



## Britannia news release

9 February 2005

### Record year for Britannia as lending tops £6 billion

- Total lending up 28% at £6.3 billion
- Member benefits total over £120 million
- Assets under management top £25 billion
- Record operating profit of £140.4 million
- £60 million customer service systems win multiple awards

Britannia, the UK's second biggest building society, confirmed a year of award-winning achievements with record lending of £6.3 billion, record operating profit and £60m worth of customer service systems upgrades completed.

Total lending for the year was up 28% on last year's total of £4.9 billion, with both the Membership business and Britannia Capital Investment Group delivering best-ever figures.

Britannia Group Chief Executive Neville Richardson said: "These results show that it is possible to thrive in a highly competitive market while maintaining a prudent lending approach. This ensures borrowers are less likely to suffer in the event of a change in the economic picture, and the Society is protected against the worst effects of a housing market downturn."

Britannia's quality of lending remained high in 2004. Just 3.9% of Group residential lending was at more than 90% loan to value with the average mortgage loan-to-value (LTV) at just 65%. Some 94% of lending was at multiples of 3.5 times salary or less, minimising the risk of bad debt. Group arrears over 12 months remained negligible at less than £1 million - below the industry average - and losses were insignificant.

Operating profit, before Britannia Membership Reward, was ahead of target at £140.4 million (31 December 2003: £134.3 million). In addition to Britannia's annual share of profits through its unique Membership Reward – which this year totalled £42 million - the Society continued its policy of passing on to Members the benefits of operational efficiency and mutual status through competitive pricing. The total value of these benefits for Members was more than £120 million.

Britannia Capital Investment Group (BCIG) contributed £90.3 million (31 December 2003 : £76.0 million) of profits – continuing proof of the wisdom in investing in these businesses. Membership business profits were on target at £50.1 million (£58.3 million) – evidence of the commitment to Members to make only the profit necessary to remain financially strong.

Britannia's success has been recognised with a raft of industry awards for lending, innovation and customer service during the year, including best direct mortgage lender and best adverse credit lender for the second year running.

Sales success meant a reduced costs to assets under management ratio of 0.78 % (31 December 2003 : 0.81%). Overall expenses of £153.6 million (31 December 2003 : £143.1 million) reflected increased spending on developing the BCIG companies and the cost of meeting the Financial Services Authority's new mortgage regulation requirements.

Depreciation charges rose 12% to £32.1 million (31 December 2003 : £28.6 million), following the increased investment in systems in recent years to enhance customer service. Loss provisions fell by 49% to a low £7.3 million (31 December 2003 : £14.2 million) – emphasising the strength of the Britannia mortgage book.

Britannia's Membership business delivered best-ever sales figures for mortgages, insurance and investment products. This sales success was in part due to the completion of a new sales excellence training programme, designed to ensure we meet customers' needs, run throughout the contact centre and branch network. The Membership business sells direct to customers rather than paying fees to financial intermediaries.

Throughout the year the Membership business continued to improve its product range and towards the end of the year reduced its headline standard variable mortgage rate by 0.4 %, to become one of the best value providers in the sector.

The new 50/50 Guaranteed Bond was an instant success, contributing to a 62 % increase in investment sales during the year. The new telephone-operated Direct Saver account, which was launched in August, has

attracted balances of over £500 million. Overall, highly competitive market pricing continued to make it difficult to attract new retail funds and there was a modest increase in retail funds for the year up to £11.8 billion.

The Society further developed its position as a leading provider of affinity accounts for Unison, Police Mutual, Manchester United and many other major football clubs with a 51 % increase in mortgage sales to nearly £500 million.

In the annual Your Mortgage magazine awards, Britannia was best direct mortgage lender for the second year running and highly commended in the best building society and best first time buyer lender categories. Platform was voted best adverse credit lender for the second year running and was highly commended intermediary lender.

In the first full year of operation after Britannia merged its Platform and Verso subsidiaries to offer a one-stop service to mortgage intermediaries, lending increased by 60% to £2.6 billion – ahead of expectations. Britannia Commercial Lending loaned over £500 million, similar to last year.

Britannia Treasury Services completed two securitisations that provided £1.7 billion of funding to the Group.

In October Britannia announced it had chosen AXA Sun Life to provide life, pension, protection and investment sales. This arrangement started in January 2005, when new FSA rules on the sale of regulated products came into effect, and means Britannia members can buy AXA mortgage and life protection, investments, pensions, annuities, unit trusts and ISAs, in Britannia branches and via a dedicated telesales team.

The Society's completion of its £60 million core systems replacement programme is enabling Britannia to take service to a higher level and customers are beginning to reap the benefits. The new systems enable the provision of a one-touch service for Members – they are asked for information just once, irrespective of which channel they use – and allow Britannia to offer mortgages with a range of flexible features.

Success in delivering a programme of such scale has been recognised with a number of awards, including the British Computer Society's (BCS) flagship award for overall business achievement. Information systems services manager, Mark Jacot, also deservedly won the BCS IT service manager of the year award.

Britannia's website and its customer magazine also won awards during the year, and the Society retained its Investors in People accreditation.

## Commentary

Britannia Group Chief Executive Neville Richardson said: "These strong results show we are competing effectively in our target markets and can deliver good performance for our members in this low margin environment. We've achieved record lending with a responsible approach and that means avoiding high risk lending which could cause problems in a market downturn. From a solid platform, we have invested significantly to improve service to those who matter most—our Members and customers.

"No external shareholders stand between Britannia and our Members, so our Member business can maximise the value it provides by retaining only the profit necessary to fund future growth, while the Britannia Capital Investment Group is generating increasing returns for Members through the unique Britannia Membership Reward.

"We expect to see a soft landing in the housing market, with a period of low or no growth in house prices. Our focus on quality lending will minimise the risk of increased arrears and bad debts should the economic outlook deteriorate."

Ends

Notes to news editors

Britannia is the UK's second biggest building society with 2.2 million members and £25 billion of assets under management. Based in Leek, Staffs, the group employs 3,900 people.

Britannia Group Chief Executive Neville Richardson and Group Finance Director Phil Lee are available for interview on Wednesday 9 February. To arrange to speak to them, or for further information, please contact Graham Leftwich or David Ginivan in the Britannia corporate communications team on 01538 393075/391107 or e-mail [corp.comms@britannia.co.uk](mailto:corp.comms@britannia.co.uk)

## Summary Statement

for year ended 31 December 2004

	<b>2004</b>	2003
	<b>Total</b>	Total
	<b>£m</b>	£m
<b>Group results for the year</b>		
Net interest receivable	<b>207.3</b>	217.8
Other income and charges	<b>126.1</b>	102.4
Administrative expenses	<b>(153.6)</b>	(143.1)
Depreciation and amortisation	<b>(32.1)</b>	(28.6)
	<b>(185.7)</b>	(171.7)
Profit before provisions and Britannia Membership Reward	<b>147.7</b>	148.5
Provisions for bad and doubtful debts	<b>(7.3)</b>	(14.2)
Profit before Britannia Membership Reward	<b>140.4</b>	134.3
Britannia Membership Reward	<b>(42.1)</b>	(42.0)
<b>Profit on ordinary activities before tax</b>	<b>98.3</b>	92.3
Tax on profit on ordinary activities	<b>(26.9)</b>	(27.0)
<b>Profit for the year</b>	<b>71.4</b>	65.3

<b>Financial position at end of year</b>	<b>2004 Total £m</b>	<b>2003 Total £m</b>
<b>Assets</b>		
Liquid assets	<b>6,667.5</b>	5,959.7
Mortgages	<b>16,139.1</b>	14,581.9
Other loans	<b>71.2</b>	35.0
Fixed and other assets	<b>420.0</b>	352.2
<b>Total assets</b>	<b>23,297.8</b>	20,928.8
<b>Liabilities</b>		
Shares	<b>11,798.8</b>	11,103.6
Borrowings	<b>9,448.0</b>	8,072.9
Other liabilities	<b>326.7</b>	299.6
Subordinated liabilities	<b>447.7</b>	247.5
Subscribed capital	<b>110.0</b>	110.0
Reserves	<b>1,163.5</b>	1,092.1
Other capital	<b>3.1</b>	3.1
<b>Total liabilities</b>	<b>23,297.8</b>	20,928.8
<b>Non – recourse finance</b>	<b>1,990.6</b>	1,062.9
<b>Total assets under management</b>	<b>25,288.4</b>	21,991.7

## Segmental information

The Group reports through two principal business segments: Membership business and Britannia Capital Investment Group ('BCIG'). An analysis of the Group profit before Britannia Membership Reward and Group total and net assets is provided in the table below:

	<b>Membershi p business 2004 £m</b>	<b>BCIG 2004 £m</b>	<b>Total Group 2004 £m</b>	<b>Membership business 2003 £m</b>	<b>BCIG 2003 £m</b>	<b>Total Group 2003 £m</b>
Profit before Britannia Membership Reward	50.1	90.3	140.4	58.3	76.0	134.3
Net assets	1,157.8	118.9	1,276.7	1,109.4	95.8	1,205.2
Total assets	15,072.8	8,225.0	23,297.8	14,373.7	6,555.1	20,928.8
Non-recourse finance	-	1,990.6	1,990.6	-	1,062.9	1,062.9
Assets under management	15,072.8	10,215.6	25,288.4	14,373.7	7,618.0	21,991.7

In order to analyse net interest between the BCIG and Membership business segments it is necessary to apply a transfer price to the internal funding of the BCIG businesses.

Total and net assets represent the actual assets of the businesses within each of the segments after elimination of balances outstanding between these businesses.

Assets under management comprise total Group assets after adding back non-recourse finance.

## Consolidated cashflow statement

	<b>2004</b>	2003
	<b>Total</b>	Total
	<b>£m</b>	£m
Net cash inflow from operating activities (see below)	<b>436.4</b>	716.2
Interest paid on subordinated liabilities and subscribed capital	<b>(37.1)</b>	(27.0)
Taxation	<b>(9.7)</b>	(12.8)
Net capital investment	<b>(22.2)</b>	(25.4)
Net financial investment	<b>(570.8)</b>	(670.9)
Financing - issue of subordinated liabilities	<b>200.0</b>	-
Decrease in cash	<b>(3.4)</b>	(19.9)
 <b>Reconciliation of operating profit to net cash inflow from operating activities:</b>		
Operating profit after provisions and Britannia Membership Reward	<b>98.3</b>	92.3
Depreciation	<b>29.9</b>	26.4
Net increase in loans and advances to customers	<b>(1,598.9)</b>	(1,395.1)
Net increase in shares	<b>657.4</b>	709.4
Net movement in balances with credit institutions	<b>377.8</b>	(138.5)
Net increase in debt securities in issue	<b>846.8</b>	1,482.0
Other movements	<b>25.1</b>	(60.3)
	<b>436.4</b>	716.2

**Notes:**

1. The financial information set out above, which was approved by the Board on 8 February 2005, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The financial information has been prepared on the basis of the accounting policies adopted by the Society and set out in the Annual Accounts to 31 December 2004 and 31 December 2003.
3. The financial information for the years ended 31 December 2004 and 31 December 2003 has been extracted from the Annual Accounts for those years. Annual Accounts for the year ended 31 December 2003 have been filed with the Financial Services Authority and those for the year ended 31 December 2004 will be filed with the Financial Services Authority following publication. The Auditors' Reports on the Annual Accounts for both years were unqualified.
4. This is the last set of financial statements which the Group will prepare in accordance with United Kingdom Accounting Standards. Subsequent financial statements will be prepared in accordance with International Accounting Standards