Presbyterian Mutual Society Limited in Scheme of Arrangement ("the Society")
Joint Supervisors Explanatory Note on the Financial Statements for the year ended 31 March 2016.

1 Basis of preparation of accounts

The Financial Reporting Council carried out a major overhaul of UK Generally Accepted Accounting Practice (UK GAAP) under which most organisations, including the Society, prepared their annual accounts.

The result was the introduction of a new reporting standard, FRS 102, which became obligatory for all entities with accounting periods commencing on or after 1 January 2015.

Thus, the Society is required to adopt this new Reporting Standard for the first time, for the year commencing on 1 April 2015, i.e year ended 31 March 2016.

This standard introduced a number of radical amendments to previous UK GAAP, and has resulted in an impact on previously reported results of the Society. Whilst the detail is fully described throughout the accounts, with a summary of the financial impact included at Note 26, the Joint Supervisors believe it useful to provide some explanation of the movement in the figures.

2. The main significant impact to the accounts

It is a general requirement under FRS102 that financial assets and liabilities are considered with regard to their future cash inflow or outflow to the organisation i.e monies due in and monies to be paid out, and the timescale over which this is to be paid.

The Joint Supervisors prepare cashflow projections to cover the period of the Scheme out to 2020, taking account of anticipated receipts which are based on best estimates of current property values, estimated selling dates, loan repayment dates, anticipated future growth and economic climate, to name but a few factors, with such projections backed up by advices from agents where appropriate.

It should be emphasised that whilst every care is taken in their preparation the projections are estimates, based on a large number of variables and all subject to a degree of uncertainty. They are kept under continuous review and updated regularly. These are used for management purposes of the Society in general and also to determine repayment amounts for the Department for the Economy's ("DfE") £175 million loan.

The projections were previously used to consider the carrying value of the loan book, and now under FRS102 this has been extended to look at the cash outflow in respect of the various liabilities due by the Society, discounted where appropriate under this new reporting standard.

The main areas impacting the Society's accounts, as a result of FRS102 are set out in some further detail below.

2.1 Members Loans & Share Capital

The total amount owing to members in respect of loans and share capital following the initial distribution is £46.97 million. **This amount has not changed and is still owing in full.**

However, the current cashflow projections would indicate at this time that there will be insufficient monies to pay members anything further. This may change over time.

As a result, we anticipate £NIL future cashflow, and these amounts have therefore been written back to £NIL in the accounts. This has resulted in an increase in the net assets position of £46.97 million (see Note 6 iii).

Should the outlook change, and it is subsequently projected that monies will become available to members, the amount potentially becoming payable will be reinstated onto the balance sheet.

The legal position of members and the order for priority of repayment remains unchanged.

2.2 DfE £175million loan
This loan was previously carried in the accounts at the full amount owing to DfE, i.e capital plus accrued interest. It has now been discounted as is required under FRS102. This resulted in a reduction in the amount owing in the accounts, and hence an increase in net assets as at 31 March 2015 of £8.61 million (see Note 26 i).

Please note that this is a presentational adjustment which will reverse over the remaining term of the loan out to 2020. The full balance is still due, and is still payable in advance of the amounts due to members.

2.3 DfE £50million loan / PCI £1million loan
These collectively fall for repayment after any payment to members. As the projections indicate £NIL cash outflow to members at this time, there is £NIL projected to repay any of these loans and the balance has been written back to £NIL under FRS102. This has resulted in an increase in net assets as at 31 March 2015 of £51 million (see Note 26 iv & v).

The legal position of these loans remain unchanged, and they have not been formally written off.

2.4 Advances on Loans and Mortgages
Advances on loans and mortgages in previous accounts had been considered from the perspective of what was deemed "collectable" on a prudent basis by the Joint Supervisors, and there is no significant change to this approach. However, a "general" provision against recoverability can no longer be held under FRS102 therefore such provisions were released and the future cash inflows discounted back to present value. This results in a net uplift to the recoverable amount and an increase in the overall net assets of the Society as at 31 March 2015, of £2.14 million (see Note 26 vi).

Summary
The net result of all of the above FRS102 adjustments, and other more minor adjustments, is to reduce the net liabilities of the Society as at 31 March 2015 from the previously reported total of £117.60 million to £8.84 million.

The closing balance sheet as at 31 March 2016 has a net asset position of £3.49 million, an overall in year uplift of £12.33 million. This is primarily due to the £11.58 million uplift in the investment property portfolio in the year.