

news

13 August 2008

Britannia Building Society interim results for the six months to 30 June 2008

Resilient Britannia maintains strength

- Pre-tax profit of £50.5 million
- Profit before impairment provisions up 12% to £90.9 million
- Costs down 5%
- Strong balance sheet, high levels of liquidity and capital
- Customer satisfaction and employee engagement at record highs

Britannia Building Society said its policy of putting customers first while maintaining financial strength had given it the resilience needed to overcome tough economic and housing market conditions.

The Group – Britain’s second biggest mutual – confirmed a 12% increase in profits pre-impairment provisions to £90.9 million (H1 2007: £81.0 million). Pre-tax profit was £50.5 million (£81.7 million).

Prompt management action is containing increased arrears and losses, most of which come from relatively small areas of lending in 2006/7, and is delivering cost savings across the business, with costs down £6 million.

A strong balance sheet and industry leading levels of customer satisfaction and commitment from its people underpinned the Group’s performance.

“This is a strong performance in a market that is unrecognisable from the same period in 2007,” said Britannia Group chief executive Neville Richardson. “We continue to trade profitably and the business has underlying strength and resilience, despite losses made in a small area of our lending activity due to exceptional market conditions.”

Business performance

Profit, before impairment provisions of £40.4 million, was £90.9 million – 12% ahead of last year's record of £81.0 million and almost double the £48.2 million achieved in the second half of 2007, after the credit crunch first hit. Profit before tax was £50.5 million.

Margins improved as the Group constrained lending to maintain liquidity and asset quality. Other income was buoyant at £44.7 million. Continued focus on cost saw expenses fall £6 million in the period, with full year savings expected to achieve well over double this amount. The ratio of costs to assets under management – the key indicator of efficiency – was reduced again to 0.65% (0.71%).

Customer satisfaction scores during the period were at record levels, with 89.5% saying they were likely to recommend Britannia – among the very best scores in the industry. More than 70,000 new members have joined Britannia so far this year. The Group was ranked number two in the annual Sunday Times survey of the best big companies to work for.

A successful ISA season saw the Group secure £1.2 billion of funds, further strengthening its balance sheet. As a building society, Britannia raises most of its funds from its 2.6 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.

Liquidity remains a high priority for the Group while the credit crunch continues and short-term liquid assets stand at £3.2 billion – (11.0% of shares and other borrowings) and total liquidity at £9.2 billion (31.8%). The business maintained a strong capital position.

Total mortgage lending of £1.9 billion was reduced from last year's £3.7 billion as a direct result of the credit crunch, the resulting market downturn and the Group's focus on maintaining liquidity and asset quality.

The core Member Business - the traditional building society part of the Group - continued to see levels of mortgage arrears and repossessions well below industry averages. The same was true for the Group's commercial lending activities.

Arrears on some specialist lending and in a small number of acquired mortgage books increased as a result of the market downturn. Impairment provisions reflect the impact of a rapid fall in house prices and reduced customer confidence in the face of the slowdown in the UK economy.

The bulk of these provisions relate to lending in 2006/7 by the Group's intermediary lender Platform, particularly higher loan-to-value advances for first time buyers and loans against new-build city centre flats. These categories comprise just 8% of the Group's total book and lending

criteria were tightened in 2007 and 2008 to contain the issue. Platform is part of the Britannia Capital Investment Group that has generated £500 million profit in the last six years.

The Society shared £47 million with its most loyal members earlier this year through its unique annual profit sharing scheme, bringing the total returned to members in the 12 years the scheme has been running to more than £500 million – cash generated by the Society's subsidiary businesses.

Commentary

Britannia Group chief executive Neville Richardson said: "We said at the start of the year that 2008 would be a year of consolidation, rather than growth. Our focus on maintaining our financial strength - including rigorous control of costs - while satisfying our existing customers means we are weathering this storm and will come out stronger.

"We've seen very high levels of mortgage and savings customer retention as a result of this approach. We'll maintain and invest in all of our savings and lending franchises so we're well placed to grow and add to the value we return to our members, although we don't anticipate an upswing in the market before 2010.

"We're not immune to the market downturn, and our business model anticipated losses arising from some of our lending. The slowdown in the wider economy means we believe those losses may come about more quickly than expected, but we're taking the necessary action to contain them.

"Our commitment to fairness means we've always considered affordability when making lending decisions and we've never offered borrowers loans worth more than the house they are buying. This prudent approach means the vast bulk of the Group's assets are low risk and most of our non-conforming mortgages continue to perform satisfactorily.

"Fairness means we offer savers consistently good rates, and we won't give new customers unsustainably high rates at the expense of loyal savers. This approach means our savers stick with us - we've maintained strong retail balances without having to resort to loss-making market-leading rates to attract new funds."

Ends

Media enquiries - for further information please contact Graham Leftwich or Emma Taynton-Young on 01538 393075 or 391107.

Interim Management Report

Key events and performance

We stated in our 2007 Annual Report and Accounts that we expected the slowdown experienced in the second half of 2007 to continue and that we therefore expected 2008 to be a year for consolidation, not for growth. Britannia's focus on maintaining our strategy and putting our customers first has given us resilience during the "credit crunch" and means that our exposure to the market downturn is limited.

Margins improved, partly in response to a slowdown in lending to maintain liquidity. A continued focus on costs saw expenses reduce by 5% in the period. The Group ratio of cost to total assets under management improved to 0.65% (December 2007 : 0.71%). We expect our ongoing focus on costs to yield further significant benefits.

Impairment provisions of £40.4 million meant profit before tax was £50.5 million (June 2007 : £81.7m). This level of impairment provision charge reflects the difficult market conditions, with rapidly falling house prices and reduced customer confidence. Aside from the loan losses, the "credit crunch" has had an adverse impact on some of the trading activity Britannia has been engaged in and has impacted on the cost of funds. However, our hedging strategy has allowed us to offset much of that effect. Britannia has no exposure to US sub-prime or Collateralised Debt Obligations.

Profit before impairment provisions was £90.9 million – 12% ahead of last year's record of £81.0 million.

The number of accounts 12 months or more in arrears at June 2008 increased to 145 (December 2007 : 84). The balances on these accounts totalled £21.6m with total arrears of £2.1m (December 2007 : £13.0m total balances and £1.2m arrears).

Liquidity has been the Group's top priority while the "credit crunch" continues. Liquid assets stand at £9.2 billion with the ratio of total liquid assets as a percentage of shares, deposits and loans standing at 31.8% and we have maintained strength in the term structure of funding. On 21 April 2008, the Bank of England launched its Special Liquidity Scheme which allows banks to swap their high quality mortgage-backed and other securities for UK Treasury Bills for a defined period. In common with many banks and building societies, Britannia has used this facility as an efficient way of maintaining a high level of liquidity.

The Group's total capital resources were £1.6bn at the end of June, substantially higher than our Individual Capital Guidance set by the Financial Services Authority. We continue to proactively manage both risk weighted assets and our absolute level of capital resources. Our total capital ratio was 14.5% at June (December 2007 : 11.6% Basel 1 basis).

Group income and expenditure account

	6 months to 30 June 2008 (unaudited)	6 months to 30 June 2007 (unaudited)	12 months to 31 December 2007 (audited)
	Total	Total	Total
	£m	£m	£m
Interest receivable and similar income	1,064.8	986.0	2,096.5
Interest expense and similar charges	(896.3)	(826.0)	(1,781.7)
Net interest income	168.5	160.0	314.8
Fee and commission income	30.5	35.4	69.3
Fee and commission expense	(6.3)	(3.3)	(8.0)
Net fee and commission income	24.2	32.1	61.3
Gains less losses from derivative financial instruments	12.0	17.6	20.3
Gains less losses from investment securities	3.7	(0.1)	(2.3)
Other operating income	4.8	0.5	2.3
Operating income	20.5	18.0	20.3
Administrative expenses	(108.3)	(114.3)	(236.6)
Depreciation and amortisation	(14.4)	(15.1)	(31.2)
Impairment charges on loans and advances	(40.4)	0.7	(14.0)
Operating profit	50.1	81.4	114.6
Share of post tax profits from joint ventures	0.4	0.3	0.6
Profit before tax and Britannia Membership Reward	50.5	81.7	115.2
Britannia Membership Reward (Note 4)	-	-	(45.9)
Profit before tax	50.5	81.7	69.3
Taxation	(14.3)	(25.4)	(20.0)
Net profit	36.2	56.3	49.3

Group balance sheet

	As at 30 June 2008 (unaudited) £m	As at 30 June 2007 (unaudited) £m	As at 31 December 2007 (audited) £m
ASSETS			
Cash and balances with the Bank of England	144.2	35.9	541.3
Loans and advances to banks	2,077.6	1,108.3	1,495.8
Loans and advances to customers	25,090.6	23,633.5	25,480.0
Fair value adjustments for hedged risk	(128.6)	(180.7)	76.0
Investment securities - available-for-sale	7,025.7	9,897.8	8,178.1
Derivative financial instruments	600.0	654.9	440.8
Investments in joint ventures	2.0	1.3	1.6
Goodwill	194.8	194.8	194.8
Intangible assets	39.8	41.1	42.9
Property, plant and equipment	81.3	79.2	83.8
Deferred tax assets	5.5	12.6	7.6
Other assets	7.8	8.5	8.1
Prepayments and accrued income	86.8	136.3	230.8
Retirement benefit asset	41.5	15.1	45.0
Total assets	35,269.0	35,638.6	36,826.6
LIABILITIES			
Shares	17,582.5	17,464.4	17,567.8
Deposits from banks	5,349.0	614.6	5,057.9
Other deposits	3,240.0	3,279.7	3,582.6
Derivative financial instruments	202.4	509.1	335.3
Debt securities in issue	6,646.2	11,469.3	7,945.4
Other liabilities	63.7	29.0	82.1
Provisions for liabilities and charges	6.1	11.3	7.9
Accruals and deferred income	190.1	132.0	184.2
Current taxes	6.0	56.6	11.1
Subordinated liabilities	546.1	537.6	560.8
Subscribed capital	295.6	291.6	304.3
Total liabilities	34,127.7	34,395.2	35,639.4
General reserve	1,286.0	1,240.1	1,254.5
Available-for-sale reserve	(138.8)	(3.0)	(68.0)
Cashflow hedging reserve	(5.9)	6.3	0.7
Total equity and liabilities	35,269.0	35,638.6	36,826.6

Group statement of total recognised income and expense

	6 months to 30 June 2008 (unaudited)	6 months to 30 June 2007 (unaudited)	12 months to 31 December 2007 (audited)
	£m	£m	£m
Net profit for the period	36.2	56.3	49.3
Movement in market value of available-for-sale assets	(99.0)	(3.3)	(95.6)
Cashflow hedging (loss)/gain	(5.6)	12.1	4.1
Actuarial (loss)/gain	(5.7)	58.6	87.6
Tax on items through equity	28.2	(20.3)	1.8
Total recognised income and expenditure	(45.9)	103.4	47.2

Group cashflow statement

	6 months to 30 June 2008 (unaudited)	6 months to 30 June 2007 (unaudited)	12 months to 31 December 2007 (audited)
	£m	£m	£m
Cash flows from operating activities	(1,049.1)	27.9	(666.0)
Cash flows from investing activities	(139.1)	78.2	2,129.5
Cash flows from financing activities	(32.8)	(28.5)	(63.2)
Net (decrease)/increase in cash	(1,221.0)	77.6	1,400.3
Cash and cash equivalents at start of period	4,450.2	3,049.9	3,049.9
Cash and cash equivalents at end of period	3,229.2	3,127.5	4,450.2

The notes on pages 5 to 8 form an integral part of this condensed consolidated interim financial information.

Notes to the interim results

1. General information

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 72 of the Building Societies Act 1986. Statutory accounts for the year ended 31 December 2007 were approved by the Board of Directors on 27 February 2008 and filed with the Financial Services Authority. The report of the auditors on those accounts was unqualified.

This condensed consolidated interim financial information has been reviewed, not audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS34, "Interim financial reporting" as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual report and accounts for the year ended 31 December 2007, which were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

3. Accounting policies

The accounting policies applied are consistent with those of the annual report and accounts for the year ended 31 December 2007, as described in those financial statements. From the start of 2008 we have revised the basis of estimating the profile of the profit generated from the sale of Guaranteed Equity Bonds (GEBs). This has given rise to an additional credit of £8.5m to the Income statement.

The Group has decided not to apply IFRS8 in this condensed consolidated interim financial information. These disclosures have no impact on the results of the Group and will be mandatory for the accounts for the year ended 31 December 2009.

4. Britannia Membership Reward

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 2008 and 30 June 2007.

5. Principal Risks

The main risks facing the Group are credit risk, market risk and liquidity risk.

Credit risk is the risk that our customers or counterparties cannot meet their obligations to us as they become due. Credit risk arises from loans to our retail and commercial customers and from the liquid and investment assets we hold. This risk is managed by credit risk teams in each of the lines of business, who report to credit committees. Lending policies and procedures are in place to limit and control the type and amount of lending that is underwritten.

Market risk is the risk that the value of, or income or costs arising from, the Group's assets and liabilities change as a result of changes in interest rates, exchange rates or FTSE indices. Group treasury is responsible for managing our exposure to all aspects of market risk within operational limits set out in the Group's policy statements.

Liquidity risk is the risk of having insufficient liquid assets to fulfil obligations or liabilities as they become due, or the cost of raising liquid funds becoming too expensive. This risk is managed within a framework of limits and controls which includes minimum levels for liquid asset stock, controls over funding term structure and the exposure to cashflows stressed for different scenarios affecting the position of Britannia specifically, and the market in general ('liquidity mismatch').

Full details of these risks, and the processes by which they are managed, are given in the Annual Report and Accounts (notes 46 to 53). We consider these to be unchanged at 30 June 2008.

Britannia is not anticipating an upswing in the current market conditions before 2010. However, the Group is confident that its strategy leaves it well placed to weather the current conditions and add to the value we return to our members.

6. Segmental information

The Group reports through two business segments, Member Business and Britannia Capital Investment Group (BCIG). The Member Business is the traditional building society part of the Group, focusing on savings, mortgages and other financial services to members. BCIG offers financial services to corporate clients and individuals who are not members of the Society.

Transactions between the business segments are on normal commercial terms. Internal charges and transfer pricing adjustments have been reflected in the performance of each segment. Revenue has been attributed to the business segment in which it is generated. The Member Business raises funds externally to fund BCIG. Funding costs have been calculated using a funds transfer pricing methodology.

Period ended 30 June 2008	Member Business £m	BCIG £m	Eliminations £m	Total £m
External revenues	139.8	73.3	-	213.1
Segment profit before impairment charges for loans and advances	42.1	48.4	-	90.5
Impairment charges for loans and advances	0.1	(40.5)	-	(40.4)
Segment profit before tax	42.2	7.9	-	50.1
Share of post tax profits from joint ventures	0.4	-	-	0.4
Profit before tax and Britannia Membership Reward	42.6	7.9	-	50.5
Segment assets	24,615.0	19,900.1	(9,248.1)	35,267.0
Joint ventures	2.0	-	-	2.0
Total assets	24,617.0	19,900.1	(9,248.1)	35,269.0
Segment liabilities	23,941.0	19,434.8	(9,248.1)	34,127.7

Period ended 30 June 2007	Member Business £m	BCIG £m	Eliminations £m	Total £m
External revenues	131.0	79.1	-	210.1
Segment profit before impairment charges for loans and advances	26.8	53.9	-	80.7
Impairment charges for loans and advances	0.1	0.6	-	0.7
Segment profit before tax	26.9	54.5	-	81.4
Share of post tax profits from joint ventures	0.3	-	-	0.3
Profit before tax and Britannia Membership Reward	27.2	54.5	-	81.7
Segment assets	25,313.6	20,124.2	(9,800.5)	35,637.3
Joint ventures	1.3	-	-	1.3
Total assets	25,314.9	20,124.2	(9,800.5)	35,638.6
Segment liabilities	24,577.2	19,618.5	(9,800.5)	34,395.2

Member Business profits have improved by £15m. This is primarily due to improved margins, increased income from Guaranteed Capital Equity Bonds (as a result of increased sales and of the change in estimation method) and lower expenses resulting from cost saving initiatives.

BCIG profits have fallen by £47m. Of this, £41m is due to increased loss provision charges in the current difficult market. The £6m reduction before loss provisions relates to reduced business volumes and “credit crunch” impacts principally in relation to lower anticipated early redemption fee income and reduced profit from asset sales.

7. Impairment losses on loans and advances

	Member Business £m	BCIG £m	Total £m
At 1 January 2008	0.9	48.1	49.0
Charge/(release) for the period	(0.1)	40.5	40.4
Amounts utilised	(0.3)	(14.3)	(14.6)
At 30 June 2008	0.5	74.3	74.8

The difficult economic conditions have led to increases in arrears and losses realised on possessions. This is reflected in the profit and loss impairment charge and in the provision for future losses carried on the balance sheet and analysed above.

The loss provision charge is calculated as the difference between the carrying value of an asset and the present value of future cash flows. In estimating these cash flows the group takes an experience based approach that takes into account such factors as the expected net proceeds

from the sale of repossessed properties, the time taken to repossess, any further payments expected from the borrower and expected house price movements. Management have proactively implemented a number of initiatives that are expected to reduce losses ultimately crystallised and these have, in part, been allowed for in the provision calculations.

8. Debt securities in issue

	Certificates of Deposit	Fixed and floating rate notes	Other debt securities	Total
	£m	£m	£m	£m
At 1 January 2008	1,615.1	6,041.1	289.2	7,945.4
Issued in the period	7,286.4	134.9	1,088.6	8,509.9
Repayments made in the period	(7,936.7)	(528.3)	(1,344.1)	(9,809.1)
At 30 June 2008	964.8	5,647.7	33.7	6,646.2

Debt securities are issued and repaid as part of a rolling programme of funding. The above movements were primarily due to a decision to hold lower funding levels given the reductions in securitisation activity and the availability of funding such as commercial paper in the current market.

9. Related party transactions

There are no material changes to the related party disclosures given in the annual financial statements for the year ended 31 December 2007.

10. Events after the balance sheet date

The directors consider that there has been no event since the balance sheet date that has had a significant effect on the Group's position or that of any of its connected undertakings.

Statement of directors' responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The directors of Britannia Building Society are listed in the annual report and accounts for 31 December 2007, with the exception of the following changes in the period: Ian Adam retired as chairman on 31 May and was succeeded by Rodney Baker-Bates. Gerald Gregory retired on 31 March and David McCarthy was appointed as Group Finance Director on 18 June.

By order of the Board

Neville Richardson
Chief Executive
13 August 2008

David McCarthy
Finance Director
13 August 2008

Independent review report to Britannia Building Society

Introduction

We have been engaged by the Group to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2008 which comprises the Group balance sheet as at 30 June 2008 and the related Group income statement, cashflow statement and statement of recognised income and expense for the six months then ended and the related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the group a conclusion on the condensed set of financial statements in the half yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the group for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
13 August 2008

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 financial statements since they were 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.