Britannia Building Society 150 1856 2006

news

16 February 2006

Britannia Building Society preliminary results for the year ended 31 December 2005

Britannia grows by a third in record year

- Mortgage lending hits all-time high of £6.9 billion
- Member benefits grow to best-ever £130 million
- Integration of branches and savings business from Bristol & West ahead of plan
- Like-for-like profit up 9%

Britannia, Britain's second biggest building society, today reported best-ever lending figures and increased like-for-like profits for 2005 and confirmed it was ahead of plan integrating the newly-acquired Bristol & West branches and savings business.

The acquisition increased Britannia's size by a third in terms of customers, savings balances and branches, and will add long-term value to the Group.

Britannia said industry-leading levels of employee engagement and satisfaction were key to its success, with employees clear about Britannia's strategy and their roles in delivering it. As a result, customer satisfaction continued to improve.

On a like-for-like basis, profit rose 9% to £151.2 million (2004: £138.7 million). Applying new International Accounting Standards, before tax and Britannia Membership Reward and after the impact of the Bristol & West acquisition, profit was £120.5 million. Under the new Standards, more than £15 million of revenues from sales in 2005 will be reported in future years and the effect of Bristol & West on the 2005 profit has been to reduce it by some £9 million.

Total lending for the year was an all-time high £6.9 billion (2004: £6.3 billion). With more customers choosing to stay with the Group after their introductory offers ended, redemptions were lower than expected. Net lending was a record £2.6 billion (2004: £2.5 billion).

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Lending quality remained high with the average mortgage loan-to-value (LTV) at just 68% and more than 90% of lending at multiples of 3.5 times salary or less. Group arrears over 12 months remained negligible at less than £1 million and losses were insignificant.

Continued focus on efficiency saw the cost to assets ratio improve to 0.73% (2004: 0.78%).
Britannia shares profits with its members each year through the unique Britannia Membership Reward. This year, £48 million is being paid, up 14%, bringing the total in the ten years the scheme has been running to £422 million. Other benefits including the pricing advantage gained by members relative to rates offered by a range of competitor banks brought the estimated total value of member benefits for the year to a best-ever £130 million.

Group chief executive Neville Richardson said: "Our mission is to be known as Britain's best mutual and 2005 was an outstanding year with record lending, increased like-for-like profits and industry-leading employee satisfaction and improving customer satisfaction. Our acquisition of Bristol & West's branches and savings business has seen the business grow dramatically and will boost earnings in the longer term."

Member Business

While many competitors have been cutting savings rates, Britannia improved rates for many of its 2.7 million savers, at a cost of £9 million a year. This boosted the competitiveness of the savings range, helping to maintain total balances.

Despite fierce competition for mortgage lending, the member business met lending targets by providing long term value for members through competitive pricing and membership rewards.

The new AXA relationship, which began in January, is a real success, with strong and growing sales of life and investment products meeting ambitious targets.

Some 83% of members surveyed say they would recommend Britannia.

Britannia Capital Investment Group

Platform, the Group’s intermediary lender, launched a new product range and an innovative new online decision in principle service *clickdecision*. As a result, Platform increased lending by 20% beyond the previous year’s record figures and is gearing up for a further increase in 2006.

Platform and the Group’s specialist mortgage processing business WMS, invested in capacity, people, systems and processes through 2005 to support this growth. WMS maintained the high customer satisfaction scores that have become their trademark.

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Britannia Commercial Lending's switch in focus away from the increasingly competitive social housing market into retail and commercial developments saw an 83% increase in lending without reducing underwriting criteria.

Britannia Treasury Services completed two successful securitisations of £1 billion each, helping to manage the Group's risk profile while generating funds to support business growth.

Britannia International generated £400 million of new retail funding for the Group.

Bristol & West acquisition

The £150 million purchase of the Bristol & West branches and savings business – the first ever major remutualisation - marks a step change in the scope and scale of the Group's operations.

Branches in 65 new towns and neighbourhoods reflect Britannia's commitment to an extensive branch network, allowing members to transact via their channel of choice. Branches in the South and West of England strongly complement the existing presence in the North West, Midlands, London and East Anglia,

More than 800,000 Bristol & West customers joined Britannia, cementing the Group's position as the second biggest building society, now with three million members across the UK, and bringing opportunities to offer a full range of savings, investments and mortgages to a wider customer base.

The £4 billion of savings balances acquired enable big increases in lending by the Member Business, Platform and Britannia Commercial Lending, which in turn will generate additional revenues to share with members.

Having a new site in Bristol to complement Britannia's bases in Leek, London and Plymouth allows the Group to draw on a wider talent pool. Britannia plans to develop a flexible, multi-site structure to support new business growth opportunities.

During 2006 the business will complete the integration of customer systems, which will allow the Bristol & West business to be joined with the Member Business to provide a consistent service to all three million members, with a common product range, a single customer information system and a unified branch network.

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Commentary

Group chief executive Neville Richardson said: "Becoming known as Britain's best mutual means showing how and why we are different to plcs. Of course profit and costs are important, because as a long term savings provider, our members expect the security that only financial strength can bring. But the bottom line is not the only measure for Britannia.

"2005 was a year of great progress. Record mortgage lending and increased sales across most product lines, together with our focus on tight cost control, meant we could increase the level of our 'member dividend' by 4.5%.This is the first time the basic Britannia Membership Reward has increased since we launched the scheme ten years ago. With more members qualifying to receive the reward this year, the total payout is up 14% to £48 million, making a total of £422 million over ten years."

“Employee satisfaction and understanding of our strategy are at industry-leading levels and we have made real progress in changing the culture of the business - major factors in increased levels of customer satisfaction and financial performance.

“We have not seen the housing market crash predicted by many commentators. As we anticipated, the market remained fairly flat, with interest rates remaining at low levels. We expect 2006 to see more of the same, with little or no growth in the housing and mortgage markets and no significant moves in interest rates.

“Our prudent approach to lending and arrears management means our exposure to a market downturn is comparatively small. With our low cost base, flexible working practices and innovative lending approach, we can prosper in a flat market.

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

Bristol & West integration update

In May 2005, Britannia announced it was buying the branches and savings business of Bristol & West from Bank of Ireland. After approval from the High Court and the Financial Services Authority, the purchase was concluded on 21 September 2005.

Around 800,000 Bristol & West customers became members and co-owners of Britannia in the first re-mutualisation of a former building society. It marked a step change in the scale of Britannia’s Member Business, which grew by a third in terms of members, savings balances and branches.

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The acquisition provides Britannia with a platform for further growth. The money we borrow from the money markets to fund mortgage lending (wholesale funds) can total no more than 50% of our total balances. By increasing savings balances (retail funds) by £4 billion, we can borrow another £4 billion in wholesale funds, giving us the potential of another £8 billion of mortgage lending.

Britannia has moved into 65 towns where it was not previously present, with Bristol & West's focus on the South and West complementing Britannia's strong North West, Midlands, London and East Anglia profile. This will offer new sales opportunities, as well as added convenience for Britannia members. Cost savings will arise through merging branches, slicker processing, systems integration and economies of scale.

The new members are progressively transferring into Britannia accounts - many will be better off as a result and Britannia has pledged that none will be worse off.

Britannia has begun selling its mortgages and a range of AXA insurance and investment products through Bristol & West branches and yesterday began selling the core Britannia savings range, replacing old Bristol & West accounts.

Consultation has begun with colleagues throughout the business on the structure, roles and responsibilities in the new, bigger Britannia Member Business.

Customer systems will be integrated later in the year, giving the capability for the businesses to join together for products, member information and for all branches to offer the same products and services.

One hundred and fifty people across the Group are working full time on the integration programme, with many others spending part of their time supporting the work. It's a huge task - around a million customer accounts need to be transferred in just one weekend, 300 products must be set up and tested on the new systems and 600 people in the branch network will need a total of around 2,500 days of training

Around £30 million will be spent on improved systems and branch refurbishments to enable the rebranding of the Bristol & West branches by the end of 2006. In 32 towns where existing Britannia and Bristol & West branches are less than a mile apart, they will be merged on one site under the Britannia brand. The remaining 65 Bristol & West branches will be rebranded as Britannia branches.

Ends

For further information, or to arrange to speak to Britannia group chief executive Neville Richardson about these results, please contact Graham Leftwich or Emma Taynton-Young in Britannia's communications team on 01538 393075/391107, or e-mail corp.comms@britannia.co.uk.

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Notes to news editors

Implementation of International Financial Reporting Standards (IFRS)

These results have been prepared using IFRS as approved by the European Union (EU) and implemented in the UK. Of these, two (IAS 32 and IAS 39) are only effective from 1 January 2005 and, therefore, it is not easy to draw conclusions from the 2004 comparative figures as they are prepared on a different basis. The main impacts of IAS 32 and 39 are recognition of movements in the fair value of liquid assets and derivatives and recognition of certain fees and costs over the life of underlying assets.

For example, previously under UK accounting standards, the non-refundable fees earned on a five year guaranteed equity bond would have been included in income figures for the year of sale – under IFRS, they are now to be spread over the five year term of the product.

In order to aid comparability of the 2005 results with those of 2004, 2005 results have also been prepared on a like-for-like basis, reversing the impact of IAS 39 and excluding the impact of the acquisition of the Bristol & West's branches and savings business.

BRITANNIA BUILDING SOCIETY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 December 2005

	Group unaudited 2005 like-for-like				
	Excluding Bristol & West £m	**Bristol & West £m**	**Total £m**	**Audited 2005 Statutory £m**	Audited 2004 Statutory £m
Net interest receivable	**266.5**	**4.9**	**271.4**	**292.2**	263.1
Other income and charges	**84.9**	**3.0**	**87.9**	**48.8**	68.6
Fair value gains and losses	**0.3**	**-**	**0.3**	(2.5)	(1.4)
Administrative expenses	**(193.0)**	**(17.1)**	**(210.1)**	**(209.9)**	(184.3)
Impairment losses	**(7.5)**	**-**	**(7.5)**	**(8.1)**	(7.3)
Profit before Britannia Membership Reward	**151.2**	**(9.2)**	**142.0**	**120.5**	138.7
Britannia Membership Reward	**(48.0)**	**-**	**(48.0)**	**(48.0)**	(42.1)
Profit before taxation	**103.2**	**(9.2)**	**94.0**	**72.5**	96.6
Taxation	**(30.6)**	**2.8**	**(27.8)**	**(21.3)**	(26.4)
Profit for the year	**72.6**	**(6.4)**	**66.2**	**51.2**	70.2

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Financial position at end of year

	2005 £m	2004 £m
Assets		
Liquid assets	**10,629.9**	6,667.5
Mortgages	**20,864.0**	18,148.3
Other loans	**1.7**	71.2
Derivative financial instruments	**506.3**	-
Fixed and other assets	**429.5**	332.0
Total assets	**32,431.4**	**25,219.0**
Liabilities		
Shares	**16,913.7**	11,798.8
Borrowings	**13,171.3**	11,634.5
Other liabilities	**334.3**	238.1
Derivative financial instruments	**495.1**	-
Subordinated liabilities	**447.9**	447.7
Reserves	**1,065.0**	1,096.8
Other capital	**4.1**	3.1
Total liabilities	**32,431.4**	25,219.0

BRITANNIA BUILDING SOCIETY
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENDITURE
for the year ended 31 December 2005

	Notes	**2005 £m**	2004 £m
Net profit for the year		**51.2**	70.2
First time adoption of IAS 39	1	**(25.7)**	-
Available-for-sale investments gain during the year		**3.6**	-
Actuarial loss	2	**(87.1)**	(1.3)
Tax on items through equity	3	**30.3**	0.3
Total recognised income and expense		**(27.7)**	69.2

Notes:

1. Comprises the impact before taxation of effective interest rate, hedging and loss provisions on first time adoptions of IAS 39.

2. The pre-taxation movement in the defined benefit pension scheme’s actuarial loss during the year.

3. Taxation on the impact of IAS 39 and the movement in the pension scheme’s actuarial loss.

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BRITANNIA BUILDING SOCIETY
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2005

		2005 £m	2004 £m
Cash flows from operating activities		**(1,326.8)**	445.5
Cash flows from investing activities		**(2,241.6)**	(552.3)
Cash flows from financing activities		**156.3**	162.9
Acquisition of branch network and retail savings business from Bristol & West		**4,307.5**	-
Net increase/(decrease) in cash		**895.4**	56.1
Cash and cash equivalents at end of year		**2,758.9**	1,863.5
Cash and cash equivalents at start of year		**1,863.5**	1,807.4
		895.4	56.1