



# SUMMARY FINANCIAL STATEMENT 2018



PROGRESSIVE  
BUILDING SOCIETY



## Vision

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

## Mission

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**To provide a safe home for local savings and help local people buy their own home by delivering a warm and welcoming service and quality products that:**

- **our borrowers and savers would recommend to friends and family**
- **our staff is proud to deliver**
- **make a positive impact on all those around us**

## Our Core Values

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- **Fairness** - we gain the trust and loyalty of our Members and staff by always acting with honesty and fairness.
- **Achievement** - we promote job satisfaction by recognising and rewarding collective and individual achievement.
- **Mutual Respect** - we build and strengthen relationships with our work colleagues and Members through respect and courtesy.
- **Integrity** - we employ and nurture staff with a passion for providing the highest quality service to our Members.
- **Aspiration** – we support our Members and colleagues to achieve their lifetime aspirations.
- **Your Society** – we work closely with schools and charities throughout the towns and cities in Northern Ireland to help and support those most in need.

# Summary Financial Statement

For the year ended 31st December 2018

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 and on the Society's website ([www.theprogressive.com](http://www.theprogressive.com)) from 30th March 2019.

Approved by the Board of Directors on 26th February 2019 and signed on its behalf by:



Michael Parrott  
Chair



Gerard McGinn  
Vice-Chair



Darina Armstrong  
Chief Executive

# Summary Directors' Report

The Directors have pleasure in presenting the Summary Financial Statement for the year ended 31st December 2018 as set out on pages 2 to 12.

## FINANCIAL REVIEW

### Key Features of 2018:

- New lending in 2018 of £219 million.
- Gross loans and advances outstanding to customers at year end of £1,518 million (an increase of 3.34%).
- Total savings balances from individuals at year end of £1,432 million.
- A management expenses to average assets ratio of 0.82%, one of the best efficiency ratios in the building society sector.
- Pre-tax profit of £9.0 million and profit after taxation of £7.4 million.

Despite the uncertainty and market volatility which resulted from the EU Referendum in June 2016, the local economy has remained resilient throughout 2018 with the Society performing 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 to increase financial strength and provide additional security to Members.

Profit before tax reduced, as expected, by 16% to £9.0 million (2017: £10.7 million). This resulted from reduced interest margins, reduced net fees associated with mortgages and increased administration expenses mainly due to increased pension costs for Guaranteed Minimum Pension (GMP) equalisation and additional data security measures. The impact of these factors was mitigated by lower bad debt provision charges and lower fees and commissions payable.

Net interest income of £24.9 million (2017: £25.4 million) remained buoyant whilst the Society's net interest margin reduced to 1.37% (2017: 1.42%) in line with forecasts.

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 sought to reward the loyalty of our existing borrowers by reducing the rates we offer to those switching products.

The savings market continued to be subdued throughout 2018. However, we maintained competitive savings rates to provide value-for-money products which encourage long term savings habits.

The trend of low interest rates and margins is expected to continue despite the Bank of England base rate increase in August, although we may see gradual increases over time.

The Society continues to maintain a low-cost base however administrative expenses increased to £14.9 million (2017: £13.8 million) due to a combination of general inflationary pressures and business growth, increased depreciation costs for software and buildings, increased pension costs due to GMP equalisation and increased expenditure on data security and infrastructure.

As a result, the management expenses ratio increased to 0.82% (2017: 0.77%). Despite the cost increases, the Society's management expenses ratio remains amongst 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 develop its people, to further enhance the customer experience and to ensure regulatory compliance.

The Society's new mortgage lending amounted to £219 million in 2018 (2017: £200 million). This was achieved in a relatively stable housing market. The stability 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.

Throughout 2018 we offered competitively priced mortgage products to encourage first time buyers, remortgagers, self-builders and home movers to avail of our mortgage

services. This proved to be very successful, helping the Society increase its overall loan book during the year by almost £50 million.

This, together with our focus on providing a personal service to our Members, helped us to increase our total gross mortgage assets to £1,518 million (2017: £1,469 million). The Society's exposure to residential properties by way of mortgages remains above 99.70% of total mortgages. The Board remains committed to the owner-occupied nature of its loan portfolio which is almost exclusively located in Northern Ireland, a residential property market which the Society knows well, enabling sensible 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 2018 was £5.3 million (2017: £5.9 million), which represented 0.35% (2017: 0.40%) of the total mortgage book. This reduction in provision resulted from increasing house prices and a stronger local economy leading to lower arrears.

The Society maintains a prudent level of liquid assets and continues to hold liquidity balances well in excess of regulatory requirements, primarily in a Bank of England Reserve Account, which is instantly accessible, and in UK Government Securities, 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 remained stable at £1,571 million at 31st December 2018 (2017: £1,571 million). Savings balances from individuals accounted for 83.63% (2017: 85.75%) of our total funding. The Society experienced retail flows in line with budgets throughout 2018.

Through careful monitoring of rates and cashflows the Society was able to offer loyalty rollover bond rates throughout the year and maintain competitive rates for ISA savers. Where possible the Society offered savers amongst the best rates available in the local market - in particular, our term bonds, regular savers and ISA products.

The Society availed of £50 million of Term Funding Scheme money in February 2018. Under this scheme the Bank of England provides funding to banks and building societies at close to Bank of England base rate to encourage lending.

Our branch network continues to be the primary method of interacting personally with our Members. We continue to invest in the branch network at the same time as we are investing in our IT offerings. Branches will remain centres for savings information and mortgage advice as well as centres for your transactions. This is at a time when most other financial institutions locally and nationally continue to close significant parts of their networks in favour of digital-only offerings.

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.

## OUTLOOK

Northern Ireland has recently been rated as the Happiest UK Region. However, towards the end of 2018 consumer confidence waned a little due to the ongoing lack of devolved government at Stormont and the uncertainty as the date for Brexit approaches.

These uncertainties are challenging but the Society operates a sustainable and prudent business model. This model enabled the Society to remain profitable throughout the financial crisis and the downturn in house prices locally 10 years ago. We remain resilient and well placed to meet the challenges in the coming months.

We continue to invest in our strategy to deliver our vision of being the mortgage and savings provider of choice in Northern Ireland. We will deliver this by investing in our people, our infrastructure, our branches and our digital offerings.

Despite higher inflation during much of 2018, the Bank of England base rate is anticipated to remain at low levels for the short to medium term. Rates may well rise over the next couple of years, but the Governor of the Bank of England is on record stating that any rate rises will be gradual.

Prospects for the local housing market remain relatively strong, in spite of uncertainties around Brexit, with low interest rates and stable employment. Mortgage demand remains good, reflecting the fact that many people in Northern Ireland continue to want to buy their own

home or move to a new property. The main finding of the latest Northern Ireland House Price Index survey from Ulster University highlights sustainable and resilient annual price growth in Northern Ireland with the level of transactions remaining healthy. Quarterly growth is more subdued than earlier in 2018, continuing the more passive market conditions observed in the last quarter. Overall house prices rose by over 3% in the year.

Competition for mortgages and savings will continue locally which is great news for consumers. This competitive environment, together with further investment in our digital offerings and IT infrastructure will have a dampening impact on future profits. However, as Northern Ireland's only locally-owned building society, we will continue to provide a secure home for savings and to assist people locally to buy their own home through a warm and welcoming service from our highly trained and knowledgeable staff.

## **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 2018 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**

We believe it remains important to contribute to and support our local community. The Society made charitable donations of £99,000 (2017: £91,000) during the year.

## **GOING CONCERN**

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

## **AUDITORS**

The Auditors, 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.

# YOUR SOCIETY EXPLAINED

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

## Where the money comes from

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



## What we use it for

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



First time buyer



Home mover



Self build

## How we generate income

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



Interest and fees on mortgages



Interest on Members' savings and other funding



Income

## What we incur costs on

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



People costs



Technology costs



Property and operating costs

## What we use our profits for

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



Capital strength



Improved services



Charitable giving





**€1,432m**

TOTAL SAVINGS BALANCES  
FROM INDIVIDUALS

**€1,518m**

TOTAL GROSS MORTGAGE  
BALANCES

**€9.0m**

PRE-TAX PROFIT

**0.82%**

MANAGEMENT EXPENSES RATIO

**€99,000**

CHARITABLE DONATIONS

## DIRECTORS

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

Name	Business Occupation
Michael W Parrott FCPFA	Chair
Gerard McGinn CBE BA (Hons) FIB	Vice-Chair
Adrian Coles OBE MA	Senior Independent Director
Margaret Cullen BA MSc PhD	Non-Executive Director
Keith Jess BSSc FCA	Non-Executive Director
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

The Society would like to extend a very warm welcome to Karen Furlong who joined the Board as a non-executive Director on 1st January 2019. Karen brings experience of business transformation and innovation in the insurance and mutual financial services sectors. Ms Furlong will be offering herself for election by you, our Members, at the Annual General Meeting in April.

## OFFICERS

The following persons held positions as Officers of the Society:

Name	Business Occupation
Mairead King BA (Hons)	Head of Conduct Risk
Peter G Lyttle BA	Society Secretary
Ailsa L McNeill BA PgDip	Head of Human Resources
Jane Millar	Head of Lending & Savings
Tommy F O'Neill BSc (Hons)	Chief Information Officer
Gareth T J Robinson BSc (Hons) CGMA	Chief Risk Officer

## 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.



Michael Parrott  
Chair  
26th February 2019

# Summary Statement

For the year ended 31st December 2018

## Results for the Year

	2018 £000	2017 £000
Net interest receivable	24,918	25,436
Other income and charges	(982)	(394)
Administrative expenses	(14,890)	(13,840)
Provisions for bad and doubtful debts	(82)	(551)
Provision for FSCS credit	60	37
Operating profit and profit for the year before tax	9,024	10,688
Taxation	(1,641)	(2,076)
<b>Profit for the year</b>	<b>7,383</b>	8,612

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

# Summary Statement (Continued)

## Financial Position at End of Year

	2018 £000	2017 £000
<b>Assets</b>		
Liquid assets	315,398	313,568
Mortgages	1,512,412	1,462,911
Fixed and other assets	11,275	11,437
<b>Total assets</b>	<b>1,839,085</b>	1,787,916
<b>Liabilities</b>		
Shares	1,570,621	1,571,236
Borrowings	141,550	94,517
Other liabilities	5,200	9,195
Reserves	122,302	113,567
Other reserves	(588)	(599)
<b>Total liabilities</b>	<b>1,839,085</b>	1,787,916

## Summary of Key Financial Ratios

	2018 %	2017 %
<b>As a percentage of shares and borrowings</b>		
Gross capital	7.11	6.78
Liquid assets	18.42	18.82
<b>As a percentage of mean total assets</b>		
Profit for the year	0.41	0.48
Management expenses	0.82	0.77

## 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 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 2018 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 2018 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made thereunder.

*Deloitte (NI) Limited*

**Deloitte (NI) Limited**  
Statutory Auditor  
Belfast, Northern Ireland  
26th February 2019

## 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 & 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 2018 includes a performance related element of 10% of salary. All eligible staff achieved the same performance related element as a percentage of their salary.

### Remuneration Policy for Non-Executive Directors

No Director is included in the process of determining their own fees. Remuneration

of the Chair is reviewed and set by the other Directors, led by the Senior Independent Director, taking into account the fees paid to the Chairs of comparable institutions in the UK.

The remuneration of the other non-executive Directors is determined by the Board Chair and the executive Directors having considered director remuneration conditions at other societies, the aim being to ensure that fees are in line with the amount paid to non-executive directors in similar positions at comparable organisations.

Non-executive Directors do not have service contracts, are not members of the Society's pension schemes and have no entitlements under performance-related pay schemes.

### Emoluments

The total emoluments of the Directors who served during the year were £781,000 (2017: £742,000), analysed as follows:

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

	2018 Fees £000	2017 Fees £000
M W Parrott (Chair from 30th May 2017)	49	38
G McGinn (Vice-Chair from 30th May 2017)	36	29
A Coles (Senior Independent Director from 30th May 2017)	32	26
M Cullen	29	26
K Jess (co-opted 1st August 2017)	30	11
J Trethowan (Chair to 30th May 2017)	-	18
C Walsh (served to 1st March 2017)	-	4
	<b>176</b>	<b>152</b>

## SUMMARY DIRECTORS' REMUNERATION REPORT (Continued)

During 2018, a comprehensive review of the remuneration of the Chair and the other non-executive Directors was undertaken to ensure that their fees appropriately reflected the time commitments and responsibilities involved. This resulted in a change to the fee structure for the non-executive Directors depending on their individual roles and responsibilities and this brought the structure into line with that applied by other building societies. The annual amounts are set out in the table below:

	Fee £000
Chair	49
Standard non-executive Director	26
Additional fees:	
Vice-Chair	6
Senior Independent Director	3
Committee Chairs:	
Audit	4
Conduct Risk	3
Personnel & Remuneration	3
Prudential Risk	4

M Parrott and A Coles, who are domiciled in England, and M Cullen, who is domiciled in the Republic of Ireland, received additional taxable amounts to cover travel and accommodation costs of £6,000, £6,000 and £2,400 respectively.

A Coles and K Jess each received additional amounts of £1,500 for their roles as pension scheme trustees.



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

	Salary £000	Performance related £000	Benefits £000	Total £000
<b>2018</b>				
D Armstrong (Chief Executive)	213	21	16	250
M S Boyd (Deputy Chief Executive & Finance Director)	159	16	13	188
D Moore (Operations Director)	142	14	11	167
				<b>605</b>
<b>2017</b>				
D Armstrong (Chief Executive)	208	21	15	244
M S Boyd (Deputy Chief Executive & Finance Director)	155	16	13	184
D Moore (Operations Director)	139	14	9	162
				<b>590</b>

The increase in accrued pension for D Armstrong, M S Boyd and D Moore was £4,000 (2017: £4,000), £5,000 (2017: £4,000) and £7,000 (2017: £7,000) respectively.

The Personnel & Remuneration Committee conducts a comprehensive review of executives' salaries using peer group analysis and external consultants every three years. This review was last completed in 2017.

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 (Branch Manager) 028 2564 2845

**Bangor** - 6 Castle Street  
Kerry MacDougall (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  
Marina McBride (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](http://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 UK Finance.

## **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 are limited 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.

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.

### **Complaints**

The Society has an internal complaints procedure. Complaints that we cannot resolve may be referred to the Financial Ombudsman Service.

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



PROGRESSIVE  
BUILDING SOCIETY