

**Britannia Building Society:**  
business review 2004



**Britannia**

Where membership means a great deal



Ian Adam,  
Chairman.

## SUMMARY FINANCIAL STATEMENT for the year ended 31 December 2004

**This financial statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to Members and depositors free of charge on demand at every office of Britannia Building Society from 1 March 2005.**



Neville  
Richardson, Chief  
Executive.

### Summary Directors' Report

2004 was a successful year for Britannia, as we continued on our mission to become known as Britain's best mutual. We achieved record results and the completion of a major new investment in systems which will enable us to boost customer service, against the backdrop of uncertainty in the housing market, record mortgage lending, intense competition for savings and significant new regulatory changes to integrate into the business.

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

Two years ago we unveiled a new strategy that emphasised the values we hold dear at Britannia. We measure our success by how well we are living these values and by a balance of measures, including customer satisfaction and employee satisfaction, just as much as by our financial performance.

We have continued to invest heavily in the development, training and succession management of our people. This is supported by excellent communication to enable our people to understand the context in which we provide service to the Members of Britannia.

Financial strength is one of the cornerstones of our strategy. Operating profit, before Britannia Membership Reward, was a record £140.4 million (2003 : £134.3 million). In addition to Britannia's annual share of profits through its unique Membership Reward, we continued our policy of

less, amongst the lowest in the industry and thus minimising the risk of bad debt.

The Membership business further developed its position as a leading provider of affinity accounts for Unison, Police Mutual and many major football clubs with increased savings balances and a 51% increase in mortgage sales to nearly £500 million.

The savings and investment market remained highly competitive, and Britannia responded positively with new accounts offering a choice of great rates and the convenience of the High Street. Our new telephone-operated Direct Saver, which was launched in August, attracted balances of over £500 million by the end of the year. Overall, highly competitive market pricing continued to make it difficult to attract new retail funds on a fair basis for the customer for the long term and there was a modest increase in retail funds for the year up to £11.8 billion.

In October we announced we had chosen AXA Sun Life to provide life, pension, protection and investment sales alongside Britannic Asset Management investments. 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.

We welcome the Financial Services Authority assuming responsibility for regulating mortgages – high standards in the market are good news for customers and, ultimately, good news to reputable businesses like Britannia. However, we remain concerned about the weight of legislation and regulation that has been imposed on us in recent years and question whether our customers benefit sufficiently from the ever increasing range of financial and business regulation, the cost of which will ultimately be borne by them.

Ensuring we comply with new regulations has required major investment in systems. This was incorporated into our unprecedented £60 million programme to replace all of our core systems. We have now completed this programme and it is already making us 'easier to do business with', for example, we now offer a 'one-touch' service – dealing with enquiries at first point of contact – to many more of our Members.

Our success in delivering a project of such magnitude has been recognised with a number of highly prestigious awards, including the British Computer Society's flagship award for overall business achievement.

Our challenge now is to use this investment to produce a real uplift in service to our Members. We know that we have not always met customers' expectations in recent months, particularly while the new systems were bedding in, and this will change with our efforts concentrated on creating an outstanding customer experience for our customers and Members going forward.

We would like to take this opportunity to thank the Members' Council, some of whom retired during the year, for their invaluable contribution to the business. Attending four meetings a year and providing us with a Member's view on our strategy, products and services, gives us another insight into the views of the Membership.

Britannia's unique business model meant a great deal for Members in 2004. It was a year of real achievement across the Britannia Group. We have put in place the systems, the values and the people to continue taking the Society forward.

These strong results show we are competing effectively in our target markets and can continue to deliver good performance for our Members in this low margin environment.

The Britannia Membership Reward is our annual share of profits rewarding members for their loyalty. This year 800,000 people shared £42 million.

passing on to Members the benefits of operational efficiency and mutual status through competitive pricing. The total value of these benefits for Members was over £120 million.

Britannia Capital Investment Group (BCIG) contributed £90.3 million of profits. Membership business profits were on target at £50.1 million – the planned reduction through mutual pricing of our products, reflecting a commitment to Members to make only the profit necessary to remain financially strong.

Sales of life and investment products, general insurance and personal loans also grew during the year. This sales success was in part due to the completion of a new sales-excellence training programme designed to ensure we meet customers' needs and which was run through the contact centre and branch network.

The strength of the housing market in the first half of the year helped Britannia achieve record lending of £6.3 billion in 2004, up 28% on last year's total of £4.9 billion, with both the Membership business and Platform delivering record figures. During the year we had many 'best-buy' mortgage products and also reduced our headline standard variable mortgage rate by 0.4%, making it one of the lowest in the industry. The quality of lending remained high. Just 3.9% of Group residential lending was at more than 90% loan to value with the average mortgage loan to value at just 65%. Over 94% of lending was at multiples of 3.5 times salary or

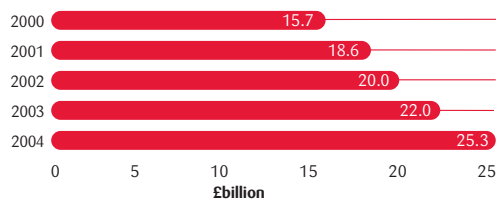
## Summary Statement (for year ended 31 December 2004)

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

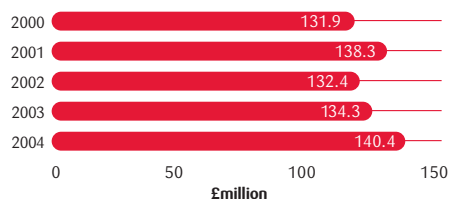
Financial position at end of year	2004 Total £m	2003 Total £m
<b>Assets</b>		
Liquid assets	6,667.5	5,959.7
Mortgages	16,139.1	14,581.9
Other loans	71.2	35.0
Fixed and other assets	420.0	352.2
<b>Total assets</b>	<b>23,297.8</b>	<b>20,928.8</b>
<b>Liabilities</b>		
Shares	11,798.8	11,103.6
Borrowings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

## Five year progress in the Group

### Total Assets Under Management (£bn)



### Operating Profit (£m)



'Total Assets Under Management' represents the Group's total assets after adding back non-recourse finance.  
'Operating Profit' is measured before exceptional items and the Britannia Membership Reward.

## Summary of Key Financial Ratios

	2004 %	2003 %
<b>As a percentage of shares and borrowings</b>		
Gross capital	8.10	7.56
Liquid assets	31.38	31.08
<b>As a percentage of mean total assets</b>		
Profit for the year	0.32	0.33
Management expenses	0.84	0.87
<b>Cost to assets under management</b>	<b>0.78</b>	0.81

### 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 in hand and balances with the Bank of England, 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 £1,394.6 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/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** 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.

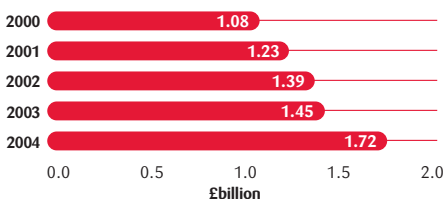
Management (or administrative) expenses consist mainly of the costs of employing people and of running the Group's branches, other office costs and advertising. Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that Members require.

### COST TO ASSETS UNDER MANAGEMENT RATIO

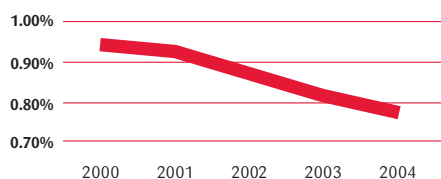
The **cost to assets under management ratio** measures the proportion that the Group's costs (administrative expenses and depreciation, including costs allocated to securitisation vehicles) bears to the average of the Group's total assets (after adding back non-recourse funding) during the year.

## Five year progress in Group

### Gross Capital (£bn)



### Cost to Assets Under Management (%)



'Gross Capital' represents the aggregate of general reserve, subordinated liabilities and subscribed capital. 'Cost' represents administrative expenses and depreciation, including costs allocated to securitisation vehicles and excludes amortisation of goodwill. 'Assets Under Management' represents the amount produced by halving the aggregate of the Group's total assets (after adding back non-recourse finance) at the beginning and end of the financial year.

## Website

As well as our branch network and contact centre, Britannia can be contacted via our website, [www.britannia.co.uk](http://www.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 8 February 2005 and signed on its behalf by:

**I C Adam**  
Chairman

**N B Richardson**  
Group Chief Executive

**P A 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 2004 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

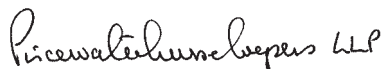
hands it may come, save where expressly agreed by our prior consent in writing.

### 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 2004 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  
8 February 2005

## Directors' Remuneration

To succeed in our mission to be known as Britain's best mutual and to manage Members' assets of more than £25 billion, our Board must comprise high calibre Directors with extensive, relevant experience and expertise. The Directors' Remuneration Report explains how the Board decides the appropriate levels of pay and benefits to attract, retain and reward Directors.

Britannia is committed to best practice in governance. This includes publishing information on Directors' remuneration. We have put forward a resolution at the Annual General Meeting inviting Members to vote on the 2004 Report on Directors' Remuneration. The vote is advisory, and the Board will consider what action is required.

A copy of the full report, which has been approved by the Board, is contained in the 2004 Annual Report and Accounts and can be found on our website [www.britannia.co.uk](http://www.britannia.co.uk) from 1 March 2005. A summary of the main points is provided below.

The Society is led by three full-time Executive Directors and eight part-time Non-executive Directors. All of the Directors represent Members' interests, attending Board meetings and contributing to a range of committees that manage the Society. The Chairman spends an average of 72 days a year on Britannia business, the Deputy Chairman 48 days and each of the other Non-executive Directors at least 30 days.

The Board Remuneration Committee comprises Chris Jones (Chairman), Ian Adam and Tom Sawyer. The Committee

determines the terms and conditions of employment of both the Executive and Non-executive Directors.

Committee members have no direct financial interest in decisions they make and do not take part in discussions regarding their own remuneration.

The remuneration of Executive Directors is based on three principal factors - level of responsibility, external market competitiveness and individual performance in the role. Independent experts are consulted when necessary.

Part of the pay of Executive Directors is made up of performance related bonuses. The size of the bonus depends on the achievement of performance targets in key areas. A threshold level of performance is set for each Executive Director, below which no bonus is paid. A maximum level is also set at which bonuses are capped.

Details of the 2004 bonus scheme for Executive Directors were provided in the Report on Directors' Remuneration in 2003 and received strong support from Members. Under this scheme bonuses were aligned with the corporate strategy through links to Group profit, cost to income ratio, cost to assets under management ratio, customer satisfaction, employee satisfaction and the achievement of personal objectives.

The scheme pays a bonus of 35% of salary for the achievement of target levels across all measures. A maximum of 70% of salary is available for achieving exceptional performance in the measures other than Group profit, as our goal is to return value to Members, not to



Chris Jones,  
Chairman of the  
Remuneration  
Committee.

maximise profits. To ensure Executive focus remains on strategic objectives and to aid retention, 3/7ths of any payment is deferred for two years. Executive Directors will receive deferred amounts only if they remain employed by the Society at the end of the deferral period.

To recognise the importance of the contribution of the Britannia Capital Investment Group (BCIG) to overall Group results, an additional bonus of up to 30% is available to Gerald Gregory. This will be payable only for exceptional performance against stretching financial and regulatory

targets relating to BCIG.

The payment for 2004 reflects the Group's strong performance against target. The 2005 bonus scheme will be exactly the same as the 2004 scheme.

As a mutual the Society does not have share capital and therefore there is no share based remuneration for Directors or employees.

All Executive Director appointments have a rolling one-year contract of employment.

## Directors' Remuneration

Remuneration of the Society's Directors is detailed below:

	2004				2003					
	Salary/fee £000	Performance related bonus (payable March 2005) £000	Performance related bonus (deferred) £000	Other benefits (including movement in accrued pension) £000	Total £000	Salary/fee £000	Performance related bonus (payable March 2004) £000	Performance related bonus (deferred) £000	Other benefits and payments (including movement in accrued pension) £000	Total £000
<b>Executive Directors</b>										
Neville Richardson	319	94	75	38	526	297	80	60	44	481
Gerald Gregory	206	101	76	28	411	195	53	39	30	317
Phil Lee	185	59	44	28	316	180	49	36	66	331
Graham Stow (retired 31 May 2003)	-	-	-	-	-	121	57	-	4	182
John Suffolk (resigned 2 April 2003)	-	-	-	-	-	50	-	-	58*	108
<b>Non-executive Directors</b>										
Ian Adam (Chairman from 2 April 2004)	85	-	-	-	85	54	-	-	-	54
Barrie Bernstein (Chairman until retirement on 2 April 2004)	24	-	-	-	24	92	-	-	-	92
Bill Gordon	52	-	-	-	52	39	-	-	-	39
Francis Gugen (appointed 17 December 2003)	35	-	-	-	35	1	-	-	-	1
Helen Keays (appointed 1 October 2004)	9	-	-	-	9	-	-	-	-	-
Chris Jones (appointed 7 May 2003)	35	-	-	-	35	22	-	-	-	22
Bridget Rosewell	39	-	-	-	39	34	-	-	-	34
Tom Sawyer	35	-	-	-	35	34	-	-	-	34
Elizabeth Walmsley	35	-	-	-	35	34	-	-	-	34
Harry Coe (resigned 31 March 2003)	-	-	-	-	-	9	-	-	34*	43
Rhidian Jones (retired 24 September 2003)	-	-	-	-	-	26	-	-	-	26
	<b>1,059</b>	<b>254</b>	<b>195</b>	<b>94</b>	<b>1,602</b>	<b>1,188</b>	<b>239</b>	<b>135</b>	<b>236</b>	<b>1,798</b>

\*includes £51,154 paid to John Suffolk by way of compensation for loss of office and £34,065 paid to Harry Coe in lieu of notice.

**The narrative of this brochure is also 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 free on 0800 132 304. Telephone calls may be recorded and/or monitored. Lines are open 8am-8pm weekdays and 9am-12noon Saturdays.

**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 (11 February 2005).

Britannia Building Society, Britannia House, Leek, Staffordshire Moorlands ST13 5RG [www.britannia.co.uk](http://www.britannia.co.uk)

 This paper has been made from trees grown in totally sustainable forests. As a mutual, Britannia Building Society fully supports the use of environmentally friendly paper.