020 £'000	2019 £'000
Freehold – United Kingdom	37,190	40,540

The properties held by the Scheme were valued on 12 October 2020 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:

	2020	2019
	£'000	£'000
Standard Life- unitised funds	1,302	1,456
Danske Bank- staff savings account	2	2
	<u>1,304</u>	<u>1,458</u>

17 Cash deposits

	2020	2019
	£'000	£'000
Sterling	176	507
Foreign Currency	-	-
	<u>176</u>	<u>507</u>

18 Other investment balances

	2020	2019
	£'000	£'000
Outstanding interest income	1,288	-
Repurchase agreements	(33,534)	-
	<u>(32,246)</u>	<u>-</u>

19 Transaction costs

Included within the purchases and sales are direct transaction costs of £nil relating to the disposal of freehold properties (2019: £212k). 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)*

20 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 2020				
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Bonds	-	559,786	-	559,786
Pooled investment vehicles	-	254,043	-	254,043
Derivatives	-	(121)	-	(121)
Insurance policy	-	-	748,400	748,400
Property	-	-	37,190	37,190
AVC investments	2	-	1,302	1,304
Cash deposits	176	-	-	176
Other investment balances	1,288	(33,534)	-	(32,246)
	1,466	780,174	786,892	1,568,532

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

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

21 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. Changes to Credit risk and Market risk from 2019 are primarily due to the transition of a portfolio of assets to the Managed Account, which are now held on a segregated basis instead of in pooled funds.

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*)

21 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'), Managed Account (see page 13) 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 2020				
	Investment grade	Non- investment grade	Unrated	Total
Insurance Policy	748,400	-	-	748,400
Managed Account ¹	527,530	-	10,619	538,149
PIVs	-	-	243,489	243,489
	1,275,930	-	254,108	1,530,038

¹ Note the Managed Account contains a pooled liquidity fund holding £10,555k as at 31 December 2020

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)*

21 Investment risks *(continued)*

The insurance policy held with Prudential Assurance Company Limited is 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.

Additionally, through the managed account, the Scheme is subject to credit risk from its holdings in gilt repurchase agreement and derivatives. These positions are collateralised to reduce this risk and the eligible collateral posted in relation to the derivative contracts as at 31 December 2020 was £481m. Cash in the managed account is held within a short-term money market fund which invests with financial institutions which are at least investment grade credit rated.

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

	2020 £'000	2019 £'000
Open ended investment companies	193,064	163,477
Unit Linked Insurance Policies	60,979	461,595
	<hr/>	<hr/>
	254,043	625,072
	<hr/>	<hr/>

Indirect credit risk arises in relation to underlying investments held in corporate bonds and equity pooled investment vehicles.

(ii) Currency risk

The Scheme is subject to currency risk from a proportion of its investments in equities and other financial instruments. 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)*

21 Investment risks *(continued)*

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

	2020 £'000	2019 £'000
Currency		
US Dollar	5,910	7,468
Euro	3,614	4,775
Japanese Yen	1,765	2,283
Other	6,252	8,071
	<u>17,541</u>	<u>22,597</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 80% at 31 December 2020) 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 fall because of an increase in the discount rate.

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

	2020 £'000	2019 £'000
Direct		
Interest rate options	-	80,376
Cash deposits	-	507
Managed Account ¹	538,149	-
Indirect		
Corporate bond PIVs	182,510	159,371
Index linked gilts PIVs	-	337,048
Fixed interest gilts PIVs	-	45,075
	<u>720,659</u>	<u>622,377</u>

¹Includes gilts, index-linked gilts, repurchase agreements, swaps and liquidity fund

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)21 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:

	2020 £'000	2019 £'000
Direct		
Investment properties	37,190	40,540
Insurance policy	748,400	715,200
Managed Account ¹	527,594	-
Indirect		
Equity PIVs	31,493	45,097
Equity Currency Hedged PIVs	29,486	38,481
Corporate bond PIVs	182,510	159,371
Index linked gilts PIVs	-	337,048
Fixed interest gilts PIVs	-	45,075
	<u>1,556,673</u>	<u>1,380,812</u>

¹Excludes cash balances

(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	✓	-	✓	✓
Managed Account	✓	-	✓	✓
Equity PIVs	✓	✓	-	✓
Equity Currency Hedged PIVs	✓	-	-	✓
Corporate bond PIVs	✓	-	✓	✓
Cash	✓	-	✓	-
Property	-	-	-	✓

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

22 Current assets

	2020 £'000	2019 £'000
Cash balances	1,640	902
Other debtors	140	106
	<u>1,780</u>	<u>1,008</u>

23 Current liabilities

	2020 £'000	2019 £'000
Deferred income	413	405
Unpaid benefits	10	10
Accrued expenses	663	305
VAT recoverable	90	87
	<u>1,176</u>	<u>807</u>

24 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 2020 was £1k (2019: £2k).
- The Scheme bank account is held with Danske Bank and the balance as at 31 December 2020 was £1,640k (2019: £900k).
- During the year, the Scheme held derivatives contracts through Danske Bank A/S (the principal employer's parent) however these contracts and the Scheme's associated bank accounts held with Danske Bank A/S were closed out in Q4 2020 (2019: £1k).

H NOTES TO THE FINANCIAL STATEMENTS (*CONTINUED*)

24 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 2020 was £19k (2019: £26k).
- 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 £81k (2019: £80k) were paid directly by the employer of the Scheme and subsequently reimbursed by the Scheme.
- During 2020, remuneration amounting to £73k (2019: £54k) 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 2020 was £30,369k (2019: £30,333k).

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

25 Employer related investments

Other than as explained in the Related party transactions note, there were no employer related investments in 2020 (2019: nil).

26 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*)

27 Guaranteed Minimum Pension (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, in preparation for equalising GMPs, has undertaken a GMP reconciliation exercise and a GMP rectification exercise. 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.

On 20 November 2020, the High Court ruled that individual transfer payments made since 17 May 1990 would need to be equalised for the effects of GMP. This judgment followed on from the previous judgment on 26 October 2018, which had not considered historic transfer values. This development and its implications for the Scheme have been discussed by the Trustee with its Actuary since the date of the Court ruling. On the basis of the known facts and the analysis of the likely impact to date, the Trustee does not consider the expected cost of rectifying past transfer values to be material.

28 Post Financial Statements Events

No events have occurred requiring adjustment to the Scheme's financial statements between 31 December 2020 and the date of approval of these financial statements.

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

Details of the change to the Scheme's Trust Deed and Rules during 2020 are provided in the Report of the Trustee (page 5).

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

Following the sale of Donegall House in 2019, legal advisory services relating to Northern Ireland property holdings are no longer required. No legal advice was received from Johns Elliot in 2020 (and none is expected in the future).

I COMPLIANCE STATEMENT (*CONTINUED*)

Changes to the Advisors to the Trustee (*continued*)

Following the closure in 2020 of the derivative (swaption) contracts with Danske Bank A/S, Danske Bank A/S no longer provide investment management services to the Trustee. The Trustee's bank accounts in Danske Bank A/S were also closed in 2020 (as they were no longer required to support the management of the derivatives).

Following the transition of Scheme assets in 2020 to the BlackRock LDI portfolio, Bank of New York Mellon were appointed sole custodian for the Trustee. Custodian services provided to the Trustee by Northern Trust Limited ceased on 31 December 2020.

There were no other changes to the advisors to the Trustee during 2020.

There have been no changes to the advisors to the Trustee since 31 December 2020.

Changes to the Directors to the Trustee

The following are the changes to the Directors of the Trustee during 2020:

J-P Coleman - resigned 16 June 2020

PAR Taylor - appointed 17 June 2020

There have been no changes to the Directors of the Trustee since 31 December 2020.

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 (Telephone: 0800 731 0193: Website: www.gov.uk/find-pension-contact-details).
- The Pensions Advisory Service (provided by the Money and Pensions Service) is available to assist members and beneficiaries with difficulties which they cannot resolve with the Trustee or the Scheme administrator (www.pensionsadvisoryservice.org.uk/contacting-us).
- 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 (www.pensions-ombudsman.org.uk/contact-us).

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 : 0203 997 6720
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 2020 which is set out on page 55.

In our opinion contributions for the scheme year ended 31 December 2020 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 Schedules of Contributions certified by the scheme actuary on 30 September 2016 and subsequently on 26 March 2020

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 55, 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.

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

Use of our report (*continued*)

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Belfast, United Kingdom
Date 23/06/2021

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 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 Schedules in respect of the Scheme year ended 31 December 2020

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 and subsequently on 26 March 2020, in respect of the Scheme year ended 31 December 2020. The Scheme auditor reports on contributions payable under the Schedules in the Auditor's Statement about Contributions.

Contributions payable under the Schedules in respect of the Scheme year

£'000

Employer:

Expense contributions	977
Other contributions- PPF levy	46

**Contributions payable under the Schedules
(as reported on by the Scheme Auditor)**

1,023

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 Schedules of Contributions reported in the
Financial Statements in respect of the Scheme year:

	£'000
Contributions payable under the Schedules (as above)	1,023
Contributions payable in addition to those due under the Schedules (and not reported on by the Scheme auditor):	
Employer augmentation contributions	86
Total contributions reported in the Financial Statements	<u>1,109</u>

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

Director. L Bourke .. Date 21 June 2021

Director.. P G Alexander Date 21 June 2021

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 schemes 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

APPENDIX 2

Implementation Statement

Northern Bank Pension Scheme - Implementation Statement

Statement of Compliance with the Northern Bank Pension Scheme's Stewardship Policy for the year ending 31 December 2020

Introduction

This statement is prepared on behalf of the Northern Bank Pension Trust Limited ("the Trustee") in its capacity as Trustee of the Northern Bank Pension Scheme ("the Scheme") in accordance with the requirements of the Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019. This statement sets out how the Trustee has complied with the Scheme's Stewardship Policy during the period from 1 January 2020 to 31 December 2020.

Stewardship policy

The Trustee's Stewardship (voting and engagement) Policy sets out how the Trustee will behave as an active owner of the Scheme's assets which includes the Trustee's approach to;

- the exercise of voting rights attached to assets; and
- undertaking engagement activity, including how the Trustee monitors and engages with their investment managers and any other stakeholders.

The Scheme's Stewardship Policy is reviewed on an annual basis in line with the Scheme's Statement of Investment Principles (SIP) review which was last completed on 7 September 2020.

The stewardship policies in the Scheme's SIP are related below, first we set out the policy wording which existed prior to the financial year to 31/12/2020 and latterly those policies which were added during the year:

- The Trustee aims to meet with BlackRock on an annual basis. Ahead of each meeting, the Trustee provides their manager with an agenda for discussion including, where appropriate, Environmental Social and Governance (ESG) issues.
- Within Trustee controlled assets (property), the Trustee engages with and seeks input directly from its advisers on any issues of concern.
- The Trustee has adopted a policy of delegating voting decisions on stocks to their Investment Manager (BlackRock) who will exercise the voting rights attached to individual investments on their behalf in accordance with their own house policy.
- The manager is challenged both directly by the Trustee and by its investment advisers on the impact of any significant issues.
- The Trustee has reviewed the voting policy of BlackRock and has determined that the policy is satisfactory. On an annual basis, the Trustee will request their Investment Manager to provide details of any change in house policy.
- The Trustee does not engage directly but believes it is appropriate for its investment managers to engage with key stakeholders which may including corporate management, regulators and governance bodies, relating to their investments in order to consider the

management of conflicts of interest and improve corporate behaviours, improve performance and mitigate financial risks.

- The Trustee monitors the manager's voting and engagement activity on a quarterly basis in conjunction with its investment adviser. Where the Trustee deems it appropriate, any issues of concern will be raised with their manager for further explanation.

The following changes were made to the Stewardship Policy during the last year:

- The Trustee draws input from their investment adviser to support any such review of and engagement with its investment managers. Where necessary, the Trustee will highlight any areas of concern identified during such reviews to the manager as part of its engagement process.
- Climate risk, sustainability and the management of ESG issues are considered by the Trustee in the development of mandates for the Scheme and, where possible, the Trustee will consider making explicit allowance for such factors in the evolution of its strategy.
- Where necessary, investment managers are expected to notify the Trustee of any issue on which it may be beneficial for the Trustee to undertake further engagement. The Trustee will review engagement activity undertaken by their investment managers as part of its broader monitoring activity.
- Responsibility for investment decisions has been delegated to the investment managers, which includes consideration of the capital structure of investments and the ongoing appropriateness of any investment made. Where managers are responsible for investing in new issuance, the Trustee expects the manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.
- The Trustee separately considers annually any conflicts of interest arising in the management of the Scheme and its investments and has ensured that each manager has an appropriate conflicts of interest policy in place.

You can review the Scheme Stewardship Policy which can be found within the Scheme's Statement of Investment Principles, at: www.northernbankpensionscheme.co.uk.

The Trustee has delegated voting and engagement activity in respect of the underlying assets to the Scheme's investment manager, BlackRock. The Trustee believes it is important that their investment manager take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on issues which affect a company's financial performance.

The Trustee's own engagement activity is focused on dialogue with their investment manager, which is undertaken in conjunction with their investment advisers. The Trustee meets regularly with their manager and the Trustee considers manager's exercise of their stewardship both during these meetings and through reporting provided by their investment adviser.

The Trustee also monitors their compliance with their Stewardship Policy on a regular basis and are satisfied that they have complied with the Scheme's Stewardship Policy over the last year.

Voting activity

The Trustee seeks to ensure that their managers are exercising voting rights and where appropriate, to monitor managers voting patterns. The Trustee also monitors the investment manager's voting on particular companies or issues that affect more than one company.

The Trustee holds equity assets through several regional passive mandates with BlackRock. BlackRock have reported on how votes were cast in each of these mandates as set out in the table below:

Strategy/Fund name	UK	Japan	US	Europe	Emerging Markets	Pacific Rim
Proportion of total Scheme assets %	1.8	0.7	2.6	1.5	0.4	0.4
No. of meetings eligible to vote at during the year	897	516	615	515	2,424	445
No. of resolutions eligible to vote on during the year	12,193	6,290	7,620	8,730	22,924	3,133
% of resolutions voted	98.2	100.0	99.7	82.3	97.0	99.6
% of resolutions voted with management	93.3	98.0	97.2	72.2	88.6	89.8
% of resolutions voted against management	4.9	2.0	2.5	10.1	8.4	9.9
% of resolutions abstained	1.3	0.0	0.8	1.1	3.1	0.1
% of meetings with at least one vote against management	31.9	20.5	41.3	55.9	37.7	38.7

The resolutions on which BlackRock voted against management the most over the year were in relation to:

- Election of directors and related proposals
- Capitalisation
- Compensation
- Mergers, acquisitions and reorganisations

Significant votes

BlackRock provide information on what they view as their most significant votes during the year. From the managers reports, the Trustee has identified the following votes as being of greater relevance to the Scheme:

Chevron Corporation, 27 May 2020, vote to Report on Climate Lobbying Aligned with Paris Agreement Goals

BlackRock voted FOR this proposal, as greater transparency into the company's approach to political spending and lobbying as aligned with their stated support for the Paris Agreement will help articulate consistency between private and public messaging in the context of managing climate risk and the transition to a lower-carbon economy.

Barclays Plc, 7 May 2020, Approve Barclays' Commitment to Tackling Climate Change

Following engagement with its shareholders and other stakeholders, including BlackRock, Barclays announced on 30th March 2020 updated ambitions with respect to tackling climate change. Barclays proposed its own resolution at its annual general meeting (AGM) to commit the company to a strategy, with targets, for alignment of its entire financing portfolio to the goals of the Paris Agreement. Barclays committed to provide further details of the strategy by the end of 2020. BlackRock voted FOR the resolution as the company sets a clear ambition to become net-zero and align to the goals of the Paris Agreement, addressing shareholders' concerns for the time being.

Facebook Inc., 27 May 2020, Elect Director Marc L. Andreessen

BlackRock voted AGAINST Mr. Andreessen as he serves on the Audit Committee and they did consider him to be affiliated, not independent. Mr. Andreessen is a founding partner at Andreessen Horowitz which has held significant stakes in companies acquired by Facebook. BlackRock believe all members of key committees, including audit, should be independent.

A.P. Moller-Maersk A/S, 23 March 2020, Re-elect Directors Jim Hagemann Snabe and Robert Maersk

BlackRock abstained on the election of the above-mentioned directors for poorly structured executive pay. Both are members of the remuneration committee. BlackRock also believed that Director Snabe holds an excessive number of board mandates, raising concerns over his ability to exercise sufficient oversight on the remuneration board. In Denmark shareholders do not have the option to vote against the re-election of board members.

AGL Energy Ltd, 7 October 2020, Approve Coal Closure Dates

BlackRock voted FOR this shareholder proposal, to "align the closure dates of the Bayswater and Loy Yang A coal-fired power stations with a strategy to limit the increase in global temperatures to 1.5°C above preindustrial levels." While BlackRock recognise the various regulatory challenges and energy generation requirements that AGL faces, their support for this proposal was intended to encourage the company to manage the climate risk in its business model. BlackRock expect that doing so would help offset the potential financial risks, protecting the long-term economic interest of shareholders.

Engagement activity

As their sole investment manager, the Trustee invites BlackRock to meetings on a regular basis where stewardship issues are often discussed in further detail. This discussion and challenge to BlackRock is aided by the regular stewardship summaries which are provided by the Trustee's investment adviser as part of quarterly reporting and highlight high level voting statistics over the previous quarter and significant engagements by BlackRock. At the 19 November 2020 Investment Committee Meeting, representatives from BlackRock presented a summary of the steps taken to improve stewardship over the year to July 2020 and BlackRock's commitments to investment sustainability going forward.

Summary of manager engagement activity

The Trustee receives quarterly reporting on BlackRock's engagement activity. The following table summarises the key engagement activity for the 12-month period ending 31 December 2020.

Number of engagements	Topic engaged on
2,179	Climate Risk Management
1,240	Environmental Impact Management
1,966	Operational Sustainability
1,576	Human Capital Management
1,166	Social Risks and Opportunities
2,250	Board Composition & Effectiveness
1,646	Business Oversight/Risk Management
2,289	Corporate Strategy
681	Executive Management
1,305	Governance Structure
1,666	Remuneration

The manager carried out 4,621 engagements with 2,737 companies over 2020. The most common topics of engagement were on climate risk management, board composition and effectiveness, and corporate strategy. Engagements include multiple company meetings during the year with the same company and most engagement conversations cover multiple topics.

Use of a proxy adviser

BlackRock's proxy voting process is led by the BlackRock Investment Stewardship team, which consists of three regional teams – Americas, Asia-Pacific, and Europe, Middle East and Africa - located in seven offices around the world. The analysts with each team will generally determine how to vote at the meetings of the companies they cover. Voting decisions are made by members of the BlackRock Investment Stewardship team with input from investment colleagues as required, in each case, in accordance with BlackRock's Global Corporate Governance and Engagement Principles and custom market-specific voting guidelines.

While BlackRock subscribe to research from the proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, it is just one among many inputs into their vote analysis process and does not determine how they cast their votes.

Review of policies

The Trustee has committed to reviewing the managers' RI policies on an annual basis going forward. This review was undertaken by the Trustee in February 2021. The review considered the managers' broader approach to responsible investment issues in addition to considering any change in approach by the manager over the year. The Trustee also considered changes to their managers voting policies.

The Trustee and its advisors remain satisfied that the responsible investment policies of the managers and, where appropriate, the voting policies remain suitable for the Scheme.