

Business Review 2006



Mimi Keder
Member adviser
Bedminster

Including the summary financial statement

Summary financial statement

for the year ended 31 December 2006

This is a summary of information in the audited annual accounts, the directors' report and annual business statement, all of which are available to members and depositors free of charge on demand at every office of Britannia Building Society from 28 March 2007.

Summary directors' report

2006 was Britannia's most successful year yet, thanks to our highly engaged people, working to a consistent strategy and clear on the organisation's values and purpose and their roles in delivering them.

Improved customer satisfaction, industry-leading levels of employee engagement, record mortgage sales, increased sales of savings and investments, reduced costs and enhanced profits were all delivered. We completed ahead of schedule the integration of the former Bristol & West branch network into our Member Business and delivered a range of improvements to efficiency and effectiveness.

Our continued focus on our Group strategy is key to our success. By emphasising our values, putting customers first, being easy to do business with, being excellent at communications, taking personal responsibility and being faster, cheaper, better, thereby ensuring that all 5,000 Britannia Group employees have a consistent, clear sense of purpose.

New business integration

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

Around 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.

Our new members 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 through our unique Britannia membership reward (BMR).

The integration of customer systems was completed in July 2006, three months ahead of target, with more than a million customer accounts switching to 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. The Society also made no compulsory redundancies, offering roles to each of its 800 new employees.

Branches in 65 towns where Britannia was not previously present have been rebranded - all Britannia members can now transact at 253 branches around the UK, as well as by phone or online. We also completed a £15 million refurbishment of all our new branches while upgrading another 40 of our existing branches.

Britannia has opened a new administrative office in Bristol and based a savings call centre there - all other savings and mortgage calls continue to be managed from our base in Leek, Staffordshire.

Business performance

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

Profit before tax and BMR was up at a record £130 million (2005 : £121 million).

Both the Member Business - the traditional building society part of the Group - and Britannia Capital Investment Group (BCIG) were ahead of profit targets. As a mutual, our Member Business makes only the profit needed to maintain financial strength and we pass to members operational efficiency benefits through competitive pricing of savings and mortgages.

BCIG's success meant we were able to maintain last year's increased level of BMR. For the 2006 reward, we are sharing over £51 million with our members, making a total of more than £470 million over 11 years.

Total assets grew to £35.1 billion (2005 : £32.4 billion). Total mortgage lending was a record £8.4 billion (2005 : £6.9 billion) - up 22% on 2005 despite the market being relatively quiet in the first few months. Both the Member Business and Platform saw significant increases in mortgage sales. Platform launched a revised product range, along with a new online application process for brokers. Total net lending was £2.3 billion (2005 : £2.6 billion).

Quality of lending remained high. Just 14.6% of Group residential lending for the year was at more than 90% loan to value (LTV) with the average LTV at 67%. Britannia's continued focus on quality lending meant that arrears over 12 months remained relatively small.



Ian Adam
Chairman



Neville
Richardson

“2006 was Britannia’s most successful year yet, thanks to our highly engaged people, working to a consistent strategy...”

Neville Richardson
Group chief executive

Summary statement (for the year ended 31 December 2006)

In its second year of operation, Britannia’s agreement with AXA to provide life, pension, protection and investment products through the Britannia branch network outperformed expectations. Customer satisfaction scores are at their best-ever levels and independent research confirms levels of employee engagement at Britannia are among the best in the UK. Customer satisfaction starts with having the right people in the right roles, inspirationally led, with appropriate training and development and the right incentives and reward.

Reward for everyone in the Britannia Group depends in part on customer satisfaction. Only if our members and customers are happy can we claim to be doing a good job. A further big reduction in complaints during the year, suggests we are doing many things better, although we are well aware that we have more to do; and for which we have plans in 2007.

These record results reflect a growing business that delivers consistently for our members. Our new members, branches and assets have provided additional opportunities for growth as we complete our transformation into one business.

We expect 2007 to see more of the same – a flat housing and mortgage market, with little or no growth, and no significant moves in interest rates.

Our prudent approach to lending and our proactive arrears management mean our exposure to a market downturn remains very low. Together with our low cost base, flexible working practices and innovative approach to lending, we can continue to prosper in a less buoyant market.

We expect conditions to remain highly competitive for both savings and lending. If, as has been widely predicted, this triggers consolidation in the market and, in particular, in the building society sector, we are well placed to take advantage of any opportunities that would benefit Britannia members.

Group results for the year

	2006 £m	2005 £m
Net interest income	329.7	292.2
Other income and charges	52.0	48.8
Fair value gains and losses	29.7	(2.5)
Administrative expenses	(275.9)	(209.9)
Impairment losses on loans and advances	(5.1)	(8.1)
Profit before tax and Britannia membership reward	130.4	120.5
Britannia membership reward	(51.2)	(48.0)
Profit before taxation	79.2	72.5
Taxation expense	(22.2)	(21.3)
Net profit	57.0	51.2

Financial position at end of year

	2006 £m	2005 £m
Assets		
Liquid assets	11,210.6	10,629.9
Mortgages	23,129.2	20,865.7
Derivative financial instruments	339.4	506.3
Fixed and other assets	470.2	431.5
Total assets	35,149.4	32,433.4
Liabilities		
Shares	17,137.7	17,038.1
Borrowings	15,644.0	13,227.7
Other liabilities	337.0	336.3
Derivative financial instruments	329.1	285.1
Subordinated liabilities	561.6	477.1
Reserves	1,142.9	1,065.0
Other capital	(2.9)	4.1
Total liabilities	35,149.4	32,433.4

Summary of key financial ratios

	2006 %	2005 %
As a percentage of shares and borrowings		
gross capital	7.25	7.07
liquid assets	40.55	40.31
As a percentage of mean total assets		
profit for the year	0.17	0.18
management expenses - (statutory ratio)	0.82	0.73
management expenses - (excluding integration costs of the branch network and retail savings business of Bristol & West)	0.76	0.71

Gross capital as a percentage of shares and borrowings

The **gross capital ratio** measures the proportion that the Group's capital bears to the Group's liabilities to holders of shares, depositors and other providers of funds (investors).

The Group's capital consists of profits accumulated over many years in the form of reserves, together with subordinated liabilities and permanent interest bearing shares which cannot be repaid in priority to ordinary investors. Capital provides a financial cushion against difficulties that might arise in the Group's business and, therefore, protects investors.

Liquid assets as a percentage of shares and borrowings

The **liquid assets ratio** measures the proportion that the Group's assets held in the form of cash and cash equivalents, treasury bills and loans and advances to credit institutions and debt securities bears to the Group's liabilities to investors.

Most of the Group's assets are long-term mortgages which cannot be converted quickly into cash, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

This ratio includes within the Group's liquid assets £3,381.9 million (2005 : £2,548.9 million) of asset backed and mortgage backed securities. The Group holds these as investments and thus excludes them when reporting liquidity to its regulator.

Profit for the year as a percentage of mean total assets

The **profit to assets ratio** measures the proportion that the Group's profit after taxation for the year bears to the average of the Group's total assets during the year.

The Group needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors. However, a building society does not have to pay dividends to equity shareholders as a company does. The Group is, therefore, able to operate with lower profits than a bank and can generally provide better mortgage and savings rates and a Britannia membership reward.

Management expenses as a percentage of mean total assets

The **management expenses ratio** (or cost to assets ratio) measures the proportion that the Group's administrative expenses, depreciation and amortisation bears to the average of the Group's total assets during the year.

Management (or administrative) expenses consist mainly of the costs of employing people and of running the Group's branches, other office costs and advertising. Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that members require.

Website

As well as our branch network and call centre, Britannia can be contacted via our website, britannia.co.uk. The maintenance and integrity of the Britannia website is the sole responsibility of the directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of directors on 26 February 2007 and signed on its behalf by:


Ian Adam
Chairman



Neville Richardson
Group chief executive



Phil Lee
Group finance director

Independent auditors' statement to the members and depositors of Britannia Building Society

We have examined the summary financial statement of Britannia Building Society on pages 2 to 4 of this document.

Respective responsibilities of directors and auditors

The summary financial statement is the responsibility of the directors. Our responsibility is to report to you our opinion on its consistency with the full annual accounts, annual business statement and directors' report and its conformity with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Business Review 2006 brochure and consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the summary financial statement.

This statement, including the opinion, has been prepared for, and only for, the Society's members as a body and depositors as a body in accordance with Section 76 of the Building Societies Act 1986, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose, or to any other person to whom this statement is shown, or into whose hands it may come, save where expressly agreed by our prior consent in writing.

Basis of opinion

We performed our work in accordance with the Bulletin 1999/6 'The Auditors' Statement on the Summary Financial Statement' issued by the Auditing Practices Board for use in the United Kingdom.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, annual business statement and directors' report of the Britannia Building Society Group for the year ended 31 December 2006 and conforms with the requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.



PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
Manchester
26 February 2007

Report of the remuneration committee

To succeed in our mission to be known as Britain's best mutual and to manage members' assets of more than £35 billion, we must have the best people in place to manage the business and reward them for performance that improves the value and service we offer you. This report explains how the remuneration committee, on behalf of the Board, decides the appropriate levels of pay and benefits to attract, keep and reward directors and senior managers.

We are committed to best practice in governance and have again put forward a resolution at the Annual General Meeting inviting you to approve the report on directors' pay.

A copy of the full remuneration report is contained in the 2006 annual report and accounts and can be found on our website, britannia.co.uk, from 28 March 2007. A summary of the main points is provided below.

Britannia is run exclusively for its members and your remuneration committee ensures Britannia can attract and retain the right people to manage the business in your interests by offering the appropriate rewards and incentives. Your remuneration committee is made up of three experienced non-executive directors – Chris Jones, a solicitor; Tom Sawyer, a member of the House of Lords and Britannia chairman Ian Adam. Directors' rewards are reviewed each year by the committee and we base our decisions on three key factors – level of responsibility, external market competitiveness and individual performance in the role. External advice has been provided by Hay Group and Watson Wyatt.

Currently the reward package of the directors consists of four elements; salary, annual bonus, long-term incentive and benefits.

Salary

Britannia salaries are set in line with the mid-point of salaries paid for comparable positions among similar financial services organisations and are linked to individual performance.

Annual bonus

Senior management pay includes an annual bonus which is dependent on the achievement of key targets and is, therefore, at risk if those targets are not achieved. A threshold level of performance is set for each element of the annual bonus below which no bonus is paid. A maximum level is also set at which annual bonus is capped.

Details of the 2006 bonus scheme were provided in the report on directors' remuneration in 2005 and received strong support from members. Bonuses are aligned with the corporate strategy through links to profit, costs, customer satisfaction, employee satisfaction and achieving personal objectives.

The 2006 scheme pays a bonus of 35% of salary for the achievement of targets across all measures. The maximum bonus, available for achieving exceptional performance, has been reduced from 70% to 65% of salary to reflect the introduction of the long-term incentive plan in 2006 (see below for more information). 3/7ths of any payment is deferred. 2/7ths, will be paid in late 2007 and the remaining 1/7th will be paid in late 2008 provided that the directors remain with the Society for that period.

To recognise the importance of the Britannia Capital Investment Group (BCIG) to overall Group results, an additional bonus of up to 20% of annual salary is available to Gerald Gregory, managing director of BCIG. This is payable only for exceptional performance against stretching financial and regulatory targets relating to BCIG and has been reduced from 30%, again to recognise the new long-term incentive plan introduced during 2006.

Payments for 2006 reflect the Group's strong performance and are detailed in the 2006 annual report and accounts.

The 2007 annual bonus will continue to be linked to the corporate strategy by having annual targets connected to profit, costs, customer and employee satisfaction and the achievement of personal objectives. The maximum annual bonus will reduce to 60% for 2007 and 50% for 2008 to continue to reflect the introduction of the long-term incentive plan. 1/3rd of any 2007 bonus will be deferred for payment until late 2008. The additional bonus for Mr Gregory will be further reduced to 10% in 2007 and nil in 2008, again to reflect the introduction of the long-term incentive plan. 3/7ths of any of this additional bonus will be deferred for payment in 2010.

Long-term incentive plan

A long-term incentive plan was approved by members at the 2006 Annual General Meeting and now forms part of the reward for our senior team. Awards will be made under the plan annually.

How does the long-term incentive plan work?

Annually, a provisional award is made that sets challenging targets over a three-year period designed to increase membership, improve the value you receive and keep customers and members happy.

The maximum bonus that will be paid is 60% of basic salary. There is a minimum Group profit level that must be achieved before any bonus is paid to ensure that the financial health of the business is sound. A new three-year performance cycle will start each year.



Chris Jones

“...we must have the best people in place to manage the business and reward them for performance that improves the value and service we offer you.”

Chris Jones

Chairman of the remuneration committee

Report of the remuneration committee continued...

What measures are used?

The plan is based on three key measures that we believe will show that your senior management team is delivering for you:

- the annual Britannia membership reward – your share of the profits we make each year;
- member satisfaction – we want you to be happy with the service you receive from us; and
- the appropriate net interest margin – the best measure of the overall value we deliver to our savers and borrowers.

Who benefits?

The plan is open to the senior management team including the group executive directors who are group chief executive Neville Richardson, group finance director Phil Lee, Member Business managing director Tim Franklin, BCIG managing director Gerald Gregory, together with director of organisational development, Karen Moir. The plan is also open to the business leaders across the group.

How will we know the incentive is working?

Your remuneration committee will continue to review the senior management team's reward each year, including achievement of targets and members will be asked to approve their report at our Annual General Meeting.

Benefits

The remuneration committee works with independent external experts to benchmark its benefits and positions them at the mid-point of the market.

Period of notice

All executive directors have a rolling one-year contract of employment.

Directors' remuneration

Remuneration of the Society's directors is detailed below:

	2006					2005				
	Salary/ fee £000	Performance related bonus (payable March 2007) £000	Performance related bonus (deferred) £000	Other benefits (including movement in accrued pension) £000	Total £000	Salary/ fee £000	Performance related bonus (payable March 2006) £000	Performance related bonus (deferred) £000	Other benefits (including movement in accrued pension) £000	Total £000
Executive directors										
Neville Richardson	352	125	93	46	616	335	137	84	47	603
Tim Franklin (appointed 22 March 2005)	210	74	56	31	371	143	47	36	21	247
Gerald Gregory	230	98	74	32	434	214	77	63	32	386
Phil Lee	225	79	59	31	394	204	85	52	30	371
Non-executive directors										
Ian Adam	120	-	-	-	120	98	-	-	-	98
Rodney Baker-Bates (appointed 19 July 2006)	17	-	-	-	17	-	-	-	-	-
Bill Gordon	60	-	-	-	60	58	-	-	-	58
Francis Gugen	38	-	-	-	38	36	-	-	-	36
Helen Keays	38	-	-	-	38	36	-	-	-	36
Chris Jones	45	-	-	-	45	42	-	-	-	42
Bridget Rosewell	45	-	-	-	45	42	-	-	-	42
Tom Sawyer	45	-	-	-	45	36	-	-	-	36
Elizabeth Walmsley (retired 30 June 2005)	-	-	-	-	-	18	-	-	-	18
Total	1,425	376	282	140	2,223	1,262	346	235	130	1,973

Total directors' remuneration for 2006 has increased compared to 2005 primarily due to a full year's remuneration for Tim Franklin who was appointed during 2005.

The narrative of this brochure is available in large print, Braille and on audio tape.
For further information, please contact a member of staff at your local branch.

Britannia Building Society is authorised and regulated by the Financial Services Authority. All loans are subject to status, valuation and Rules of the Society, copies of which are available on request. Britannia undertakes to comply with The Banking Code. Copies of this Code are available from any of the Society's branches or by calling 0800 132 304. Telephone calls may be recorded and/or monitored. Lines are open 8am-8pm weekdays and 9am-12noon Saturdays. Calls from landline phones are free however mobile providers may charge. (Rates may vary but are correct at time of going to print 5 March 2007).

Britannia is committed to improving the financial position of our members. To help do this, we may from time to time write to you with details of products and services which may be of interest to you. If at any time you decide that you no longer wish to receive such information from us, please tell us either in writing or by visiting your local branch. Rest assured that if in the past you have asked not to receive this information, you do not need to contact us again. Britannia takes privacy and security of its members' data seriously. We have published a guide to the Data Protection Act called 'Personal Information and How We Use It' which sets out the ways in which we handle the information we hold about you, and your rights in respect of that information. If you would like a copy, please call in to your local branch, or visit our website britannia.co.uk/security.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE

The information contained within this brochure is correct at time of going to print (5 March 2007).



This brochure has been made from 50% recycled waste and 50% pulp sourced from sustainable forests.