



8 September 2004

Britannia news release

Britannia Building Society interim results announcement for the six months ended June 30 2004

Loan quality remains high as Britannia achieves record lending

- Operating profit at £67.9 million +7.6%
- Record lending of £2.9 billion for the half year +73%
- Asset quality remains strong, average loan to value only 66%
- £60m investment in new customer service systems completed
- Savings range enhanced with the launch of DirectSaver

Britannia Building Society produced a strong performance for the first half of the year, with record lending of £2.9 billion, operating profit hitting target and £60m worth of customer service systems improvements completed.

Total lending for the six months was up 73 per cent on last year's first half of £1.7 billion. All three lenders within the Group - Britannia Building Society, Platform and the Commercial lending department- delivered record first half figures.

Quality of lending remains high. Just 4.4 per cent of Group residential lending for the half year was at more than 90 per cent loan to value with the average mortgage LTV at just 66 per cent. 94% of lending is at multiples of 3.5 times salary or less, minimising the risk of bad debt.

Operating profit was £67.9 million (30 June 2003: £63.1 million), an increase of 7.6 per cent. In addition to Britannia's Membership Reward which is paid at the full year, Britannia continued its policy of passing on to members the benefits of operational efficiency and mutual status through competitive pricing. Group interest margin was 0.98 per cent (30 June 2003: 1.07 per cent).

A first half initiative was a major review of savings products to improve their appeal. As a result, Britannia has streamlined its range and has recently launched a new direct savings account, DirectSaver with a headline rate of 5.05 per cent.

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."

Business performance

Gross lending to June 30 2004 totalled £2.9 billion, with net lending up from £268 million to £1.3 billion. Residential lending in the Member business was up 60 per cent compared to the first half of 2003. One year after Britannia merged its Platform and Verso subsidiaries to offer a one-stop service to mortgage intermediaries, lending more than doubled to £1.1 billion – ahead of expectations. The Commercial Lending business saw a 23 per cent increase in lending to £287 million.

Arrears over 12 months remained negligible, less than £1million and bad debts were insignificant.

Sales of life and investment products, general insurance and personal loans also grew during the period. This sales success was in part due to the completion of a new sales excellence training programme, run throughout the contact centre and branch network.

Increased volumes of business, particularly in the subsidiaries, and market development led to a planned increase in costs to £76.8 million (30 June 2003: £70.2 million). The increase in depreciation and amortisation was due to our investment in new systems.

The Society's successful completion of its £60 million core systems replacement programme will enable Britannia to take service to a new, higher level and our customers are beginning to reap the benefits. The new systems are enabling the provision of a one-touch service for members – we only ask for information once, irrespective of which channel they use. The new systems have also allowed Britannia to offer all mortgages on a daily interest basis.

Although our branches remain key to sales and service strategy, customers are increasingly choosing to use Britannia's direct channels, the contact centre and website, with around half of all mortgage sales now made through these channels.

Commentary

Britannia group chief executive Neville Richardson said: "Maintaining healthy profit levels and investing in service while keeping margins low and products competitively priced shows that our unique mutual model is working for our members.

"Our Member business maximises the value it provides to members by retaining only the profit necessary to fund future growth, while the Britannia Capital Investment Group companies are generating returns for our members in the form of the Britannia Membership Reward. No external shareholders stand between Britannia and our members.

"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 Editors

Britannia is the UK's second biggest building society with 2.2 million members and £23 billion of assets under management. Based in Leek, Staffordshire, the group employs 3,500 people.

Britannia Group Chief Executive Neville Richardson and Group Finance Director Phil Lee are available for interview on Wednesday 8 September 2004. 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

BRITANNIA BUILDING SOCIETY

2004 HALF YEAR RESULTS

GROUP INCOME AND EXPENDITURE ACCOUNT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

| | Six months to 30 June (Unaudited) | | Full Year |
|---|--|--------------------|--------------------|
| | 2004 £m | 2003 £m | 2003 £m |
| Interest receivable | 456.9 | 396.4 | 794.9 |
| Interest payable | (351.9) | (295.1) | (577.1) |
| Net interest receivable | 105.0 | 101.3 | 217.8 |
| Other income | 58.6 | 50.2 | 102.4 |
| Total income | 163.6 | 151.5 | 320.2 |
| Administrative expenses | (76.8) | (70.2) | (143.1) |
| Depreciation and amortisation | (17.0) | (13.8) | (28.6) |
| Profit before provisions and Britannia Membership Reward | 69.8 | 67.5 | 148.5 |
| Provision for bad and doubtful debts | (1.9) | (4.4) | (14.2) |
| Profit before Britannia Membership Reward | 67.9 | 63.1 | 134.3 |
| Britannia Membership Reward | - | - | (42.0) |
| Profit on ordinary activities before tax | 67.9 | 63.1 | 92.3 |
| Tax on profit on ordinary activities | (20.8) | (19.6) | (27.0) |
| Profit for the period | 47.1 | 43.5 | 65.3 |

There have been no recognised gains or losses other than the above profits.

BRITANNIA BUILDING SOCIETY**2004 HALF YEAR RESULTS****GROUP BALANCE SHEET AS AT 30 JUNE 2004**

| | Six months to 30 June (Unaudited) | | Full Year |
|---------------------------------------|--------------------------------------|------------|------------|
| | 2004 £m | 2003 £m | 2003 £m |
| ASSETS | | | |
| Liquid assets | 6,021.7 | 5,559.2 | 5,959.7 |
| Loans and advances to customers | 13,850.1 | 11,869.2 | 13,028.9 |
| Other loans | 1,590.9 | 1,549.7 | 1,588.0 |
| | <hr/> | <hr/> | <hr/> |
| | 15,441.0 | 13,418.9 | 14,616.9 |
| Investments | 0.5 | 0.7 | 1.2 |
| Intangible fixed assets | 44.5 | 43.9 | 43.6 |
| Tangible fixed assets | 130.8 | 133.0 | 134.5 |
| Other assets and prepayments | 229.2 | 136.3 | 172.9 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL ASSETS | 21,867.7 | 19,292.0 | 20,928.8 |
| LIABILITIES | | | |
| Shares | 11,152.6 | 10,754.4 | 11,103.6 |
| Amounts owed to credit institutions | 918.1 | 600.7 | 766.1 |
| Amounts owed to other customers | 2,621.7 | 2,254.9 | 2,598.5 |
| Debt securities in issue | 5,139.1 | 3,976.0 | 4,708.3 |
| | <hr/> | <hr/> | <hr/> |
| | 19,831.5 | 17,586.0 | 19,176.5 |
| Other liabilities and accruals | 326.1 | 268.2 | 285.7 |
| Provision for liabilities and charges | 10.2 | 7.0 | 13.9 |
| Subordinated liabilities | 447.6 | 247.4 | 247.5 |
| | <hr/> | <hr/> | <hr/> |
| | 20,615.4 | 18,108.6 | 19,723.6 |
| Subscribed capital | 110.0 | 110.0 | 110.0 |
| Share premium | 3.1 | 3.1 | 3.1 |
| General reserve | 1,139.2 | 1,070.3 | 1,092.1 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL LIABILITIES | 21,867.7 | 19,292.0 | 20,928.8 |

BRITANNIA BUILDING SOCIETY

2004 HALF YEAR RESULTS

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2004

| | Six months to 30 June (Unaudited) | | Full Year |
|---|--|--------------------|--------------------|
| | 2004 £m | 2003 £m | 2003 £m |
| Net cash inflow from operating activities (see below) | 243.4 | 387.1 | 716.2 |
| Returns on investments and servicing of finance | (16.9) | (13.5) | (27.0) |
| Taxation | 3.3 | (1.5) | (12.8) |
| Net capital expenditure | (14.2) | (12.5) | (25.4) |
| Net financial investment | (393.0) | (336.4) | (670.9) |
| Financing - issue of subordinated liabilities | 200.0 | - | - |
| Increase/(decrease) in cash | <u>22.6</u> | <u>23.2</u> | <u>(19.9)</u> |

Reconciliation of operating profit to net cash inflow from operating activities:

| | Six months to 30 June (Unaudited) | | Full Year |
|---|--|--------------------|--------------------|
| | 2004 £m | 2003 £m | 2003 £m |
| Operating profit after provisions and Britannia Membership Reward | 67.9 | 63.1 | 92.3 |
| Depreciation and amortisation | 18.9 | 14.8 | 30.7 |
| Increase in loans and advances to customers | (825.8) | (186.4) | (1,395.1) |
| Net increase in shares | 151.5 | 477.5 | 709.4 |
| Net movement in balances with credit institutions | 543.5 | (485.0) | (138.5) |
| Net increase in debt securities in issue | 422.4 | 757.8 | 1,482.0 |
| Other movements | (135.0) | (254.7) | (64.6) |
| | <u>243.4</u> | <u>387.1</u> | <u>716.2</u> |

BRITANNIA BUILDING SOCIETY

2004 HALF YEAR RESULTS

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. The interim financial information set out above, which was approved by the Board on 7 September 2004, does not constitute accounts within the meaning of the Building Societies Act 1986.
2. The interim financial information has been prepared on the basis of the accounting policies adopted for the twelve months to 31 December 2003.
3. The interim financial information for the six months to 30 June 2004 and 30 June 2003, is unaudited.
4. The financial information for the twelve months to 31 December 2003, 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 Society to review the financial information for the six months ended 30 June 2004, which comprises the Group Income and Expenditure Account, Group Balance Sheet, Consolidated Cash Flow Statement 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. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

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 management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. 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 performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. 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 Society for the purpose of the Listing 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.

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 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
Manchester
7 September 2004

Notes:

- (a) The maintenance and integrity of the Britannia Building Society website 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 website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

