

news

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Britannia Building Society preliminary results announcement for the 12 months ended 31 December 2008

Britannia maintains financial strength in unprecedented times

- £1.0 billion savings flow in as 154,000 new members join
- Trading profit up 23% to £158.2 million
- Profit before tax, membership reward and exceptional items £100.4m (2007: £114.6m) – post exceptionals £23.8m
- Strong capital and liquidity positions maintained with Tier I capital ratio of 10%
- Savers' rates protected at cost of £20m a year and members to share £19.0m in membership rewards
- Members to vote on merger with Co-operative Financial Services at April AGM

Britannia, the UK's second biggest building society, confirmed a resilient performance in 2008 with improved underlying profit underpinned by sustained financial strength.

The society, which last month announced plans to create a new super-mutual by merging with Co-operative Financial Services (CFS), focused on maintaining liquidity and capital strength while consolidating its high-quality mortgage book and attracting more than 154,000 new members.

This sustainable business model saw trading profits – operating profit before impairment charges, exceptional items and Britannia Membership Reward (BMR) - rise 23% to £158.2 million (2007: £128.6m). After loan loss provisions of £57.8m, profit before tax, BMR and exceptional items was £100.4m (£114.6m). Exceptional items were a £57.4m provision relating to exposure to two failed banks and a £19.8m provision for the Financial Services Compensation Scheme levy.

More than one million loyal members will share £19.0m profit through Britannia's membership reward, which has now given back £550m over 13 years.

Britannia's members will vote in April on a merger that will combine CFS's strong banking, insurance and investment expertise with Britannia's extensive high street presence and savings and mortgage product strength. The business will have £70 billion of assets, nine million customers, 12,000 employees and over 300 branches and will provide a real ethical and mutual alternative to shareholder-owned banks.

Britannia group chief executive Neville Richardson commented: "We continue to deliver strong results for our members in the face of a difficult market environment. In unprecedented times our business is focused squarely on its customers, its people and its stakeholders. We've maintained financial strength and our sustainable business model can offer our members an exciting, mutual future."

Merger with Co-operative Financial Services

In January, Britannia announced its intention to create a super-mutual alternative to banks by merging with CFS – the first merger between such different types of customer-owned businesses.

The Britannia Board is recommending the merger to its members and a vote will take place at its Annual General Meeting on 29 April 2009.

The merger will create a business that is financially strong with scale and strength in product, distribution and service. There is a strong strategic and values fit between the two organisations, which are both customer-owned with strong reputations for ethics, fairness and accountability.

Estimated efficiency savings and income benefits will be in excess of £60m a year – and because the new business will be owned by its customers, they will benefit from these efficiencies through improved product pricing, investment in service and a share of increased annual profits.

Customers will continue to share profits and have a say in running the business, which will be a subsidiary of the Co-operative Group, one of world's largest and most successful consumer co-operatives with core business interests in financial services, food, travel, pharmacy and funeral care. Further details are being sent to all eligible Britannia members in March.

Business performance

Britannia has maintained a strong focus on balance sheet strength. Tier 1 capital was a healthy 10.0%.

Total assets stood at £37.2bn, slightly higher than last year. As the Group proactively managed balance sheet risk by reducing the higher risk loans on its books, total lending reduced from £25.5bn to £24.2bn.

Continued strong focus on expenses saw total costs £27m (10%) lower than last year at £241m. As a result, the cost to assets under management ratio was reduced to 0.62% (0.71%).

As a sign of the importance that the Society places on rewarding its members, Britannia has continued to share its profits, even in these extraordinary times. More than one million members will share £19.0m through the Britannia Membership Reward. In the 13 years the scheme has been running, some £550m has been returned to members.

With savers turning to names they trust and the Society's emphasis on maintaining the appropriate balance between retail and wholesale funds, the total amount invested in Britannia savings accounts increased by £1.0bn to £18.6bn with up to 2000 accounts being opened every day.

In order to protect its savers following the dramatic falls in interest rates over the last few months of 2008, the Society reduced rates by less than the cut in the Bank of England's base rate. This benefit to Britannia savers will cost the business £20m a year.

Britannia's main source of funding continues to be money invested by its members. Retail funds cover 97% of non-securitised residential mortgages – helping to ensure the Group can maintain financial strength going forward. Britannia has no exposure to US sub-prime assets, collateralised debt obligations or mortgage-backed securities.

Wholesale funds and liquid assets were maintained at similar levels to last year. The Group continues to manage its funds actively and ensure diversification - its £10bn of cash is invested with more than 80 leading banks around the world.

Britannia was nevertheless impacted by the collapse of Lehman Brothers and Kaupthing, both A-rated institutions, where it had short-term deposits. The Group continues to pursue recovery of funds from the administrators, but has had to include a provision of £57.4m in this year's accounts to cover for possible losses arising from its exposure.

Following the collapse of the Icelandic banks and Bradford and Bingley, their savers called on the Financial Services Compensation Scheme to get their money back. This money comes from other UK banks and building societies and Britannia's members have had to provide nearly £20m to the fund.

At the half year, Britannia reported that potential loan losses had given rise to prudent provisions of £40.4m. In the second half, charges for loan losses rose a further £17.4m to total £57.8m at the full year. The bulk of the losses relate to some specialist lending in 2006/7, particularly high loan-to-value advances for first time buyers and new-build city centre flats. In mid 2007, the Group tightened its criteria for this type of lending, enabling it to contain the issue.

Four in every five Britannia Group mortgages are low-risk prime loans. Arrears in each lending category remain lower than industry averages and around 98 in every 100 Britannia borrowers continue to pay their mortgages in line with their agreements. Some 1.7% of originated residential mortgages have arrears greater than 2.5% of the loan balance, against a sector average of 1.6%.

Arrears are also impacted by Britannia's philosophy of helping people stay in their homes by making new payment arrangements with them. The Group believes it is the right long term approach both for the business and for its customers. One third of customers in arrears are on an active payment plan.

The Britannia Capital Investment Group (BCIG) companies have been instrumental in profit generation in recent years, making over £530m in profit over seven years – half of which has been shared with members through the Britannia Membership Reward. BCIG profits were significantly reduced as a result of the tough market conditions in 2008.

In particular, the specialist lending market fell dramatically in 2008 and most specialist lenders have exited the market completely. Business at the Group's intermediary lender Platform reduced by 73% in 2008 compared with 2007 from £2.6bn to £0.7bn. Platform has realigned its business by moving further into prime intermediary lending through an arrangement with Axa broker network, Thinc.

Outlook and commentary

Britannia Group chief executive Neville Richardson commented:

"The world economy is in disarray and no bank or building society is immune to what's been going on. 2009 will be another difficult year as the global recession impacts on employment and customer confidence.

"Last year was one of consolidation. By continuing to put our members first and focusing on financial strength, we've proved our resilience and the sustainability of our business model.

"Britannia has always been committed to putting its members and customers first. We can improve our member offer by merging with CFS, a customer-owned organisation with very similar values. Both Britannia and CFS have been pursuing successful strategies independently, but the current lack of trust in shareholder-owned banks gives us a real opportunity to be even more successful by coming together.

"We are continuing to ensure members share in the profits. More than one million loyal members will share £19 million profit through the Britannia Membership Reward this year.

"With industry-leading levels of customer satisfaction - 95% of new borrowers would recommend us - and employee engagement - 96% of our people are proud to work for Britannia - we have the resilience needed to come through the current turmoil and to prosper when things improve. We'll

continue to focus on putting our customers first and maintaining financial strength as we prepare for the merger.

“In creating the first super-mutual, we’ll preserve all that our customers hold dear about Britannia – being mutually-owned, giving them a say in how the business is run, sharing profits with them and maintaining an extensive branch network – while building a bigger, stronger combined business with more branches, a better internet service, a wider product range and the chance to earn even greater member rewards. I truly believe this is a bright, exciting future for Britannia’s members.”

Ends

Media enquiries

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Group Income and Expenditure Account
For the year ended 31 December 2008

	2008 Total £m	2007 Total £m	
Net interest income	307.5	314.8	* Total cash payable to members under the 2008 Britannia Members hip Reward scheme is £19.0 million (2007 : £47.1 million). The charge includes £0.6 million of unclaimed payments from previous years (2007 : £1.2 million).
Net other income	91.7	81.6	
Total income	399.2	396.4	
Administrative expenses	(209.9)	(236.6)	
Depreciation and amortisation	(31.1)	(31.2)	
Operating profit before impairment losses and FSCS levy	158.2	128.6	
Impairment charges on loans and advances to customers	(57.8)	(14.0)	
Impairment charges on balances with counterparties	(57.4)	-	
Provision for FSCS levy	(19.8)	-	
Operating profit before joint venture profits, BMR and	23.2	114.6	
Share of post tax profits from joint ventures	0.6	0.6	
Profit before tax and BMR	23.8	115.2	
Britannia Membership Reward *	(18.4)	(45.9)	
Profit before tax	5.4	69.3	
Taxation	(0.2)	(20.0)	
Net profit	5.2	49.3	

Group Balance Sheet as at 31 December 2008

	2008	2007
	£m	£m
ASSETS		
Liquid assets		
Cash and balances with the Bank of England	275.0	541.3
Loans and advances to banks	1,789.8	1,495.8
Investment securities - loans and receivables	6,133.6	-
Investment securities - available for sale	2,033.4	8,178.1
Derivative financial instruments	1,583.7	440.8
Loans and advances to customers	24,787.4	25,556.0
Goodwill	194.8	194.8
Intangible assets	39.7	42.9
Investment properties	105.5	-
Property, plant and equipment	78.2	83.8
Other assets	195.6	248.1
Retirement benefit asset	-	45.0
Total assets	37,216.7	36,826.6
LIABILITIES		
Shares	18,647.7	17,567.8
Deposits and debt securities	15,485.4	16,585.9
Derivative financial instruments	715.7	335.3
Subordinated liabilities	691.7	560.8
Subscribed capital	326.5	304.3
Other liabilities	277.2	285.3
Total liabilities	36,144.2	35,639.4
General reserve	1,203.5	1,254.5
Available-for-sale reserve	(97.4)	(68.0)
Cash flow hedging reserve	(33.6)	0.7
Total equity and liabilities	37,216.7	36,826.6

**Group Statement of Recognised Income and Expense
For the year ended 31 December 2008**

	2008	2007
	£m	£m
Net profit for the year	5.2	49.3
Movement in market value of available for sale assets	(40.8)	(95.6)
Cash flow hedging (loss) / gain	(47.7)	4.1
Actuarial gains	21.8	96.6
Amount of surplus unrecognised under IAS19	(99.8)	(9.0)
Tax on items through equity	46.6	1.8
Total recognised income and expenditure	(114.7)	47.2

**Group Cash Flow Statement
For the year ended 31 December 2008**

	2008	2007
	£m	£m
Cash flows from operating activities	(666.6)	(666.0)
Cash flows from investing activities	(716.9)	2,129.5
Cash flows from financing activities	(64.4)	(63.2)
Net (decrease) / increase in cash	(1,447.9)	1,400.3
Cash and cash equivalents at start of year	4,450.2	3,049.9
Cash and cash equivalents at end of year	3,002.3	4,450.2