Business Review

(including Summary Financial Statement)

Year ended 31 March 2023

the West Brom

Key highlights of the 2022/23 financial year include:

£33.2m
member mutual benefit
(2021/22: £9.0m)
Savers were rewarded with rates almost **double the market average**[1].

Market first approach to SVR
Standard Variable Rate aligned for existing members to that of new mortgage customers, with a reduced rate for lower LTVs.

Five star service
Awarded the highest accolade in the Financial Adviser Service Awards for the fifth consecutive year.

New mortgage lending £691m
(2021/22: £756m)
With 67% of loans for house purchase supporting first-time buyers onto the property ladder (2021/22: 54%).

Borrowers saved £1,400
A borrower at the West Brom would save circa **£1,400**[2] a year for each £100,000 borrowed compared with an average market SVR of **7.12%**[3].

Common Equity Tier 1 (CET 1)
18.7%
Strong capital position maintained with an increased Common Equity Tier 1 (CET 1) capital ratio of **18.7%** (2021/22: 17.0%) and a Leverage Ratio of **7.9%** (2021/22: 7.3%).

Profit before tax
£31.8m
(2021/22: £23.2m)
On an underlying basis £21.2m (2021/22: £26.6m) after removing one off recoveries/charges and hedge ineffectiveness.

95%
customer satisfaction
(2021/22: 96%)
Paired with an above average Net Promoter Score®[4] of **+74** (2021/22: +81).

Supporting refugees
Supporting refugees from the Ukrainian conflict by providing homes to **house families impacted by the crisis**.

Living Hours employer
Became the first building society in the UK and the first employer in the West Midlands to receive the accreditation.

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023
[2] Interest saving in first year by borrower with less than 75% Loan to Value
[3] Average market revert rate sourced from Moneyfacts March 2023
[4] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld

Chief Executive Officer's Business Review

Dear fellow members,

It's great to report a strong performance as we continue to work through significant challenges in our external environment. Whilst our financial performance demonstrates our underlying strength and resilience, and helps us to drive forward on our Purpose-led agenda, perhaps most satisfaction comes from what we have delivered for our members, demonstrating the tangible benefits of being with a mutual that is true to its Purpose.

This value reflects our focus on not only ensuring we deliver great value through our products, but that we also innovate and take the lead on changing market practices that have historically either withheld value or put financial burdens on those least able to afford it. Collectively, these initiatives make a real impact.

Our Purpose-led activities

Over the last year, we've remained focused on ensuring our members enjoy the benefits of belonging to the West Brom, introducing a series of innovations, indeed sector firsts, that have delivered significant value.

During the period, we took action to support our borrowing members by becoming the first lender in the market to align our approach for existing members on our Standard Variable Rate (SVR) to that of new mortgage members. This new approach means that all owner occupier mortgage members reverting to SVR at the end of their product term will have their rate determined by their Loan to Value (LTV), with a lower rate for those with more equity in their property.

Market first approach to SVR
Standard Variable Rate aligned for existing members to that of new mortgage customers, with a reduced rate for lower LTVs.

Around 90% of owner occupier mortgage members on our SVR saw savings on their interest rates, with the majority seeing a reduction of 0.75%. This has provided real relief for our members at a time when mortgage costs are increasing. A borrower on SVR at the West Brom would save circa £1,400[2] a year for each £100,000 borrowed compared with an average market SVR of 7.12%[3].

Borrowers saved £1,400[2]
Reduced the impact of rising rates for mortgage members on our SVR.

Working with our partners we have also innovated by having standard charging structures amended to return value. The new commission structure combined with a profit share arrangement that is distributed back to our policy holders means that members taking their home and contents insurance through the West Brom benefitted, on average, with a circa 8% reduction in their insurance premiums.

For our savers, who this year have helped 3,413 members buy their first home, we have continued to provide 'best buy' fixed savings rates and responded to the increase in interest rates led by the Bank of England Bank Rate, with improved variable saving rates so that they were almost double the average rates paid by the market[1]. This means we saw the savings member mutual benefit increase

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023
[2] Interest saving in first year by borrower with less than 75% Loan to Value
[3] Average market revert rate sourced from Moneyfacts March 2023

from £9.0m to £33.2m this financial year. We have also gone above and beyond our statutory duties by individually notifying members of any material rate increases to their savings rates to ensure that their product remains appropriate. For those members that wish to benefit from investing with the advantage of independent financial advice, through our partnership with Wren Sterling, we have again negotiated a changed commission structure, which results in a reduction of circa 25% to their ongoing service (annual) charge. On the average investment this is a benefit of £180 per year per investor.

£33.2m

member mutual benefit (2021/22: £9.0m)

Savers were rewarded with rates almost double the market average[1].

And finally, to support those borrowers who find themselves in financial difficulty and are not able to meet their payments we no longer charge any additional fees, more commonly referred to as 'arrears fees', to cover internal costs.

Providing a range of channels for our members is important to us and we have invested heavily in technology throughout the year. In December, we launched a new savings portal for our branch and direct members, giving them more immediate access to their accounts. This is not about moving everything online, but instead giving our members a choice of channels to suit their individual needs, and forms part of a wider technology transformation programme.

We've also been working towards the new Consumer Duty regulation that comes into force in July 2023. As a mutual, we've always had a focus on delivering good member outcomes but we believe this is a step in the right direction in terms of holding all firms to a minimum standard, leading to improved practices across the sector. For us Consumer Duty is another opportunity to listen to our members, learn from others and evolve in line with member expectations so that we can continue to serve them and our communities.

Building on our financial strength

Our strong financial performance this year demonstrates the underlying strength and resilience of the Society and helps us to drive forward on our Purpose-led agenda, supporting those underserved and/or overcharged by the market.

We have delivered a strong performance this year, with statutory profit before tax ending the year at £31.8m (2021/22: £23.2m), supported by strong net interest income, fair value gains on financial instruments and recovery of previously written off costs. On an underlying basis, after excluding hedge ineffectiveness and the one-off cost recovery, underlying profit reduced to £21.2m (2021/22: £26.6m). Charges for expected credit losses have increased in the current year, focused on the remaining legacy Commercial Real Estate exposures which are more susceptible to uncertainty in the macroeconomic environment.

£31.8m

Profit before tax (2021/22: £23.2m).

Our profitability and management of risk contributes to our overall financial resilience and strengthens the Society's capital position. Our Common Equity Tier 1 (CET 1) capital ratio, a key measure of capital, ended the year at 18.7% (2021/22: 17.0%).

18.7%

Common Equity Tier 1 capital ratio (2021/22: 17.0%).

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023

Net interest income

Net interest income increased in the year to £83.2m (2021/22: £62.1m), with an improved net interest margin of 1.42% (2021/22: 1.05%). Higher interest income predominantly reflects net receipts on interest rate swaps which are put in place to protect the Society in the event of rising interest rates, and Bank Rate tracker mortgages. The vast majority of borrowers, however, are protected by being on fixed rate deals.

This improved net interest income was after increasing our savings rates across the year as the Society remained committed to supporting its members by continuing to pay rates above the market average. For the 12 months to 31 March 2023, we significantly increased the amount paid to our savings members in comparison to the market average (0.79% above the market average[1], 31 March 2022: 0.21%). This represents a considerable £33.2m provided in mutual benefit to savers, more than three times the amount in the previous year (2021/22: £9.0m).

Fair value gains on financial instruments

Of the £6.6m fair value gains (2021/22: £10.6m gains) in the year, £3.1m gains (2021/22: £6.9m gains) represents fair value movements on derivatives held to provide an economic hedge against movements in impaired commercial provisions for which the criteria to apply hedge accounting are not met, £3.4m gains (2021/22: £3.5m gains) relates to the element of ineffectiveness in the hedge relationships which still meet hedge accounting criteria and £0.5m loss (2021/22: £0.2m gains) arises on the closed equity release portfolio reflecting the impact of house price movements on the portfolio.

Management expenses

Management expenses have reduced significantly from £52.9m to £45.7m in the current year reflecting the benefit from the net recovery of £5.6m of previously written off costs in relation to the development of a new savings platform (2021/22: write off of £5.6m). Excluding the impact of the costs and related recovery, management expenses were £51.3m (2021/22: £47.3m) reflecting the ongoing impact of high inflation.

Gains on investment properties

The Society provides residential housing for rent through its subsidiary company, West Bromwich Homes Limited. The portfolio includes properties across England and Wales, with substantial investments concentrated in the West Midlands, the South West and South Wales.

House price inflation continued in the first half of the year, flattening towards the end of the year. This saw the market value of the properties held rise by £6.0m compared with £5.8m in the previous year. Included in this gain is an overlay adjustment to reflect uncertainty in the housing market.

Impairment on loans and advances

Residential impairment

Impairment charges on the residential loan portfolio are based on Expected Credit Loss (ECL) calculations which take into account the credit risk of the loans and assumptions of future economic scenarios in line with IFRS 9 requirements.

The residential impairment charge for the year was £3.0m (2021/22: £4.4m credit). We have not yet materially seen the impacts of higher borrowing or living costs on mortgage holders (in part as the majority continue to be protected by fixed rates) which would see an increase in modelled provisions. However, we have used a number of overlays to cover heightened affordability risk as well as the potential impact of combustible materials in flats and the potential overstatement of house price inflation in recent years. These overlays are the reason for the higher residential provision charge in the current year.

Group arrears at 0.52% (31 March 2022: 0.31%) have increased reflecting the current economic climate. This continues to compare favourably against the UK Finance average of 0.71%[5] (2022: 0.77%).

Commercial impairment

Commercial impairment charges increased in the year to £21.1m from £12.5m in 2021/22. After adjusting for the offsetting movements in derivatives held to hedge the impact of changes in interest rates the net charges were £18.0m and £5.6m for the current and prior year respectively.

The commercial property sector remains exposed to changes in the wider economic climate and we continue to make appropriate provisions against our exposures, resulting in commercial provision balances of £79.2m (2021/22: £99.9m), which represents 33.8% of the current loan book (2021/22: 28.7%).

The majority of the Group's commercial portfolio comprises loans to the retail sector. Provision coverage against loans to the retail sector has increased to circa 40.4% from circa 39.6% prior to the onset of the pandemic.

All commercial lending was originated at least 15 years ago and we continue to manage the exit from this sector with a reduction in gross exposures of 33% in the year (2021/22: 12%).

[1] Average market rates sourced from Bank of England Bankstats table A6.1 March 2023

[5] UK Finance is a trade association for the UK banking and financial services sector

Supporting our colleagues and communities

The drive and determination of our colleagues to serve our members is second to none and they've made the West Brom the thriving, Purpose-led organisation it is today.

We know that the economic pressures are likely to impact our colleagues as well as our members therefore we've continued to support them throughout the year. Across the winter months, over 70% of our colleagues benefitted from one-off payments totalling £1,200. This sits alongside our Financial Hardship Support Fund, which exists to offer colleagues help in the event of a sudden, unexpected financial burden.

We were also proud to be recognised as a Living Hours employer this year – the first building society in the country and the first employer in the West Midlands to achieve this standard. The Living Hours standard requires employers to pay a real Living Wage and provide colleagues with the security and stability of hours they require to meet their everyday needs. This builds on our existing real Living Wage accreditation and recognises the work we do to ensure all colleagues are paid a wage they can live on.

Living Hours employer

Became the first building society in the UK and the first employer in the West Midlands to receive the accreditation.

Despite the backdrop of a highly competitive labour market, our belief in attracting and retaining a broad range of individuals has remained unchanged to ensure that we benefit from the best talent. Our equity, diversity and inclusion (ED&I) work continues and is essential to bringing richness of thought, resulting in a more successful business. Through Connect, our colleague network, we've forged partnerships with a number of organisations to support our work in this area, including Penn Hall School in Wolverhampton and Queen Alexandra College in Birmingham.

We remain committed to investing in the communities in which we operate and have showed our support in a variety of ways. We've raised over £10,000 for our charity partner, Barnardo's, this year and have backed various appeals by Disasters Emergency Committee through our branch network. In addition, we continue to provide grant funding to local worthy causes through the Mercian Community Trust.

Last year, we also provided 11 properties from our rental portfolio and accommodation above our branches for the Homes for Ukraine scheme. To date, we have housed 23 refugees and are geared up to provide employment support where needed.

Supporting refugees

Supporting refugees from the Ukrainian conflict by providing homes to **house families impacted by the crisis**.

Outlook

Living costs look set to remain elevated for some time to come, maintaining the pressure on households and businesses alike. We will continue to use our financial strength responsibly to support our members, colleagues and communities through these challenging times, helping people to stay in their homes and save for the future where possible.

Recent years have built a significant momentum, not measured by our size or profitability, but by the true value we deliver to our members, and I look forward to working with my new and existing colleagues to deliver even more Purpose-led innovations as we approach 175 years of mutuality at the West Brom.

Jonathan Westhoff
Chief Executive Officer
31 May 2023

Summary Financial Statement

Year ended 31 March 2023

This Financial Statement is a summary of the information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge on request at every office of West Bromwich Building Society.

Summary Directors' Report

The information contained in the Chief Executive Officer's Business Review on pages 3 to 9 of this document addresses the requirements of the Summary Directors' Report.

Summary Financial Statement

Group results for the year	2023 £m	2022 £m
Net interest receivable	83.2	62.1
Other income and charges	5.8	5.6
Fair value gains	6.6	10.6
Administrative expenses	(45.7)	(52.9)
Operating profit before revaluation gains, impairment and provisions	49.9	25.4
Gains on investment properties	6.0	5.8
Impairment losses	(24.1)	(8.1)
Provisions for liabilities	-	0.1
Profit before tax	31.8	23.2
Taxation	(5.6)	1.2
Profit for the year	26.2	24.4

Group financial position at end of year	2023 £m	2022 £m
Assets		
Liquid assets	986.6	1,012.1
Mortgages	4,370.3	4,778.3
Derivative financial instruments	100.5	52.4
Fixed and other assets	231.9	224.5
Total assets	5,689.3	6,067.3
Liabilities		
Shares	4,306.3	4,183.6
Borrowings	889.3	1,402.5
Derivative financial instruments	6.7	11.5
Other liabilities	33.6	29.5
Subordinated liabilities	22.9	22.9
Core capital deferred shares	127.0	127.0
Subscribed capital	7.8	7.8
Reserves	292.4	279.4
Revaluation reserve	3.3	3.1
Total liabilities	5,689.3	6,067.3

Summary Financial Statement (continued)

Year ended 31 March 2023

Summary of key financial ratios

	2023 %	2022 %
Gross capital As a percentage of shares and borrowings	8.73	7.88
Liquid assets As a percentage of shares and borrowings	18.99	18.12
Profit for the year As a percentage of mean total assets	0.45	0.41
Management expenses As a percentage of mean total assets	0.78	0.89

'Gross capital' represents the aggregate of general reserves, revaluation reserve, fair value reserve, subscribed capital, subordinated liabilities and core capital deferred shares.

'Shares and borrowings' represent the total of shares and borrowings, in each case including accrued interest.

'Management expenses' represent administrative expenses.

This Summary Financial Statement was approved by the Board of Directors on 31 May 2023.

John Maltby
Chair

Jonathan Westhoff
Chief Executive Officer

Alex Pawley
Chief Financial Officer

Independent auditors' statement on the Summary Financial Statement to the members of West Bromwich Building Society

We have examined the Summary Financial Statement of West Bromwich Building Society (the 'Society') set out on pages 10 to 11, which comprises the Summary Directors' Report, Group results for the year, Group financial position at end of year and summary of key financial ratios.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Business Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Chief Executive Officer's Business Review and Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Society's members 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

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Report and Accounts, Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and the Directors' Report of West Bromwich Building Society for the year ended 31 March 2023 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
31 May 2023

Braille, audio and large print versions of this leaflet are available upon request. Please contact us on 0345 241 3784.

Head Office: 2 Providence Place, West Bromwich B70 8AF
www.westbrom.co.uk

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the West Brom