

news

28 February 2008

Britannia Building Society preliminary results for the year ended 31 December 2007.

BRITANNIA IN GOOD SHAPE

- Group assets up to a record £36.8 billion
- High liquidity levels
- Cost asset ratio improving to 0.71 per cent
- Approval received to use Basel II IRB approach

Britannia Building Society has remained in good shape through the unprecedented credit crunch and will continue to maintain its strength by managing the business prudently during the continuing economic uncertainty.

In the challenging climate, Britain's second largest mutual has a secure funding position, is controlling costs effectively, is maintaining high asset quality and has negligible write-downs on treasury investments.

Group pre-tax profits are inevitably lower, in a year where Britannia chose not to compete in segments of the specialist lending market because of the extremely low margins available on higher risk lending. Market conditions during the second half of the year resulted in increased wholesale funding costs and a requirement to maintain a prudent level of provisions. Profit before tax and Britannia Membership Reward (BMR) is £115.2 million, compared with the record £130.4 million in 2006.

Group chief executive Neville Richardson said: "At a time when the credit crunch is having a major impact on many financial services companies, we have delivered a robust performance. We have a strong balance sheet, our business model is solid and sustainable and our commitment to fairness will continue to serve our members well."

Britannia's business comprises the Member Business (the core building society) and Britannia Capital Investment Group (BCIG), whose specialist divisions include Britannia Commercial Lending, Britannia Treasury Services, intermediary lender Platform and mortgage servicing business WMS.

The Member Business seeks to make only the profit that is needed to maintain financial strength, whereas the BCIG companies maximise returns that are shared with members through the Britannia Membership Reward.

The BCIG businesses have grown significantly over the last few years, expanding Britannia's presence in markets such as intermediary lending, third party mortgage servicing, securitisation and commercial lending. The BCIG businesses have generated significant returns for our members – more than one million shared in this year's Britannia Membership Reward, which has now paid out more than £500 million over 12 years.

The Member Business had a strong year in 2007, achieving most of its key business targets, reflecting the continuing improvements in recent years that have seen members benefiting from improved service and excellent value from an attractive range of savings and mortgage accounts.

Quality Lending

On total mortgage lending of £8.4billion, the average loan to value (LTV) of Group mortgage completions in 2007 was 63%. Net lending for the year totalled £2.4 billion (2006: £2.3 billion), despite a much-reduced mortgage market in the second half of the year. As a result, Group assets grew to a new record of £36.8 billion. The Group's average indexed LTV is 43%.

In order to protect margins the Member Business reduced its reliance on rate-led best buy mortgages by a third in 2007 while giving customers consistent value through top quartile products. A 12 per cent growth in mortgage application volumes, and retention rates of more than 75 per cent for customers coming off discounted or fixed rate products, were clear indications of the excellent levels of customer engagement and competitive products enjoyed by members.

Despite the multiple rises in interest rates in 2007 and the widespread effects of the credit crunch, the Britannia Group continues to see low levels of arrears in its different lending markets. Its fair and disciplined approach to borrowers in difficulty meant that the total number of accounts three months in arrears was 2,919 – just 1.24% of the near 250,000 Group mortgages (2006: 0.95%).

The Group's commercial loan book, comprising commercial property, registered social landlords and residential investments, remains strong with low arrears levels continuing through 2007. Just six accounts making up 0.04% of the book are in arrears. The Group's focus on lending on properties with strong cash flows and experienced borrowers should provide a strong mitigation against the impact of any downward movement in property values.

Funding Strength

In common with other financial institutions, Britannia is implementing 'Basel II', a global initiative to improve financial stability by ensuring institutions maintain financial resources appropriate to their risks. Britannia is the largest building society to receive Financial Services Authority (FSA) approval to use an internal ratings based (IRB) approach to assessing what levels of capital it should hold in respect of credit risk. As a responsible lender, holding high levels of capital relative to its business risks, Britannia expects that the IRB approach will enable the Group to use its resources more effectively and to better manage risks in uncertain times.

The majority of the funds used for Britannia's mortgage lending are derived from the balances of its 2.6 million savers – this means that more than 90 per cent of its unsecuritised mortgage lending is funded by retail rather than wholesale. Britannia has maintained levels of short-term liquidity at historical highs and holds approximately four times the level of short-term liquidity required by the FSA.

Many UK financial organisations have invested heavily in structured investment vehicles (SIVs) and collateralised debt obligations (CDOs), incurring huge related losses. Britannia, as a risk-averse organisation, held only £5 million of SIVs at the end of 2007, and has therefore limited its losses to just £1.6 million, which it expects to recover when the investments mature. Furthermore, in line with its risk appetite, Britannia has not taken exposure to any US sub-prime mortgages or CDOs.

The Group's Isle of Man based subsidiary, Britannia International, has maintained stable balances during 2007, despite increased competition in this market and competitive rates being offered by a number of institutions in the second half of the year. Deposits over the year grew by £100 million to £1.6 billion.

The Group maintained tight control of costs, with the ratio of costs as a proportion of all managed assets improving to 0.71% (2006: 0.79%).

People & Member Engagement

With the completion of its programme to integrate the savings and branch business acquired from Bristol & West in 2005, Britannia is now looking to maximise the benefit it offers members through its expanded branch network. As part of this commitment to maintain an extensive branch network, Britannia opened its 254th branch at Alderley Edge in Cheshire last year. All of its branches have been refurbished in the last three years ensuring members enjoy a comfortable and professional environment when they visit. Customer satisfaction scores remained strong with 85% of customers saying they would recommend Britannia.

Britannia Building Society also revitalised its brand positioning in 2007 investing more than £5 million in the launch of an advertising campaign. Through television, online, outdoor and press advertising, the campaign raised awareness of Britannia as an advocate of fairness. This new brand campaign contributed to the Group's 2007 lending success.

Independent research confirms levels of employee engagement at Britannia are among the best in the UK, with 95% satisfied with Britannia as an employer. Britannia was recognised as one of the best 100 companies to work for in the annual Sunday Times survey. As its workforce has increased to more than 5,000 in the last year, Britannia aims to be recognised as one of the best 20 big employers in 2008.

Commentary

Britannia group chief executive, Neville Richardson, said:

“Britannia's solid year-end results reflect our sustainable approach that continues to deliver for members.

“2007 was marked by the stark contrast in the business environment between the first and second halves. In the early part of the year, we saw new competitors offering aggressive prices in parts of the mortgage market that were simply unsustainable. Unwilling to take on board higher risk without the appropriate levels of reward, we reviewed our position in these market areas, choosing to focus on the type of lending that has served us and our customers well for more than 150 years.

“Only time will tell if we are seeing a gentle slowdown in the British economy or the start of a full scale recession. 2008 is therefore not a year for growth, but for consolidation. Either way, Britannia is strongly-placed to take opportunities that present themselves during the current downturn and the subsequent market recovery, when it occurs.”

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

For further information, please contact Jayne Dono or Emma Taynton-Young in the Britannia group communications team on 01538 393883

Group Income and Expenditure Account
For the year ended 31 December 2007

	2007	2006
	Total	Total
	£m	£m
Interest receivable and similar income	2,096.5	1,703.5
Interest expense and similar charges	(1,781.7)	(1,373.8)
Net interest income	314.8	329.7
Fee and commission income	69.3	60.2
Fee and commission expense	(8.0)	(16.3)
Net fee and commission income	61.3	43.9
Gains less losses from derivative financial instruments	20.3	31.3
Gains less losses from investment securities	(2.3)	(1.6)
Other operating income	2.3	7.3
Operating income	20.3	37.0
Administrative expenses	(236.6)	(245.6)
Depreciation and amortisation	(31.2)	(30.3)
Impairment losses on loans and advances	(14.0)	(5.1)
Operating profit	114.6	129.6
Share of post tax profits from joint ventures	0.6	0.8
Profit before tax and Britannia Membership Reward	115.2	130.4
Britannia Membership Reward	(45.9)	(51.2)
Profit before tax	69.3	79.2
Taxation	(20.0)	(22.2)
Net profit	49.3	57.0

Group Balance Sheet as at 31 December 2007

	2007	2006
	£m	£m
ASSETS		
Liquid assets		
Cash and balances with the Bank of England	541.3	34.1
Loans and advances to banks	1,495.8	2,523.2
Investment securities available-for-sale	8,178.1	8,653.3
Derivative financial instruments	440.8	374.2
Loans and advances to customers	25,556.0	23,094.4
Goodwill	194.8	194.8
Intangible assets	42.9	45.7
Property, plant and equipment	83.8	82.5
Other assets	248.1	147.2
Retirement benefit asset	45.0	-
Total assets	36,826.6	35,149.4

LIABILITIES		
Shares	17,567.8	17,137.7
Deposits and debt securities	16,585.9	15,342.4
Derivative financial instruments	335.3	329.1
Subordinated liabilities	560.8	561.6
Subscribed capital	304.3	301.6
Other liabilities	285.3	292.7
Retirement benefit obligations	-	44.3
Total liabilities	35,639.4	34,009.4
General reserve	1,254.5	1,142.9
Available-for-sale reserve	(68.0)	(0.7)
Cash flow hedging reserve	0.7	(2.2)
Total equity and liabilities	36,826.6	35,149.4

**Group Statement of Recognised Income and Expense
For the year ended 31 December 2007**

	2007	2006
	£m	£m
Net profit for the year	49.3	57.0
Movement in market value of available for sale assets	(95.6)	(6.8)
Cash flow hedging gain/(loss)	4.1	(3.2)
Actuarial gains	87.6	27.9
Tax on items through equity	1.8	(4.1)
Total recognised income and expenditure	47.2	70.8

Group Cash Flow Statement

For the year ended 31 December 2007

	2007	2006
	£m	£m
Cash flows from operating activities	(666.0)	1,456.1
Cash flows from investing activities	2,129.5	(1,191.2)
Cash flows from financing activities	(63.2)	49.5
Net increase in cash	1,400.3	314.4
Cash and cash equivalents at start of year	3,049.9	2,735.5
Cash and cash equivalents at end of year	4,450.2	3,049.9