

Regulatory Story

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Company Kent Reliance Building Society
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FINANCIAL RESULTS 2009

Kent Reliance Building Society announces financial results for the year ended September 2009.

The Society has been able to maintain profitability in a very difficult trading environment where competition from state aided financial institutions has created an uneven and unfair market. Despite these challenges the Society has been able to declare a profit due to the drive to improve efficiency and reduce relative costs by capitalising upon the India operations that service the back office and support functions of the Society.

The uncertain and volatile financial market place creates special challenges for building societies that are unable to raise additional capital in the way that Banks are able and improving capital strength will remain a priority. The Society, which has a reputation for high growth and innovation, has not been drawn into the currently unviable pricing arena in the financial markets, preferring to consolidate the business model and conserve capital.

During the previous year the Group was able to undertake a capital re structure which released a windfall profit into the business to help off set the adverse climate including the funding of a levy to the Financial Services Compensation Scheme (FSCS). For that reason comparisons between 2009 and 2008 results are not reflective of the very creditable performance for the 2009 year.

Significantly the Society has been able to maintain high retail balances such that all mortgage lending is fully funded without reliance upon wholesale deposits. For the eighth consecutive year the Society has improved the management expense ratio - largely regarded as a measure of efficiency - to 0.39% giving it the lowest published management expense ratio in the industry.

The financial highlights in summary are

Total assets	£2.26bn	(2008: £2.34bn)	down 3.5%
Profit before tax	£2.26m	(2008: £12.60m)	down 82%
Profit after tax	£1.69m	(2008: £8.94m)	down 81%
Mortgage balances	£1.76bn	(2008: £1.88bn)	down 6.5%
Retail balances	£1.88bn	(2008: £1.75bn)	up 7.3%
Gross capital	5.65%	(2008: 5.23%)	
Free capital	5.52%	(2008: 5.13%)	

Liquid assets	20.77%	(2008: 20.12%)	
Management expense ratio	0.39%	(2008: 0.41%)	improved 4.9%
Lending ratio	11.71%	Statutory limit	25%
Funding ratio	9.34%	Statutory limit	50%
Net interest margin	0.58%	0.88% latest industry comparable	see note

note: Latest industry comparable for net interest margin is the average of the top 17 societies from results reported between December 2008 and April 2009 so may not be a like for like comparison.

After adjusting for items that are considered to be one off in nature, the result of timing differences or the recent market turbulence, the Group's core operating profit was as follows:

	2009	2008	2007	2006
	£'000	£'000	£'000	£'000
Profit before tax	2,261	12,603	5,713	5,954
Adjustments:				
(Gain) on repayment of subordinated debt	-	(8,550)	-	-
Net losses/(gains) from fair value volatility	(1,901)	1,382	(100)	(445)
Impairment of investment securities	423	512	-	-
Impairment of mortgage assets	2,794	3,280	-	-
FSCS levy	784	1,043	-	-
Core operating profit	4,361	10,270	5,613	5,509

In difficult trading conditions the Society has made higher provisions on certain of its loans. Despite these increased provisions, actual losses incurred as a result of bad debts have been insignificant to date at only £64,000.

The net interest margin remains below the industry average demonstrating that the Society is giving more back to its members through superior interest rates than the industry generally. This is largely due to the lower costs of operating the business because of Easiprocess. In addition to providing back office services to the Group this subsidiary continues to provide services to a Jamaican based mutual Building Society, is supporting a UK based Law firm and is also providing telephone support for a Sharia compliant cash card operated in conjunction with MasterCard.

Our Channel Islands subsidiaries continue to perform very well in the domestic mortgage markets of Guernsey and Jersey.

Our strategy continues to be to drive down relative costs and control real costs while at the same time continuing to run the business in a prudent manner. We believe that we are well placed to negotiate our way through the difficulties ahead in the global financial markets and we will continue to offer a safe haven for investors.

In summary we believe that we continue to live out the rationale for being a building society - offering competitively priced mortgages and a safe and secure place for savings whilst contributing to the local communities in which we operate. We expect our offshore capability to be a critical part of our future and we expect to be able to supply services to more third parties in the year to come.

KENT RELIANCE BUILDING SOCIETY GROUP

**FINANCIAL RESULTS FOR THE YEAR ENDED 30 SEPTEMBER 2009
SUMMARY**

INCOME STATEMENT	2009	2008
	£'000	£'000
Net interest receivable	13,432	18,580
Gain on repayment of subordinated debt	-	8,550
Other income and charges	2,170	(109)
Administrative expenses	(8,884)	(9,260)
Provisions	(4,457)	(5,158)
	2,261	12,603
Profit for the year before taxation	2,261	12,603
Taxation	(573)	(3,666)
	1,688	8,937
Profit for the year	1,688	8,937

BALANCE SHEET	2009	2008
	£'000	£'000
Assets		
Liquid assets	429,710	444,186
Mortgages	1,611,580	1,784,871
Other loans	146,716	95,612
Fixed and other assets	68,933	15,252
	2,256,939	2,339,921
Total assets	2,256,939	2,339,921
Liabilities		
Shares	1,875,815	1,747,553
Borrowings	193,356	460,026
Other liabilities	70,840	16,860
Subordinated liabilities	26,703	27,058
Subscribed capital	36,901	36,843
Reserves	53,324	51,581
	2,256,939	2,339,921
Total liabilities	2,256,939	2,339,921

Notes and background information:

- These results are published under International Financial Reporting Standards (IFRS) and the accounting policies are in accordance with all standards and related interpretations that have been adopted by the European Union as at 30 Sept 2009. While profits under IFRS are expected to be more volatile the net impact on this year's result has not been substantial.
- Comparison between 2009 and 2008 is not necessarily like for like due to the capital restructuring that took place in 2008.
- The Kent Reliance Group is made up of Kent Reliance Building Society, Jersey Home Loans Limited, Guernsey Homeloans Limited, Easioption Limited, Easiprocess Private

Limited, EasiOption BPO Services Private Limited and Reliance Property Loans Limited.

4. Kent Reliance is the only society to have an offshore outsource operation - Easiprocess -based in Bangalore and a third party operation based in Pune - EasiOption.
5. The Society has pursued a branch to agent franchise programme such that it now has only two branches remaining.
6. Kent Reliance is the only building society to have a Jersey registered mortgage business - Jersey Homeloans.
7. Kent Reliance also operates on Guernsey through Guernsey Homeloans. Channel Islands business - which accounts for 43% of the Group mortgage assets - is all serviced from the Society's offices in Chatham and Bangalore.

This information is provided by RNS
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