

Summary Financial Statement

2016



PROGRESSIVE
BUILDING SOCIETY

Vision

To be the savings and mortgage provider of choice in Northern Ireland.

Mission

To provide a top quality service and competitive products to savers and home owners by meeting the needs of our Members.

We value

- the support of our Members,
- the transparent and ethical approach in our dealings with Members,
- the commitment, loyalty and development of our staff and agents,
- the choice and diversity that Member ownership brings,
- the financial strength of the Society.

Summary Financial Statement

For the year ended 31st December 2016

This financial statement is a summary of information in the audited Annual Accounts, the Strategic Report, the Directors' Report and the Annual Business Statement, all of which will be available to Members and Depositors free of charge on demand at every office of Progressive Building Society from 31st March 2017.

Approved by the Board of Directors on 28th February 2017 and signed on its behalf by:



John Trethowan
Chairman



Michael Parrott
Vice Chairman



Darina Armstrong
Chief Executive

Summary Directors' Report

The Directors have pleasure in presenting the Summary Financial Statement for the year ended 31st December 2016 as set out on pages 2 to 13.

Financial Review

Against a backdrop of mixed fortunes in the Northern Ireland economy in 2016 the Society performed very well producing another year of strong profits and maintaining a well-structured and strong financial position.

As a mutual organisation, Progressive does not distribute profits to shareholders in the form of dividends. Instead, profit is added to reserves in order to increase financial strength and provide additional security to Members.

Profit before tax reduced, as expected, by 16% to £11.8 million (2015: £14.0 million). This resulted from reduced net interest income and increased administration expenses mainly due to increased regulatory compliance costs. The impact of these factors was mitigated by lower bad debt provision charges and lower costs for the Financial Services Compensation Scheme.

Net interest income of £25.1 million was £3.2 million lower than the previous year, primarily as a result of a decrease in net interest margin offset by a growth in mortgage assets. The Society's net interest margin decreased by 0.23% to 1.42% (2015: 1.65%), predominantly due to lower mortgage rates for borrowers.

Competition for mortgage business was intense during the year. Our determination to offer our Members some of the best deals on the market meant that we reduced rates and fees on new lending, and also sought to reward the loyalty of our existing borrowers by reducing the rates we offer to those switching products.

The Society took the decision not to seek to recover all of this margin erosion by limiting reductions on savings rates. Our savings rates continue to be competitively positioned in the market as we try to protect our Members from the full impact of the historically low interest rate environment. During the year, our average savings' rate remained at all times over 1.00% higher than the Bank of England base rate which was 0.50% until August when it was reduced to 0.25%.

The Society continues to maintain a low cost base but administrative expenses increased to £12.3 million (2015: £11.2 million) due to a combination of general inflationary pressures and business growth, increased cost of regulatory compliance and the creation of fourteen new roles across the Society to ensure excellent customer service at all levels of the business.

As a result the management expenses ratio increased to 0.70% (2015: 0.66%). Despite the cost increases, the Society's management expenses ratio remains among the lowest in the building society sector.

The trend of cost increases is expected to continue in the short term as the Society continues to develop systems and processes to support future growth, to further enhance customer service levels and to ensure regulatory compliance.

The Society's new mortgage lending amounted to £205 million in 2016 (2015: £185 million). This was achieved in an improving housing market. Lending was strong throughout the year and the Society increased its market share of the local mortgage market. The rise in both gross and net lending reflects our strategy of supporting local borrowers by taking advantage of the Society's access to funding and its strong capital position.

In early 2016 we embarked on a Spring Mortgage Campaign, offering a competitively priced fee-free mortgage product to encourage first time buyers and home movers to avail of our mortgage services. This campaign proved to be very successful, helping the Society increase its overall lending in the year.

This, together with our focus on providing a personal service to our Members, helped us to increase our total gross mortgage assets to £1,454 million (2015: £1,408 million). The Society's exposure to residential properties by way of mortgages remains above 99.6% of total mortgages. The Board remains committed to the traditional nature of its loan portfolio which is almost exclusively located in Northern Ireland, a residential property market which the Society knows well, enabling prudent lending decisions to continue to be made.

We continued to adopt a conservative approach to mortgage provisioning. The provision for losses on all loans and advances to customers at 31st December 2016 was £7.5 million (2015: £13.6 million), which represented 0.51% (2015: 0.96%) of the total mortgage book. This improved provision requirement resulted from a stronger local economy leading to lower arrears, higher house prices and the sale of sixty-eight possession properties during the year.

The Society maintains a prudent level of liquid assets and continues to hold liquidity balances well in excess of regulatory requirements, primarily in a Bank of England Reserve Account, which is instantly accessible, and UK Government Securities, which are readily convertible to cash. This provides a buffer in the event of any major funding issues arising and provides comfort that the Society will be able to meet its financial obligations under both normal and stressed scenarios. Although the Society has not experienced any difficulties in obtaining funding in the challenging market conditions that have existed in recent years, we fully recognise the importance of maintaining a strong liquidity position.

The Society continues to be predominantly funded by retail savings, which increased to £1,579 million at 31st December 2016 (2015: £1,516 million). Savings balances from individuals accounted for 86.4% (2015: 85.7%) of our total funding. The Society experienced retail flows broadly in line with budgets throughout 2016.

Through careful monitoring of rates and cashflows the Society was able to offer loyalty rollover bond rates throughout the year and maintain loyalty rates for ISA savers. Where possible the Society offered savers amongst the best rates available in the local market - in particular on our term bonds (1, 3 and 5 Year Fixed Rate Bonds). ISA products were also strong in the market.

We will continue to listen to the needs of our Members and expand or amend the range of accounts and services to meet Members' requirements.

Key Features of 2016:

- new lending in 2016 of £205 million (an increase of 11%),
- gross loans and advances outstanding to customers at year end of £1,454 million (an increase of 3%),
- total savings balances from individuals at year end of £1,451 million,
- a management expenses to average assets ratio of 0.70%, one of the best efficiency ratios in the building society sector,
- pre-tax profit of £11.8 million and profit after taxation of £9.4 million.

Outlook

The rate of growth in the UK economy in 2016 was stronger than many had predicted. Domestic demand remained relatively strong helped by low inflation and rising wages. However, inflation is showing signs of increasing reflecting higher import costs, including oil, as the UK moves towards triggering Article 50 of the Treaty on European Union.

Brexit may increase uncertainty within the housing market and could impact house prices and transaction levels as individuals delay their purchase decisions. For the Society, the impact may be exacerbated by the particular issues facing Northern Ireland, including the potential economic consequences if border controls were to be reintroduced with a reduction in free-trade arrangements with the Republic of Ireland. The Board and senior management of the Society will be continually monitoring the impact of these issues throughout the year.

Despite higher inflation in 2017, the Bank of England base rate is anticipated to remain at historic low levels until at least the first half of 2018. Thereafter interest rates are likely to rise gradually.

Prospects for the local housing market remain strong, in spite of the uncertainties around Brexit, with low interest rates and stable employment. Many commentators expect sustainable house price increases in Northern Ireland particularly as demand continues to outstrip supply.

2017 is likely to see no let up in the continued focus on regulatory change by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) on the financial services industry. This is anticipated to be the case for the foreseeable future.

However, as Northern Ireland's only locally-owned building society, we will continue to position the Society as a key savings and mortgage provider by promoting our products and services to our current and potential Members.

Staff and Agents

The ongoing success of the Society is due to the outstanding contribution of management, staff and the agents who support them. Despite challenging market conditions, changes in systems and procedures and increasing compliance requirements, they continued to attract new business in 2016 whilst providing an excellent level of service to Members.

We are very proud of the efforts of our staff as they endeavour to maintain the Society's hard-earned reputation in the community.

Charitable Donations

In these times of financial difficulties we believe it remains important to contribute to and support our local community. The Society made charitable donations of £91,000 (2015: £85,000) during the year.

Going Concern

The Directors consider that the Society has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis has continued to be adopted in preparing the Annual Report and Accounts.

Auditors

In line with recent EU audit reforms the Audit Committee tendered during the year for the Society's external audit service. The tendering exercise resulted in the Committee's recommendation to the Board for Deloitte to continue as the Society's external audit provider. Deloitte have expressed their willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for their re-appointment as Auditors is to be proposed at the Annual General Meeting.

Directors

The following persons served as Directors of the Society during the year:

John Trethowan MBA FIB

Chairman

Michael W Parrott FCPFA

Vice Chairman

Gerard McGinn CBE BA (Hons) FIB

Senior Independent Director from 28th April 2016

Adrian Coles OBE MA

Non-Executive Director

Margaret Cullen BA MSc PhD

Non-Executive Director

Conor Walsh BSc (Hons) FCMA CDir

Non-Executive Director co-opted 1st May 2016

Edith M Gowdy MA (Hons) Oxon

Senior Independent Director until 28th April 2016

Darina Armstrong BA (Hons) MSc FIB FCA

Chief Executive

Michael S Boyd BSc (Hons) FCA

Deputy Chief Executive & Finance Director

Declan Moore BA MBA

Operations Director

Board Composition

Following the retirement of Miss Edith Gowdy from the Board in April 2016, the Society appointed Mr Conor Walsh to the Board on 1st May 2016. Mr Walsh is a Chartered Director and a Fellow of the Institute of Management Accountants. He has significant executive experience having held roles including Finance Director, Chief Executive Officer and Chairman, largely in global technology based businesses, with a successful record of developing and delivering business strategies.

Officers

The following persons held positions as Officers of the Society:

Mairead King BA (Hons)

Head of Conduct Risk

Peter G Lyttle BA

Head of Retail Credit & Society Secretary

Ailsa L McNeill BA PgDip

Head of Human Resources

Tommy F O'Neill BSc (Hons)

Chief Information Officer

Gareth T J Robinson BSc (Hons) CGMA

Head of Prudential Risk

Acknowledgement

We would like to thank our Members for their continued loyalty and acknowledge that the Society's success could not be achieved without their support.



John Trethowan
Chairman
28th February 2017

Profit after tax

**£9.4
MILLION**

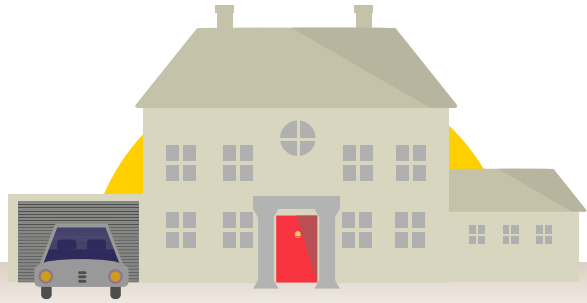


Savings balances grew by

**£62
MILLION**

1,300

people helped
buy a new home



Total

14

new jobs created



600

people helped to
build their home

assets grew to

£1.8 BILLION



Gross

mortgage balances grew by

£46 MILLION



Summary Statement

For the year ended 31st December 2016

Results for the Year

	2016 £000	2015 £000
Net interest receivable	25,077	28,273
Other income and charges	(52)	552
Administrative expenses	(12,349)	(11,220)
Provisions for bad and doubtful debts	(603)	(2,542)
Provisions for FSCS charge	(314)	(701)
Operating profit	11,759	14,362
Loss on disposal of fixed assets	-	(338)
Profit for the year before taxation	11,759	14,024
Taxation	(2,387)	(2,955)
Profit for the year	9,372	11,069

All results from the current and prior years were derived from continuing operations.

Financial Position at End of Year

	2016 £000	2015 £000
Assets		
Liquid assets	337,704	334,119
Mortgages	1,446,670	1,394,152
Fixed and other assets	10,539	8,510
Total assets	1,794,913	1,736,781
Liabilities		
Shares	1,578,631	1,516,269
Borrowings	101,169	116,532
Other liabilities	12,115	3,871
Reserves	103,333	100,721
Other reserves	(335)	(612)
Total liabilities	1,794,913	1,736,781

Summary of Key Financial Ratios

	2016 %	2015 %
As a percentage of shares and borrowings		
Gross capital	6.13	6.13
Liquid assets	20.10	20.46
As a percentage of mean total assets		
Profit for the year	0.53	0.65
Management expenses	0.70	0.66

Explanation of Ratios

Gross capital as a percentage of shares and borrowings

Gross capital comprises the general reserves, the revaluation reserve and the available-for-sale reserve. The gross capital ratio measures the proportion that the Society's capital bears to its liabilities to investors. Gross capital provides a financial cushion against any losses which might arise from the Society's activities and therefore protects investors.

Liquid assets as a percentage of shares and borrowings

The liquid assets ratio measures the proportion that the Society's assets held in the form of cash, debt securities and short term deposits bears to its liabilities to investors. Liquid assets are by their nature realisable, enabling the Society to meet requests by investors for withdrawals, make new mortgage loans and fund general business activities.

Profit for the year as a percentage of mean total assets

Mean total assets represent the simple average of total assets at the beginning and end of the financial year.

The profit / assets ratio measures the proportion that the Society's profit after taxation for the year bears to the Society's mean total assets. The Society needs to generate a reasonable profit each year in order to maintain its capital at a suitable level to protect investors. However, a building society does not have to pay dividends to shareholders. The Society is therefore able to operate safely with lower profits than a bank and Members benefit from this through better mortgage and savings rates.

Management expenses as a percentage of mean total assets

Management expenses are the Society's administrative expenses and represent the ordinary costs of running the organisation. They comprise mainly the costs of employing staff and maintaining the branch network. The management expenses ratio measures the proportion that these expenses bear to the simple average of total assets at the beginning and end of the financial year.

Statement of the Independent Auditors to the Members of Progressive Building Society

Pursuant to Section 76 of the Building Societies Act 1986, we have examined the Summary Financial Statement for the year ended 31st December 2016 which comprises the summary statements (the results for the year and financial position at end of year), together with the Summary Directors' Report.

This report is made solely to the Society's Members, as a body, in accordance with Section 76(5) of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Summary Financial Statement, in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, Strategic Report, Directors' Report and Annual Business Statement and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Summary Directors' Remuneration Report contained in the Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

We conducted our work having regard to the guidance in Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Accounts, Strategic Report, Directors' Report and Annual Business Statement of Progressive Building Society for the year ended 31st December 2016 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.



Deloitte LLP

Chartered Accountants and
Statutory Auditors
Glasgow, United Kingdom
28th February 2017

Summary Directors' Remuneration Report

This additional report is provided, in accordance with good corporate governance practice, to give details of the Directors' Remuneration Policy and amounts of remuneration payable.

Remuneration Policy for Executive Directors

The Personnel and Remuneration Committee makes recommendations to the Board on the remuneration and contractual arrangements of the executive Directors and senior management. In arriving at its recommendations the Committee has regard to the salaries and incentives payable to executives in similar roles within building societies and levels generally within the wider financial services industry. Remuneration for executive Directors in 2016 includes a bonus element of 8.8% of salary. All eligible staff achieved the same bonus element as a percentage of their salary.

Remuneration Policy for Non-Executive Directors

Remuneration of the Chairman is reviewed by the Board taking into account the fees paid to the chairmen of comparable institutions. The remuneration of non-executive Directors is determined by the Board itself having considered information provided by the executives who monitor the director remuneration conditions at other societies. The Board aims to ensure that fees are in line with the amount paid to non-executive directors in similar positions at comparable organisations. No additional fees are paid to the Chairs of the Board committees. Non-executive Directors do not have service contracts, are not members of the Society's pension schemes and have no entitlements under bonus schemes.

Emoluments

The total emoluments of the Directors who served during the year were £692,000 (2015: £670,000), analysed as follows:

(a) To non-executive Directors for services as Directors

	2016 Fees £000	2015 Fees £000
J Trethowan (Chairman)	41	41
M W Parrott (Vice Chairman from 28th April 2015)	31	29
G McGinn (Senior Independent Director from 28th April 2016)	26	23
A Coles	26	25
M Cullen	26	23
C Walsh (co-opted from 1st May 2016)	17	-
E M Gowdy (Senior Independent Director until 28th April 2016)	9	25
J Doran (served 1st September to 11th November 2015)	-	6
J O Hunt (Vice Chairman until 28th April 2015)	-	10
	176	182

(b) To executive Directors for services in connection with the management of the Society

	Salary £000	Bonus £000	Benefits £000	Total £000
2016				
D Armstrong (Chief Executive)	180	16	14	210
M S Boyd (Deputy Chief Executive & Finance Director)	146	13	13	172
D Moore (Operations Director)	113	10	11	134
				516
2015				
D Armstrong (Chief Executive)	172	13	13	198
M S Boyd (Deputy Chief Executive & Finance Director)	140	10	13	163
D Moore (Operations Director)	109	8	10	127
				488

The increase in accrued pension for D Armstrong, M S Boyd and D Moore amounted to £4,000 (2015: £3,000), £4,000 (2015: £5,000) and £7,000 (2015: £6,000) respectively.

All Directors are required to undertake training, as necessary, to enable them to maintain the competencies required for their roles. The performance of each Director is evaluated on an annual basis.

Society Offices

Head Office - Progressive House,
33 / 37 Wellington Place, Belfast BT1 6HH 028 9024 4926

Branch Offices

Ballymena - 79 / 81 Wellington Street
Wendy McClintock (Customer Service Manager) 028 2564 2845

Bangor - 6 Castle Street
Elaine Molyneux (Branch Manager) 028 9127 0348

Belfast - 7 Arthur Square
Lyndsay Cobain (Assistant Branch Manager) 028 9032 0573

Belfast - 33 / 37 Wellington Place
Kevin Flannery (Branch Manager) 028 9082 1821

Coleraine - 17 The Diamond
Lorraine Johnston (Branch Manager) 028 7032 9999

Enniskillen - 24 High Street
Brenda Robinson (Branch Manager) 028 6632 2470

Glengormley - 323 Antrim Road
Kerry MacDougall (Branch Manager) 028 9083 9329

Lisburn - 3 Market Place
Ian Nelson (Branch Manager) 028 9260 2802

Londonderry - 3 Millennium Forum
Noel Murray (Branch Manager) 028 7137 2277

Newtownards - 4 Conway Square
Lyn Crawford (Branch Manager) 028 9181 9709

Omagh - 40 High Street
Amanda Wilson (Branch Manager) 028 8225 0989

Portadown - 12 Market Street
Lynne Lyness (Branch Manager) 028 3833 0103

Web Address

www.theprogressive.com

Founded in 1914.

Progressive Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Financial Services Register Number 161841.

The Society is a member of the Building Societies Association and the Council of Mortgage Lenders.

Complaints

The Society has an internal complaints procedure which sets out timescales for dealing with complaints. Those we cannot settle may be referred to the Financial Ombudsman Service for a decision.

Financial Services Compensation Scheme

Progressive Building Society is a participant in the Financial Services Compensation Scheme (FSCS) established under the Financial Services and Markets Act 2000. The key areas covered are as follows:

Deposits (Savings)

Payments under the scheme were limited to a maximum of £75,000 during 2016. From 30th January 2017, the FSCS limit increased to a maximum of £85,000. Most investors are covered, including individuals and small firms. A small number of categories of shares and deposits are not covered.

From 3rd July 2015, the FSCS has provided a £1 million protection limit for temporary high balances held.

Mortgages

Mortgage advising and arranging is covered for 100% of the claim, up to a limit of £50,000.

Insurance

Insurance advising and arranging is covered for 90% of the claim, without any upper limit.

Further details on all of the above are available on request from the Society.



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