

news

27 September 2007

Britannia Building Society results for the six months to 30 June 2007

Fair-minded Britannia on target with strong results

- Profits up 8% at £81.7 million
- Strong balance sheet and liquidity
- 67,000 new ISA accounts opened
- Industry-leading levels of employee engagement

Britannia, the UK's number two building society, announced pre-tax profit for the six months to 30 June 2007 up eight per cent at £81.7 million (2006: £75.8 million).

Total mortgage lending of £3.7 billion was down on last year's record £4.1 billion as the Group continued to focus on prudent and sustainable lending. Net lending totalled £500 million.

The Group continued to see low levels of mortgage arrears and repossessions, which it attributed to its continuing prudent lending policy and an approach that put customers at the heart of the business.

This underlying financial strength was also demonstrated by the Group's strong capitalisation and robust and varied portfolio, as a result of which it has avoided significant impact from the recent 'credit crunch'.

Recent base rate rises appear to have slowed the mortgage market, with parts of the country seeing a halt to house price inflation and industry arrears and possessions ticking up – trends Britannia expects to see continue for the rest of 2007 and into 2008.

The Group continued to develop lending streams in response to market changes. The member business moved into buy to let with an offer aimed at parents with children at university. And Britannia Commercial Lending continued its move to more profitable residential, commercial and retail investments, including a £44 million deal to finance student accommodation in Manchester.

The Group maintained tight control of costs, with the cost to assets ratio improving to 0.73% (2006:0.82%) – partly attributable to the successful integration of the Bristol & West savings and branch business during 2006.

As a building society, Britannia raises most of its funds from its 2.5 million UK savers; further retail funds come from Isle of Man-based Britannia International. Other funds are accessed from a variety of markets and sources, including Asia, Australia, Canada, Europe and the USA.

Savings flows were healthy. A rising interest rate environment favours savers, who make up the large majority of Britannia members. The society had a very successful ISA season, attracting more than £700 million in more than 67,000 new accounts.

A market-leading rate on the Child Trust Fund and a summer campaign that saw a tree planted for every new children's account opened were successful in attracting more than 10,000 new customers. Sales of guaranteed equity bonds were tougher, as investors chose the certainty of one and two-year fixed rate bonds offering similar returns.

“Our commitment to fairness means we won't lend customers more than they can afford to repay or offer loans worth more than the house they are buying,” explained Britannia group chief executive Neville Richardson. “We're also writing to all of our borrowers with interest-only loans to remind them of the need to have a repayment vehicle in place - customer feedback has been very positive.

“Fairness also means we offer savers consistently good rates, and won't give new customers unsustainably high rates at the expense of loyal savers.”

The Group's business performance was underpinned by continued industry-leading levels of people engagement, with 94% saying they're satisfied or very satisfied with Britannia as an employer. Britannia is recognised as one of the top 100 companies to work for in the annual Sunday Times survey. The Group also won the overall national Opportunity Now award, recognising outstanding best practice in gender equality, diversity and inclusion.

With highly-engaged employees making for happy customers, the Group saw continued strong customer satisfaction scores and improving cross-sales among its loyal customer base.

The Society shared £51 million with its most loyal members earlier this year through its annual profit sharing scheme, bringing the total returned to members in the 11 years the scheme has been running to over £470 million.

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For further information, please contact Graham Leftwich or Emma Taynton-Young in the Britannia group communications team on 01538 393883 or e-mail corp.comms@britannia.co.uk.

Group Income and Expenditure Account

	6 months to June 2007 (unaudited)	6 months to June 2006 (unaudited)	12 months to 31 December 2006 (audited)
	Total	Total	Total
	£m	£m	£m
Interest receivable and similar income	986.0	813.3	1,703.5
Interest expense and similar charges	(826.0)	(650.1)	(1,373.8)
Net interest income	160.0	163.2	329.7
Fee and commission income	35.4	31.9	60.2
Fee and commission expense	(3.3)	(9.9)	(16.3)
Net fee and commission income	32.1	22.0	43.9
Gains less losses from derivative financial instruments	17.6	26.7	31.3
Gains less losses from investment securities	(0.1)	(0.3)	(1.6)
Other operating income	0.5	5.1	7.3
Operating income	18.0	31.5	37.0
Administrative expenses – ongoing	(114.3)	(109.4)	(225.2)
Administrative expenses – exceptional (Note 1)	-	(13.5)	(20.4)
Depreciation and amortisation	(15.1)	(14.5)	(30.3)
Impairment losses on loans and advances	0.7	(3.9)	(5.1)
Operating profit	81.4	75.4	129.6
Share of post tax profits from joint ventures	0.3	0.4	0.8
Profit before tax and Britannia Membership Reward	81.7	75.8	130.4
Britannia Membership Reward (Note 2)	-	-	(51.2)
Profit before tax	81.7	75.8	79.2
Taxation	(25.4)	(23.4)	(22.2)
Net profit	56.3	52.4	57.0

Notes:

1. The exceptional administrative costs relate to the integration of the branch network and savings business acquired in September 2005 from Bristol & West.
2. A liability for Britannia Membership Reward is recognised when a payment has been approved by the Board. This is a discretionary annual payment and accordingly no liability has been recognised in the results for 30 June 2007 and 30 June 2006.

Group Balance Sheet

	As at 30 June 2007 (unaudited)	As at 30 June 2006 (unaudited)	As at 31 December 2006 (audited)
	£m	£m	£m
ASSETS			
Liquid assets			
Cash and balances with the Bank of England	35.9	32.7	34.1
Loans and advances to banks	1,108.3	1,452.6	2,523.2
Investment securities available-for-sale	9,897.8	8,729.1	8,653.3
Derivative financial instruments	654.9	357.6	374.2
Loans and advances to customers	23,452.8	22,326.4	23,094.4
Goodwill	194.8	193.1	194.8
Intangible assets	41.1	47.8	45.7
Property, plant and equipment	79.2	72.6	82.5
Other assets	158.7	143.2	147.2
Retirement benefit assets	15.1	-	-
Total assets	35,638.6	33,355.1	35,149.4
LIABILITIES			
Shares	17,464.4	16,784.4	17,137.7
Deposits and debt securities	15,363.6	13,933.8	15,342.4
Derivative financial instruments	509.1	212.6	329.1
Subordinated liabilities	537.6	647.7	561.6
Subscribed capital	291.6	313.1	301.6
Other liabilities	228.9	280.9	292.7
Retirement benefit obligations	-	43.0	44.3
Total liabilities	34,395.2	32,215.5	34,009.4
General reserve	1,240.1	1,138.6	1,142.9
Available-for-sale reserve	(3.0)	1.0	(0.7)
Cash flow hedging reserve	6.3	-	(2.2)
Total equity and liabilities	35,638.6	33,355.1	35,149.4

Group Statement of Recognised Income and Expense

	6 months to 30 June 2007 (unaudited)	6 months to 30 June 2006 (unaudited)	12 months to 31 December 2006 (audited)
	£m	£m	£m
Net profit for the period	56.3	52.4	57.0
Available for sale investments loss	(3.3)	(4.4)	(6.8)
Cash flow hedging gain/(loss)	12.1	-	(3.1)
Actuarial gain	58.6	30.1	27.9
Tax on items through equity	(20.3)	(7.6)	(4.1)
Total recognised income and expenditure	103.4	70.5	70.9

Group Cash Flow Statement

	6 months to 30 June 2007 (unaudited)	6 months to 30 June 2006 (unaudited)	12 months to 31 December 2006 (audited)
	£m	£m	£m
Cash flows from operating activities	27.9	264.6	1,456.1
Cash flows from investing activities	78.2	(689.1)	(1,191.2)
Cash flows from financing activities	(28.5)	206.0	49.5
Net increase/(decrease) in cash	77.6	(218.5)	314.4
Cash and cash equivalents at start of period	3,049.9	2,758.9	2,735.5
Cash and cash equivalents at end of period	3,127.5	2,540.4	3,049.9

Notes to the Interim Results

1. The group has decided not to early adopt International Accounting Standard No. 34 (Interim financial reporting). This standard becomes mandatory for half years ending 20 July 2007 onwards. The interim financial information has been prepared on the basis of the accounting policies adopted in the annual accounts for the year ended 31 December 2006.
3. The interim financial information for the six months to 30 June 2007 and 30 June 2006 is unaudited and does not constitute accounts within the meaning of Section 72 of the Building Societies Act 1986.
4. The financial information for the twelve months to 31 December 2006 has been extracted from the accounts for that year, which have been filed with the Financial Services Authority and on which the auditors gave an unqualified opinion.

Independent review report to Britannia Building Society

Introduction

We have been instructed by the Group to review the financial information for the six months ended 30 June 2007 which comprises the Group income and expenditure account, the Group balance sheet, the Group statement of recognised income and expense, the Group cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. That responsibility includes applying accounting policies and presentation applied to the interim figures that are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 1.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Group for the purpose of managing its affairs. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
26 September 2007

Notes:

(a) The maintenance and integrity of the Britannia Building Society web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.