

news

Wednesday 20 September 2006

Britannia Building Society interim results announcement for the six months ended 30 June 2006

Record first half for Britannia as it exceeds target for new business integration

- Integration of Bristol & West savings and branch business completed ahead of target
- Employee engagement and customer satisfaction at record levels
- Mortgage lending up more than 70% to record £4.1 billion
- Asset quality remains strong with continuing low arrears
- Profit up to record £75.8 million

Britannia Building Society, the leading mutual, announced a record performance for the first half of the year as it confirmed it had beaten its ambitious target for integrating the former Bristol & West savings business and branch network, delivering on its promises of no customers being worse off and no compulsory redundancies.

Operating profit and lending were at record highs and arrears remained at very low levels thanks to the Group's continued focus on quality lending and proactive customer account management. Sales of investments, life insurance and personal loans all increased.

New business integration

In September 2005, Britannia completed the £150 million purchase of the Bristol & West savings business from Bank of Ireland, acquiring more than £4 billion of retail funds.

More than 700,000 Bristol & West savers became members of Britannia in the first re-mutualisation of a former building society, marking a step change in the scale of Britannia's business, which grew by a third in terms of members, savings balances and branches.

The integration of customer systems was completed in early July, three months ahead of target, with more than a million customer accounts switching to Britannia accounts on Britannia systems. The Society kept its promise of no customer being worse off as a result of this change – in fact, most are now earning higher interest on their savings. In addition, the Society made no compulsory redundancies and offered roles to each of its 800 new employees.

Branches in 65 towns and neighbourhoods where Britannia was not previously present have been rebranded - all three million Britannia members can now transact at 253 branches around the UK, as well as by phone or online. The Society will complete its £15 million investment in refurbishing all of its new branches by the end of this year.

Britannia has opened a new office in Bristol and based a new savings call centre there – all other savings and mortgage calls are managed from its base in Leek, Staffordshire.

Business performance

Profit before tax and Britannia Membership Reward was up at a record £75.8 million (30 June 2005 : £73.0 million). The profit figure includes the effect of the Bristol & West integration, funding and trading costs of £24 million, which were offset by hedging gains.

Both the Member Business and Britannia Capital Investment Group were ahead of profit targets. As a mutual society, Britannia makes only the profit needed to maintain financial strength and it continued its policy of passing on to members the benefits of operational efficiency through competitive pricing of savings and mortgages.

Total assets grew to £33.4 billion (30 June 2005 : £26.0 billion). Gross mortgage lending totalled a record £4.1 billion (£2.4 billion) – up 70% on the first half of 2005 when the market was relatively quiet. Both the Member Business and Platform saw significant increases in mortgage sales. Platform launched a revised product range towards the end of the period, along with a new online application process for brokers. Group net lending was £1.4 billion, more than twice the £609 million achieved in 2005.

Quality of lending remained high. Just nine per cent of Group residential lending for the half year was at more than 90 per cent loan to value (LTV) with the average mortgage LTV at just 70 per cent. Britannia's continued focus on quality lending meant that arrears over 12 months remained negligible, less than £1 million.

In only its second year of operation, Britannia's agreement with AXA to provide life, pension, protection and investment products through the Britannia branch network is outperforming expectations.

Customer satisfaction scores are at best-ever levels and independent research confirms levels of employee engagement at Britannia are among the best in the UK.

Commentary

Britannia Group Chief Executive, Neville Richardson, said: "These record results reflect a growing business that delivers consistently for our members.

"Our new members, branches and assets have greatly increased the size and scope of Britannia's business, delivering significant additional opportunities for growth as we complete our transformation into one business.

"Our new members now share all the benefits of owning their savings provider, with our commitment to an extensive branch network, competitive rates, a one-member, one-vote constitution and an annual share of profits in due course through our unique Britannia Membership Reward.

"We have seen sales of mortgages, personal loans, investments and insurance increase in an immensely competitive market thanks to the skill and dedication of an engaged workforce.

“The second half of the year has started very well, with innovations such as Platform’s Click application, and prospects look good.”

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Notes to Editors

Britannia is the UK’s second largest mutual building society.

In addition to the membership business, Britannia includes the Britannia Capital Investment Group of companies (BCIG), comprising the intermediary lender Platform, the mortgage processing business WMS, Britannia Treasury Services, Britannia International and Britannia Commercial Lending.

The Britannia Membership Reward – a unique annual share of profits – is paid to members following the full year results and no figure is declared at the half year. The 2006 payment, based on 2005’s performance, totalled £48 million.

Britannia group chief executive Neville Richardson and group finance director Phil Lee are available for interview on Wednesday 20 September 2006. To arrange to speak to them, or for further information, please contact Graham Leftwich or Jayne Dono in the Britannia group communications team on 01538 393075/7 or e-mail corp.comms@britannia.co.uk.

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Group Income and Expenditure Account

	6 months to June 2006 (unaudited)	Restated 6 months to June 2005 (unaudited)	12 months to 31 December 2005 (audited)
	Total	Total	Total
	£m	£m	£m
Interest income	813.3	659.2	1,408.7
Interest expense	(650.1)	(521.0)	(1,116.5)
Net interest income	163.2	138.2	292.2
Fee and commission income	31.9	24.6	50.8
Fee and commission expense	(9.9)	(5.8)	(16.3)
Net fee and commission income	22.0	18.8	34.5
Gains less losses from derivative financial instruments	26.7	2.9	(3.1)
Gains less losses from investment securities	(0.3)	0.3	0.6
Other operating income	5.1	9.3	13.1
Operating income	31.5	12.5	10.6
Administrative expenses – ongoing	(109.4)	(80.5)	(180.4)
Administrative expenses – exceptional (Note 1)	(13.5)	-	-
Depreciation and amortisation	(14.5)	(15.4)	(29.5)
Impairment losses on loans and advances	(3.9)	(1.4)	(8.1)
Operating profit	75.4	72.2	119.3
Share of post tax profits from joint ventures	0.4	0.8	1.2
Profit before tax and Britannia Membership Reward	75.8	73.0	120.5
Britannia Membership Reward (Note 2)	-	-	(48.0)
Profit before tax	75.8	73.0	72.5
Taxation expense	(23.4)	(22.4)	(21.3)
Net profit	52.4	50.6	51.2

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 2006 and 30 June 2005.

Group Balance Sheet

	As at 30 June 2006 (unaudited) £m	Restated As at 30 June 2005 (unaudited) £m	As at 31 December 2005 (audited) £m
ASSETS			
Liquid assets			
Cash and balances with the Bank of England	32.7	28.2	33.4
Due from banks	1,452.6	1,337.8	2,397.8
Debt/investment securities	8,729.1	5,075.8	8,198.7
Derivative financial instruments	357.6	193.0	350.4
Loans and advances to customers	22,326.4	19,086.9	21,021.6
Goodwill	193.1	36.9	193.2
Intangible fixed assets	47.8	52.9	50.3
Property, plant and equipment	72.6	58.4	66.3
Other assets	143.2	142.9	119.7
Total assets	33,355.1	26,012.8	32,431.4
LIABILITIES			
Due to customers – shares	16,784.4	12,401.1	17,035.9
Deposits and debt securities	13,933.8	11,273.6	12,912.7
Derivative financial instruments	212.6	366.9	285.1
Other borrowed funds	960.8	587.9	794.3
Other liabilities	280.9	231.0	261.3
Retirement benefit obligations	43.0	20.4	73.0
Total liabilities	32,215.5	24,880.9	31,362.3
General reserve	1,138.6	1,126.8	1,065.0
Available-for-sale reserve	1.0	5.1	4.1
Total equity and liabilities	33,355.1	26,012.8	32,431.4

Group Statement of Recognised Income and Expense

	6 months to 30 June 2006 (unaudited)	Restated 6 months to 30 June 2005 (unaudited)	12 months to 31 December 2005 (audited)
	£m	£m	£m
Net profit for the period	52.4	50.6	51.2
First time adoption of IAS39	-	(25.7)	(25.7)
Available for sale investments (loss)/gain during the period	(4.4)	4.9	3.6
Actuarial gain/(loss)	30.1	-	(87.1)
Tax on items through equity	(7.6)	5.3	30.3
Total recognised income and expenditure	70.5	35.1	(27.7)

Group Cash Flow Statement

	6 months to 30 June 2006 (unaudited)	Restated 6 months to 30 June 2005 (unaudited)	12 months to 31 December 2005 (audited)
	£m	£m	£m
Cash flow from operating activities	268.7	(392.2)	(1,314.0)
Taxation paid	(4.1)	5.7	(12.8)
Cash flow from investing activities	(689.1)	554.5	2,065.9
Cash flow from financing activities	206.0	(20.1)	156.3
Net (decrease)/increase in cash	(218.5)	147.9	895.4
Cash and cash equivalents at start of period	2,758.9	1,863.5	1,863.5
Cash and cash equivalents at end of period	2,540.4	2,011.4	2,758.9

Notes to the Interim Results

1. The Group has decided not to early adopt International Accounting Standard No. 34 (Interim financial reporting) which becomes mandatory in 2007. The interim financial information has been prepared on the basis of the accounting policies adopted for the twelve months to 31 December 2005.
2. The results to 30 June 2005 have been restated to include accounting adjustments made in the second half of 2005 that affected the first half year's results. The net effect of these adjustments was to reduce net profit by £0.5 million.
3. The interim financial information for the six months to 30 June 2006 and 30 June 2005 is unaudited.
4. The financial information for the twelve months to 31 December 2005 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 2006 which comprises the Group balance sheet as at 30 June 2006 and the related Group income and expenditure account, cash flow statement and statement of recognised income and expense for the six months then ended and 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 to the interim results.

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 2006.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
19 September 2006

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.