Condensed consolidated half-yearly financial information

30 September 2020

the West Brom

Delivering our Purpose through the pandemic: Three areas of focus

1. Prioritising the wellbeing of our members, colleagues and communities.

Supporting the wellbeing of members, colleagues and communities has remained top of our priority list. Throughout the first half of the year we have:

- Approved payment deferrals for 14% of our residential mortgage borrowers since the pandemic started;
- Continued to reward savers by paying £2.6m more in interest than the market average[1];
- Committed to not place any colleagues on furlough or reduce payments where working hours or activities have reduced;
- Supported the wellbeing of colleagues by introducing a range of digital tools and activities to help people stay connected through the pandemic; and
- Progressed multiple fundraising and volunteering initiatives for those causes hit hard by the pandemic.

2. Ensuring our products, services and premises are safe and accessible.

Given the challenges of the pandemic, providing products and services in a safe and accessible way is more important than ever. Throughout the first half of the year we have:

- Extended an additional £248m of new residential mortgage lending with 48% of new mortgages to first-time buyers;
- Introduced a specific mortgage product to support NHS workers with small deposits;
- Become the first lender to launch a specific proposition to help mortgage prisoners;
- Prioritised enquiries from key workers;
- Made sure all of our 36 branches and head office site are COVID-19 secure and implemented social distancing; and
- Enabled remote working for over 90% of our head office colleagues.

3. Remaining operationally and financially resilient.

The successful transition of our operating model and responsible management of risk has delivered both operational and financial resilience. Throughout the first half of the year we have:

- Continued to provide all essential services to members;
- Improved Net Promoter Score[2] from +73 at March 2020 to +75, with customer satisfaction remaining strong at 96%;
- Improved our financial strength by increasing our CET 1 ratio to 16.5%; and
- Reported a statutory profit before tax of £2.9m after setting aside provisions for the impact of the pandemic.

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

[2] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Key highlights for the six months to 30 September 2020

New mortgage lending

£248m

£248m of new mortgage lending (30 September 2019: £251m), with **48%** of new mortgages to first-time buyers (30 September 2019: 56%)

Mortgage prisoners

First lender to launch new mortgage product proposition specifically designed to support **mortgage prisoners**, who have previously been trapped in paying higher rates due to strict borrowing criteria

17% above the market average

Maintained our average rate for savers at **17%** above the market average[1] for the period, rising to **52%** above by the period end

Profit before tax

£2.9m

Statutory profit before tax of **£2.9m** (30 September 2019: (restated): £5.5m) after setting aside additional provisions for credit losses in respect of the anticipated economic impact arising from the COVID-19 pandemic

Common Equity Tier 1 (CET 1)

16.5%

A strong capital position with the Common Equity Tier 1 (CET 1) capital ratio improving to **16.5%** (31 March 2020: 15.9%)

Net Promoter Score

+75

Improving Net Promoter Score®[2] from +73 at March 2020 to **+75**, with customer satisfaction remaining strong at **96%** (31 March 2020: 96%)

[1] Average market rates sourced from Bank of England Bankstats table A6.1
[2] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Chief Executive's Business Review

Progressing by delivering our Purpose in uncertain times

The Society has delivered a robust first half performance despite the very significant uncertainties that faced the UK economy, and indeed all global economies, with the country having entered into full lockdown at the start of this reporting period.

As I covered in detail in my report at the year-end, from the onset of the pandemic the Society's focus has been on ensuring the Society remains operationally resilient, continuing to provide members with the essential services on which they rely, while doing everything we can to keep both members and colleagues safe.

After a very short period of adapting our operating model to the challenges, we have remained fully operational. We have maintained our high service standards, most notably in the mortgage market where, after a short hiatus, activity recovered strongly. Indeed, the new mortgage lending volume we report for the period to 30 September does not truly reflect the strength of our performance; the knock-on effects of the initial lockdown period mean that much of the activity of the first half will not show on the balance sheet until the second half of the year. Our application volumes were up 39% to £563m compared to the first six months of last year.

Shortly after the period end, the Society further demonstrated its commitment to supporting borrowers by becoming the first UK lender to announce help to those borrowers who are referred to as 'mortgage prisoners', those who despite meeting their mortgage commitments for many years, would not pass the stringent affordability tests introduced following the 2008 financial crisis. Our view was that in these times, more than ever, these borrowers deserved to be helped, and it was time that someone took the lead.

For savers, we continue to face the challenge of the ultra-low interest rate environment. At the period end, we were paying our savers 52% above the market average (30 September 2019: 52%), as we strive to give what support we can. Regrettably for our savers we can't be optimistic in terms of any material increase in interest rates going forward, particularly as the prospect of Bank Rate turning negative remains a serious consideration for the Monetary Policy Committee.

Of course, with the future as uncertain as it is and with the 'second wave' of the pandemic now upon us, the range of potential outcomes for economic recovery become both more unpredictable and possibly increasingly pessimistic. The 'V' shaped recovery initially anticipated is now less probable with a more enduring downturn more likely. For the West Brom, the main impact of this will be around credit provisioning, not only as unemployment increases, and some borrowers struggle to meet their mortgage commitments, but also as certain segments (such as high street retail and the hospitality sector for example) face immense challenges to their recovery. The latter will impact the performance of the legacy commercial real estate lending that the Society is still managing, even though this is now a fraction of the exposure the Society had historically.

At the end of October, the UK government announced a second lockdown for England, initially for a period of four weeks. As with the first lockdown, the Society will continue to provide members with essential services and will not be placing any employees on furlough, will ensure all employees are paid their full salary irrespective of whether they are required to work their full contractual hours and will support fully the mortgage payment deferral scheme. Regardless of the ongoing external challenges and future uncertainties the Society remains extremely well positioned to support members through the times that may lie ahead, underpinned by its capital strength.

Performance update

Despite the impact additional credit provisioning has had in terms of reduced profits, the capital position has strengthened further to a Common Equity Tier 1 (CET 1) ratio of 16.5% (31 March 2020: 15.9%) and Leverage Ratio of 7.0% (31 March 2020: 6.9%). This capital strength, along with access to the Bank of England's latest funding scheme, has allowed the Society to continue to lend at very competitive interest rates. At £248m our level of new mortgage lending is in line with the first six months of the last financial year (30 September 2019: £251m), despite a 37% fall in market activity for the first two months of the period.

16.5%

Common Equity Tier 1 Capital Ratio
(31 March 2020: 15.9%), up 0.6%

However, as stated earlier, this does not reflect fully the activity of the first half with the number of new mortgage applications increasing by 39% to £563m (30 September 2019: £406m). Although pre-tax profits have reduced by 47.3%, this is primarily as a result of the need for impairment provisions attributable to the legacy commercial real estate loan exposure which increased by £5.8m (30 September 2019: decrease of £0.3m). Pre-tax profit before the impact of total impairment provisions increased by 19.3% to £10.5m.

As reported at the year end, and in line with guidance from RICS, we continue to note the material valuation uncertainty in the West Brom Homes (WBH) investment portfolio. Accordingly the interim valuation is based on the lower gain from either the Halifax or Nationwide house price indices.

Although there have been additional costs incurred as a consequence of the need to adapt the business to the initial lockdown and subsequent 'social distancing' conditions, the ongoing focus on efficiency resulted in costs being held broadly flat at £23.1m (September 2019: £22.9m).

Capital resources

	Transitional CRD IV rules 30 Sep 20 £m	Full implementation of CRD IV[3] 30 Sep 20 £m
Members' interests and equity (excluding Additional Tier 1)	387.6	387.6
Permanent interest bearing shares (PIBS) deduction	(7.8)	(7.8)
Other adjustments[1]	(0.5)	(28.9)
Common Equity Tier 1 (CET 1) capital	379.3	350.9
Additional Tier 1 capital	7.8	-
Total Tier 1 capital	387.1	350.9
Tier 2 capital[2]	21.7	21.7
Total regulatory capital resources	408.8	372.6
Risk weighted assets (RWA)	2,292.9	2,264.5
Leverage ratio exposure	5,519.0	5,490.6
Capital ratios	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	16.5	15.5
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	15.5	15.5
Tier 1 ratio (as a percentage of RWA)	16.9	15.5
Total capital ratio (as a percentage of RWA)	17.8	16.5
Leverage ratio	7.0	6.4

	Transitional CRD IV rules 31 Mar 20 £m	Full implementation of CRD IV[3] 31 Mar 20 £m
Members' interests and equity (excluding Additional Tier 1)	383.8	383.8
Permanent interest bearing shares (PIBS) deduction	(8.9)	(8.9)
Other adjustments[1]	(1.6)	(29.7)
Common Equity Tier 1 (CET 1) capital	373.3	345.2
Additional Tier 1 capital	8.9	-
Total Tier 1 capital	382.2	345.2
Tier 2 capital[2]	21.6	21.6
Total regulatory capital resources	403.8	366.8
Risk weighted assets (RWA)	2,347.5	2,308.5
Leverage ratio exposure	5,569.6	5,541.5
Capital ratios	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	15.9	15.0
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	15.0	15.0
Tier 1 ratio (as a percentage of RWA)	16.3	15.0
Total capital ratio (as a percentage of RWA)	17.2	15.9
Leverage ratio	6.9	6.2

[1] Other adjustments mainly comprise IFRS 9 transitional arrangements and deductions for intangible assets and deferred tax. Regulation (EU) 2020/873, issued in June 2020, extends the period of IFRS 9 transition, for capital purposes, as part of a series of measures to mitigate the impact of the COVID-19 pandemic. Under the revised arrangements, 100% of the increase in stage 1 and stage 2 expected credit losses (ECLs) from 1 January 2020 can be added back to CET 1 capital with this relief to be phased out over the five financial years ending 31 March 2025. The relief for increases in ECLs arising on IFRS 9 implementation and from 1 April 2018 to 31 December 2019 continues to amortise in accordance with the original arrangements, currently at 70%. By way of derogation from point (b) of paragraph 7 of CRR Article 473a, the Society has exercised the option set out in Regulation (EU) 2020/873 to include the value of IFRS 9 transitional relief within its total exposure measure and risk weight it at 100% when calculating its capital requirements.

[2] Tier 2 capital comprises subordinated liabilities excluding accrued interest.

[3] The 'Full implementation of CRD IV' basis includes the full unwind of IFRS 9 transitional relief.

Commitment to borrowers

The Society's new lending performance has been supported by very competitive purchase and remortgage products. In part driven by the market environment, the average loan to value of new lending, at 71% was lower than for the comparative period last year (30 September 2019: 79%). However, this reflects the decision to restrict high loan to value products until such time as the economic outlook, and its impact on the housing market in particular, is better understood. There is a fine line between helping borrowers with low deposits into home ownership, and exposing those same borrowers to the harrowing experience of not being able to meet their mortgage payments and maybe even suffering from 'negative equity'.

Even with this responsible approach, in the first six months of the year the Society has supported a further 699 first-time buyers (30 September 2019: 790) to become home owners and this remains a segment at the heart of our Purpose. These borrowers did include, quite early into the lockdown period, one exception to our high loan to value limitation, when we offered a product restricted to NHS workers. This product helped ensure that those who were contributing so much to the pandemic response were still able to access the market with a much smaller deposit, where they were able to demonstrate this remained affordable. While the overall lending to first-time buyers has reduced compared with recent years, we will seek to reintroduce more products suited to the needs of first-time buyers once we consider that the risks to them and the Society are a little more balanced than they have appeared of late, particularly in respect of the housing market and employment.

There is one other segment that has been neglected for too long given the constraints introduced by regulation regarding affordability assessment; mortgage prisoners. These are borrowers trapped paying higher interest rates than they may need to, despite being up to date with payments, because they have been unable to re-mortgage to new cheaper deals as they would not meet the affordability criteria, primarily in terms of meeting the required 'stressed interest rate' introduced as a consequence of the financial crisis of 2008. Following the FCA's introduction of a 'modified affordability' approach to address this constraint, the Society became the first lender to offer support to these borrowers through the design and launch of a new mortgage product proposition. This market leading stance was well received by commentators and whilst we acknowledge that this proposition will not be able to help all such trapped borrowers, we hope that we have set an example for others to follow. Indeed recently, a number of lenders have now agreed to offer help to these borrowers.

First lender to launch new mortgage product proposition specifically designed to support mortgage prisoners.

Commitment to savers

With the Bank Rate at an all-time low of 0.10% and the realistic prospect of this rate turning negative, it is perhaps unsurprising that interest rates for savers are now at extremely low levels. The Society has, however, continued to do what it can to help its savers. During the first 6 months of the year, the Society paid rates 17%[1] above (2019: 50% above) the market average, this had increased to 52% by 30 September. This means that during this period the Society has paid an additional annualised £2.6m (30 September 2019: £13.7m) in interest (equivalent to £5.7m using the period end rates). As a consequence of this, and balancing the needs of our borrowers and savers, the Net Interest Margin reduced modestly to 1.04% (31 March 2020: 1.06%).

Managing the potential credit impact of the pandemic

The long-term impact of the pandemic on the Society's borrowers is very much dependent on how the economy emerges from the actions taken to manage the containment of the virus. We are continuing to monitor all developments closely and use a wide range of future economic scenarios to assess the potential economic outcomes, which include a large rise in unemployment, short term reductions to house prices, and muted growth thereafter.

Where the economy emerges in terms of the range of these scenarios, will dictate the credit losses that result. The robustness of the housing market over the six months to 30 September is not necessarily an indicator of whether the government interventions have succeeded in supporting this important segment of the economy going forward. The income support mechanisms, mortgage payment deferral, pent up demand for house moves built up during the full lockdown and the Stamp Duty Land Tax concession all combine to mask the underlying position of the housing market. While the longer term trajectory remains uncertain, the Society's exposure to credit losses from residential loans is mitigated by a modest average loan to value, with 79% of loans being below 75%. Taking into account the scenarios assessed by the Society, a further £0.2m was set aside in the period to cover potential residential lending credit losses.

Through the first half of the year the performance of the Society's legacy commercial exposures, which include particular concentrations in retail, healthcare and leisure sectors, has been aligned with our expectations at the financial year end. However, there is an increased potential for underperformance over the medium to longer term as changing consumer habits start to emerge and the financial strength of tenants becomes more stressed due to the continued impact of COVID-19 restrictions on trading.

As a consequence we have taken a more pessimistic view of the portfolio, predominately in relation to the retail linked exposures, and set aside a further £5.8m in provisions to cover potential credit losses. This takes the total provision increase since the onset of the pandemic to £17.9m. Through a combination of provisions and capital held for potential losses above this level, the total loss cover for this legacy portfolio stands at over 32% with a full breakdown of this position included on page 23 of this report.

Supporting our borrowers through the pandemic

Our teams have continued to work hard to ensure borrowers who need to access a payment deferral period are able to do so, with specific support measures put in place for our most financially vulnerable borrowers. As at 30 September 14% of all our residential mortgages had utilised the support of an initial payment deferral period, 5,306 accounts. For borrowers who had reached the end of their initial deferral period at 30 September, 84% had either recommenced payments or redeemed their mortgage. Only 16% required an extended period of deferral representing just 2% of total residential mortgages outstanding.

At 30 September, Group arrears for the core residential book stood at 0.42% (31 March 2020: 0.34%) which continues to compare favourably against the UK Finance average of 0.82%[2] (31 March 2020: 0.74%). This increase is largely attributable to arrears in the Buy to Let portfolio where we have deferred the appointment of Law of Property Act Receivers during the pandemic. Needless to say the Society does expect further increases in arrears rates through the second half of the year as employment markets start to anticipate the unwind of the pandemic support mechanisms. We will continue to provide those borrowers who are facing an unexpected period of employment challenge with an empathetic, flexible and fair approach to forbearance options.

[1] Average market rates sourced from Bank of England Bankstats table A6.1
[2] Average market rates sourced from UK Finance as at 30 September 2020

Adapting our operating model to maintain excellent service levels

In the face of the operational challenges the pandemic has brought, I am proud to say that our colleagues have maintained our commitment to outstanding customer service. The Society's Net Promoter Score®[3] (NPS), which measures how likely our members are to recommend us, has increased to +75 (31 March 2020: +73), well in excess of the average across financial services of +50, with our customer satisfaction rating maintained at 96% (31 March 2020: 96%). These results are testament to the commitment of our colleagues to work flexibly during the pandemic while maintaining a resolute focus on best in class customer service and good customer outcomes.

+75

Net Promoter Score®[3]
(31 March 2020: +73)

Our Member and Employee councils have continued to meet through the pandemic, enabled by videoconferencing technology and have provided much valued input to key focus areas such as our Corporate Social Responsibility (CSR) strategy, defining our Member Commitments, supporting customers who find themselves in financially vulnerable situations and how we continue to respond to the challenges of the pandemic along with a demonstration of what will become our new online savings system. This project represents a significant investment in the Society's future and once delivered, will represent a step change in the Society's digital capabilities. The new system will provide both new and existing members with the ability to open and view accounts across a range of desktop and mobile devices. This development complements a range of recent digital initiatives such as our recently launched online mortgage portal.

Community response

Through the first six months of the year the Society's fundraising efforts have been directed to helping groups most in need as a result of the pandemic. Specific activities have included collections in support of the West Bromwich Food Bank and the Trident Reach supported living complex in Wednesbury, with our colleagues also working to support the Midland Langar Seva Society who provide hot meals to the homeless. These fantastic contributions sit alongside our ongoing work to support the Midlands Air Ambulance with over £30,000 raised for this service during our partnership.

Principal risks and uncertainties

The Society continues to recognise that effective risk management is essential to achieving the Society's objectives in an operating environment where the nature of the threats which prevail is continually evolving.

Where applicable, this report provides an update on the principal risks and uncertainties reported on pages 33 to 39 of the 2019/20 Annual Report and Accounts.

Principal risks

The Society's identified principal risk categories have remained unchanged in the period. The principal risks and uncertainties reported at the year-end were updated to incorporate the impact of COVID-19. To avoid repetition, we have chosen to focus on developments in certain areas during the first 6 months of the year.

Business conditions and the economic environment

As unavoidably referred to in many places in this report, the UK economic environment remains extremely uncertain and therefore challenging given both COVID-19 and Brexit. Both take us into uncharted territory, with a wide range of potential economic outcomes.

The government's suite of measures, combined with those of the Bank of England and regulators, to mitigate the economic impact from COVID-19, including the Job Retention Scheme (JRS), payment deferrals, a new Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), the suspension of Stamp Duty Land Tax and Bank Rate being reduced to 0.10%, will need to unwind over time. Others such as Bank Rate turning negative may still be introduced in the future, an action that has never been used before and hence the consequences of which cannot be fully assessed.

Although our prime focus in terms of the risk of a fall in house values is the impact this would have on borrowers who fall into payment difficulties, there would also be an immediate impact on the Society's reported financial performance, in terms of profitability, resulting from the Society's residential investment subsidiary, West Brom Homes. These properties are revalued at each financial reporting date, and any change recorded as a gain or loss. This introduces short term volatility from an asset class held for long term return. Some £17.8m of capital, 12.6% of the portfolio's total value, has been set aside to recognise this potential volatility.

Credit risk

The government has recently announced extensions to some of the support schemes referred to above, including the furlough scheme. As these approach their end, the impact on unemployment may create a knock on impact on arrears levels and, where a borrower's difficulties become extended, further credit losses.

At the year-end, the Society's IFRS 9 provisioning and stress testing models had already been enhanced to incorporate a relatively severe downside position which included delays or permanent reductions in rental receipts or asset values. In the first six months of the year, actual experience has broadly been better than expected, although there are specific instances where performance of individual accounts has deteriorated resulting in additional provision. The retail exposures in the commercial lending portfolio are particularly susceptible to such shocks although, as detailed already, the combination of provisions set aside against and capital directly allocated to these exposures is significant. At the period end, coverage against the retail sector exposures stood at 59.4% (30 September 2019: 49.2%).

[3] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Margin compression

The Net Interest Margin has reduced slightly as we do all we can to balance the support to saving and borrowing members. The increased application volumes as lockdown restrictions eased, which have yet to be drawn, are at rates that we expect to support the margin for the second half of the financial year. As outlined above, the prospect of negative interest rates remains a very real one, and if introduced could erode the Net Interest Margin, although such an impact ought to be limited for this financial year. The Society is well advanced in planning for the potential impacts of a negative Bank Rate from an operational perspective.

Operational resilience and technology investment

The focus on operational resilience remains high to ensure that critical business services are readily available to meet members' demands. As outlined at the year-end, COVID-19 resulted in a number of changes to working practices which impacted the operational risk profile. The Society has continued to adapt as guidance in this area evolves. The risk and control environment associated with remote working is subject to monitoring by Second and Third Line functions. The Society remains committed to developing an operational environment that is strong and resilient, meeting members' and regulatory expectations.

Despite all of the challenges in the year to date, investment in the core technology platforms, to allow greater digital capability in both savings and mortgage origination, continued and this is expected to retain significant management involvement through to 2021.

Outlook

In my report at year-end I reflected on the enormous progress the Society had made over the last decade to repair its balance sheet and capital position, to become one which is able to support its members, even through conditions as extreme as those we are currently dealing with. This progress has not only allowed the Society to enter a potential economic stress with the confidence that we are able to weather the storm financially, but that we can also contribute to supporting the economy by continuing to lend to UK households, as we have done in this first reporting period. While both the near and long-term outlooks continue to be subject to significant volatility, this resolute commitment to delivering on our Purpose, in support of the financial wellbeing of our members, will continue through the second half of the year and beyond. I would like to conclude by thanking all colleagues for their enormous efforts to support the continued delivery of the Society's Purpose during the first half of the financial year.

Jonathan Westhoff
Chief Executive

Forward-looking statements

Certain statements in this half-yearly report are forward-looking. Although the West Brom believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the West Brom. As a result, the West Brom's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. Due to such risks and uncertainties the West Brom cautions readers not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Condensed consolidated half-yearly Income Statement

for the six months ended 30 September 2020

	Notes	**6 months ended 30 Sep 20 unaudited £m**	6 months ended 30 Sep 19 unaudited Restated* £m	Year ended 31 Mar 20 audited £m
Interest receivable and similar income				
Calculated using the effective interest method		**50.1**	58.5	118.6
On instruments measured at fair value through profit or loss		**(7.1)**	(2.0)	(4.5)
Total interest receivable and similar income		**43.0**	56.5	114.1
Interest expense and similar charges		**(14.1)**	(27.8)	(55.0)
Net interest receivable		**28.9**	28.7	59.1
Fees and commissions receivable		**0.9**	1.1	2.3
Other operating income		**2.0**	2.2	4.0
Fair value losses on financial instruments		**(1.8)**	(5.2)	(8.5)
Gain on deconsolidation of commercial securitisations		**-**	-	5.3
Write down of goodwill		**-**	-	(0.5)
Total income		**30.0**	26.8	61.7
Administrative expenses		**(19.5)**	(19.4)	(38.2)
Depreciation and amortisation	10	**(3.6)**	(3.5)	(8.0)
Operating profit before revaluation gains, impairment and provisions		**6.9**	3.9	15.5
Gains on investment properties	11	**2.0**	2.8	4.2
Impairment on loans and advances	6	**(6.0)**	(0.5)	(17.5)
Provisions for liabilities	7	**-**	(0.7)	(0.7)
Profit before tax		**2.9**	5.5	1.5
Taxation		**(0.5)**	(1.0)	-
Profit for the period		**2.4**	4.5	1.5

*30 September 2019 fair value losses on financial instruments and taxation have been restated as explained in note 4.

Condensed consolidated half-yearly Statement of Comprehensive Income

for the six months ended 30 September 2020

	6 months ended 30 Sep 20 unaudited	6 months ended 30 Sep 19 unaudited Restated*	Year ended 31 Mar 20 audited
	£m	£m	£m
Profit for the period	**2.4**	4.5	1.5
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation gains/(losses) taken to equity	**3.1**	0.3	(2.2)
Taxation	**(0.6)**	(0.1)	0.4
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	**-**	-	(0.7)
Taxation	**-**	-	0.3
Other comprehensive income for the period, net of tax	**2.5**	0.2	(2.2)
Total comprehensive income for the period	**4.9**	4.7	(0.7)

*30 September 2019 profit for the period has been restated as explained in note 4.

Condensed consolidated half-yearly Statement of Financial Position

at 30 September 2020

	Notes	30 Sep 20 unaudited £m	30 Sep 19 unaudited Restated* £m	31 Mar 20 audited £m
Assets				
Cash and balances with the Bank of England		**294.7**	197.7	263.5
Loans and advances to credit institutions		**133.3**	126.9	123.6
Investment securities		**259.1**	331.2	285.3
Derivative financial instruments		**3.8**	4.4	4.5
Loans and advances to customers	8	**4,624.0**	4,665.2	4,691.6
Current tax assets		**0.4**	-	0.4
Deferred tax assets		**19.9**	18.1	20.4
Trade and other receivables		**3.6**	3.2	4.1
Intangible assets	10	**16.0**	17.2	16.3
Investment properties	11	**140.9**	137.5	138.9
Property, plant and equipment	10	**26.8**	29.8	28.2
Total assets		**5,522.5**	5,531.2	5,576.8
Liabilities				
Shares	9	**3,719.6**	3,982.3	3,846.1
Amounts due to credit institutions		**966.5**	631.9	883.8
Amounts due to other customers		**100.6**	105.2	94.6
Derivative financial instruments		**61.0**	52.7	54.2
Debt securities in issue	12	**244.8**	322.0	266.3
Deferred tax liabilities		**7.2**	5.9	6.7
Trade and other payables		**11.3**	13.7	15.2
Provisions for liabilities	7	**0.5**	1.5	0.6
Retirement benefit obligations		**0.6**	3.4	2.7
Subordinated liabilities	16	**22.8**	22.8	22.8
Total liabilities		**5,134.9**	5,141.4	5,193.0
Members' interests and equity				
Core capital deferred shares	13	**127.0**	127.0	127.0
Subscribed capital	15	**7.8**	8.9	8.9
General reserves		**248.9**	250.5	246.5
Revaluation reserve		**3.3**	3.3	3.3
Fair value reserve		**0.6**	0.1	(1.9)
Total members' interests and equity		**387.6**	389.8	383.8
Total members' interests, equity and liabilities		**5,522.5**	5,531.2	5,576.8

*30 September 2019 loans and advances to customers, deferred tax assets and general reserves have been restated as explained in note 4.

Condensed consolidated Statement of Changes in Members' Interests and Equity

for the six months ended 30 September 2020

6 months ended 30 September 2020 (unaudited)

	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2020	127.0	8.9	246.5	3.3	(1.9)	**383.8**
Profit for the period	-	-	2.4	-	-	**2.4**
Other comprehensive income for the period (net of tax)						
Fair value through other comprehensive income investments	-	-	-	-	2.5	**2.5**
Total other comprehensive income	**-**	**-**	**-**	**-**	**2.5**	**2.5**
Total comprehensive income for the period	**-**	**-**	**2.4**	**-**	**2.5**	**4.9**
Distribution to the holders of core capital deferred shares	**-**	**-**	**(0.6)**	**-**	**-**	**(0.6)**
Buyback and cancellation of subscribed capital	**-**	**(1.1)**	**0.6**	**-**	**-**	**(0.5)**
At 30 September 2020	**127.0**	**7.8**	**248.9**	**3.3**	**0.6**	**387.6**

6 months ended 30 September 2019 (unaudited)

	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	127.0	8.9	246.0	3.3	(0.1)	385.1
Profit for the period (restated)*	-	-	4.5	-	-	4.5
Other comprehensive income for the period (net of tax)						
Fair value through other comprehensive income investments	-	-	-	-	0.2	0.2
Total other comprehensive income	-	-	-	-	0.2	0.2
Total comprehensive income for the period (restated)*	-	-	4.5	-	0.2	4.7
At 30 September 2019 (restated)*	127.0	8.9	250.5	3.3	0.1	389.8

Condensed consolidated Statement of Changes in Members' Interests and Equity (continued)

Year ended 31 March 2020 (audited)

	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	127.0	8.9	246.0	3.3	(0.1)	385.1
Profit for the financial year	-	-	1.5	-	-	1.5
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.4)	-	-	(0.4)
Fair value through other comprehensive income investments	-	-	-	-	(1.8)	(1.8)
Total other comprehensive income	-	-	(0.4)	-	(1.8)	(2.2)
Total comprehensive income for the year	-	-	1.1	-	(1.8)	(0.7)
Distribution to the holders of core capital deferred shares	-	-	(0.6)	-	-	(0.6)
At 31 March 2020	127.0	8.9	246.5	3.3	(1.9)	383.8

*30 September 2019 profit for the financial period and general reserves have been restated as explained in note 4.

Condensed consolidated half-yearly Statement of Cash Flows

for the six months ended 30 September 2020

	6 months ended 30 Sep 20 unaudited £m	6 months ended 30 Sep 19 unaudited £m	Year ended 31 Mar 20 audited £m
Net cash inflow from operating activities (below)	**37.6**	82.2	140.3
Cash flows from investing activities			
Purchase of investment securities	**(14.6)**	(57.5)	(121.8)
Proceeds from disposal of investment securities	**43.8**	47.9	124.7
Purchase of property, plant and equipment and intangible assets	**(2.1)**	(3.0)	(5.6)
Proceeds from disposal of property, plant and equipment	**-**	0.6	0.7
Net cash flows from investing activities	**27.1**	(12.0)	(2.0)
Cash flows from financing activities			
Repayment of debt securities in issue	**(21.7)**	(21.4)	(57.5)
Interest paid on subordinated liabilities	**(1.2)**	(1.2)	(2.5)
Payment of lease liabilities	**(0.2)**	(0.3)	(0.6)
Distribution to the holders of core capital deferred shares	**(0.6)**	-	(0.6)
Buyback and cancellation of subscribed capital	**(0.3)**	-	-
Net cash flows from financing activities	**(24.0)**	(22.9)	(61.2)
Net increase in cash	**40.7**	47.3	77.1
Cash and cash equivalents at beginning of period	**375.8**	298.7	298.7
Cash and cash equivalents at end of period	**416.5**	346.0	375.8

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with maturities of three months or less from the date of acquisition:

	30 Sep 20 unaudited £m	30 Sep 19 unaudited £m	31 Mar 20 audited £m
Cash and cash equivalents			
Cash in hand (including Bank of England Reserve account)	**283.2**	187.1	252.2
Loans and advances to credit institutions	**133.3**	126.9	123.6
Investment securities	**-**	32.0	-
	416.5	346.0	375.8

The Group is required to maintain certain mandatory balances with the Bank of England which, at 30 September 2020, amounted to £11.5m (30 September 2019: £10.6m and 31 March 2020: £11.3m). The movement in these balances is included within cash flows from operating activities.

The Group's loans and advances to credit institutions includes £49.9m (30 September 2019: £56.4m and 31 March 2020: £43.2m) of balances belonging to the Society's structured entities which are not available for general use by the Society.

Condensed consolidated half-yearly Statement of Cash Flows (continued)

for the six months ended 30 September 2020

	6 months ended 30 Sep 20 unaudited £m	6 months ended 30 Sep 19 unaudited Restated* £m	Year ended 31 Mar 20 audited £m
Cash flows from operating activities			
Profit before tax	2.9	5.5	1.5
Adjustments for non-cash items included in profit before tax			
Impairment on loans and advances	6.0	0.5	17.5
Depreciation and amortisation	3.6	3.5	8.0
Disposal of property, plant and equipment	-	(0.1)	(0.2)
Revaluation of investment properties	(2.0)	(2.8)	(4.2)
Gain on deconsolidation of commercial securitisations	-	-	(5.3)
Write down of goodwill	-	-	0.5
Changes in provision for liabilities	(0.1)	0.1	(0.8)
Interest on subordinated liabilities	1.2	1.2	2.5
Fair value losses on equity release portfolio	0.4	0.1	0.1
Interest paid on lease liabilities	-	-	0.1
Other non-cash movements	(5.1)	(14.3)	3.4
	6.9	(6.3)	23.1
Changes in operating assets and liabilities			
Loans and advances to customers	66.4	92.6	31.3
Loans and advances to credit institutions	(0.2)	(0.1)	(2.5)
Derivative financial instruments	7.5	15.5	20.2
Shares	(126.5)	(8.9)	(145.1)
Deposits and other borrowings	88.9	(7.3)	216.8
Trade and other receivables	0.5	0.5	(0.4)
Trade and other payables	(3.5)	(1.2)	0.9
Retirement benefit obligations	(2.1)	(1.5)	(2.9)
Subscribed capital	(0.3)	-	-
Tax paid	-	(1.1)	(1.1)
Net cash inflow from operating activities	37.6	82.2	140.3

*30 September 2019 profit before tax and loans and advances to customers have been restated as explained in note 4, which have no impact on net cash inflow from operating activities.

Notes to condensed consolidated half-yearly financial information for the six months ended 30 September 2020

1. General information

These half-yearly financial results do not constitute statutory accounts within the meaning of the Building Societies Act 1986. A copy of the statutory accounts for the year to 31 March 2020 has been delivered to the Financial Conduct Authority and the relevant information in this report has been extracted from these statutory accounts. The statutory accounts for the year ended 31 March 2020 have been reported on by the Group's auditor and the report of the auditor was (i) unqualified, and (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report.

The consolidated half-yearly financial information for the six months to 30 September 2020 and 30 September 2019 is unaudited and has not been reviewed by the Group's auditor.

2. Basis of preparation

This condensed consolidated half-yearly financial report for the six months ended 30 September 2020 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

3. Going concern and business viability statement

Details of the Group's objectives, policies and processes for managing its exposure to risk are contained in the Risk Management Report of the 2019/20 Annual Report and Accounts. The Directors also include statements in the Directors' Report in respect of going concern and longer-term business viability on page 44 of the 2019/20 Annual Report and Accounts.

The Directors have reviewed the latest plans and forecasts for the Group giving consideration to liquidity and capital adequacy. They are satisfied that the Group has adequate resources to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the next 12 months and that the longer-term business viability statement in the 2019/20 Annual Report and Accounts remains appropriate. Accordingly they continue to adopt the going concern basis in preparing these half-yearly financial results.

4. Accounting policies

The accounting policies adopted by the Group in the consolidated half-yearly information are consistent with those disclosed in the Annual Report & Accounts for the year ended 31 March 2020. The year-end accounting policies were updated to include the impacts of COVID-19. There have been no significant changes to accounting policies within the period.

Prior period restatement

As explained in note 43 to the Annual Report and Accounts for the year ended 31 March 2020, a prior year restatement was recorded at 31 March 2019. This arose as a result of certain mortgages (hedged items) within the portfolio interest rate risk hedge being valued in accordance with reference to SONIA, which did not correspond to the documented hedged risk for that portfolio. The hedged items have been revalued in accordance with the documented hedged risk (being fair value movements attributed to movements in LIBOR). In accordance with IAS 8 Accounting policies, Changes in Accounting Estimates and Errors, comparative amounts for the six months to 30 September 2019 are restated as set out in the table overleaf.

4. Accounting policies (continued)

The table below shows the effect of the retrospective restatement on the prior year Group statement of financial position.

Statement of financial position

at 30 September 2019

	Previously reported £m	Restatement £m	Restated £m
Loans and advances to customers	4,667.4	(2.2)	4,665.2
Deferred tax assets	17.7	0.4	18.1
Total assets	5,533.0	(1.8)	5,531.2
General reserves	252.3	(1.8)	250.5
Total members' interests and equity	391.6	(1.8)	389.8
Total members' interests, equity and liabilities	5,533.0	(1.8)	5,531.2

The table below shows the effect of the retrospective restatements on the Group's income statement for the period ended 30 September 2019.

Income Statement

for the six months ended 30 September 2019

	Previously reported £m	Restatement £m	Restated £m
Fair value losses on financial instruments	(4.3)	(0.9)	(5.2)
Total income	27.7	(0.9)	26.8
Operating profit before revaluation gains, impairment and provisions	4.8	(0.9)	3.9
Profit before tax	6.4	(0.9)	5.5
Taxation	(1.2)	0.2	(1.0)
Profit for the period	5.2	(0.7)	4.5

Critical accounting estimates and judgements in applying accounting policies

In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the half year accounts, tax has been charged on the statutory profit before tax at the UK standard rate of 19%. A full review of the tax position of the Society and its subsidiaries will be carried out at the year end date. Otherwise, the significant judgements in applying accounting policies and key sources of estimation uncertainty at 30 September 2020 are unchanged from those existing at 31 March 2020.

5. Business segments

Operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision maker), which is responsible for allocating resources to the reportable segments and assessing their performance.

The Group has three main business segments:

- Retail - incorporating residential lending, savings, investments and protection;
- Commercial real estate - primarily representing loans for commercial property investment; and
- Property - a portfolio of residential properties for rent.

Central Group operations have been included in Retail and comprise risk management, finance, treasury services, human resources and computer services, none of which constitute a separately reportable segment.

There were no changes to reportable segments during the period.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Board is measured in a manner consistent with that in the consolidated Income Statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. Central administrative costs are also allocated between segments and are disclosed in inter-segment administrative expenses. There are no other material items of income or expense between the business segments.

The Group does not consider its operations to be cyclical or seasonal in nature.

6 months ended 30 September 2020 (unaudited)

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	51.5	4.3	-	(5.7)	**50.1**
On instruments measured at fair value through profit or loss	(7.1)	-	-	-	**(7.1)**
Total interest receivable and similar income	44.4	4.3	-	(5.7)	**43.0**
Interest expense and similar charges	(14.3)	(4.0)	(1.5)	5.7	**(14.1)**
Net interest receivable/(expense)	**30.1**	**0.3**	**(1.5)**	**-**	**28.9**
Fees and commissions receivable	0.9	-	-	-	**0.9**
Other operating income	-	-	2.0	-	**2.0**
Fair value losses on financial instruments	-	(1.8)	-	-	**(1.8)**
Total income	**31.0**	**(1.5)**	**0.5**	**-**	**30.0**
Administrative expenses	(18.9)	(0.5)	(0.1)	-	**(19.5)**
Depreciation and amortisation	(3.6)	-	-	-	**(3.6)**
Operating profit/(loss) before revaluation gains, impairment and provisions	**8.5**	**(2.0)**	**0.4**	**-**	**6.9**
Gains on investment properties	-	-	2.0	-	**2.0**
Impairment on loans and advances	(0.2)	(5.8)	-	-	**(6.0)**
Provisions for liabilities	-	-	-	-	**-**
Profit/(Loss) before tax	**8.3**	**(7.8)**	**2.4**	**-**	**2.9**
Total assets	**5,501.5**	**332.2**	**143.5**	**(454.7)**	**5,522.5**
Total liabilities	**5,161.4**	**440.5**	**123.0**	**(590.0)**	**5,134.9**

5. Business segments (continued)

6 months ended 30 September 2019 (unaudited)*	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	60.9	5.3	-	(7.7)	58.5
On instruments measured at fair value through profit or loss	(2.0)	-	-	-	(2.0)
Total interest receivable and similar income	58.9	5.3	-	(7.7)	56.5
Interest expense and similar charges	(27.4)	(6.7)	(1.4)	7.7	(27.8)
Net interest receivable/(expense)	31.5	(1.4)	(1.4)	-	28.7
Fees and commissions receivable	1.1	-	-	-	1.1
Other operating income	0.1	-	2.1	-	2.2
Fair value losses on financial instruments	(1.3)	(3.7)	-	(0.2)	(5.2)
Total income	31.4	(5.1)	0.7	(0.2)	26.8
Administrative expenses	(18.8)	(0.5)	(0.1)	-	(19.4)
Depreciation and amortisation	(3.5)	-	-	-	(3.5)
Operating profit/(loss) before revaluation gains, impairment and provisions	9.1	(5.6)	0.6	(0.2)	3.9
Gains on investment properties	-	-	2.8	-	2.8
Impairment on loans and advances	0.4	(0.9)	-	-	(0.5)
Provisions for liabilities	(0.7)	-	-	-	(0.7)
Profit/(Loss) before tax	8.8	(6.5)	3.4	(0.2)	5.5
Total assets	5,493.4	370.1	139.9	(472.2)	5,531.2
Total liabilities	5,132.0	462.4	122.6	(575.6)	5,141.4

*30 September 2019 fair value losses on financial instruments, total assets and total liabilities have been restated as explained in note 4.

5. Business segments (continued)

Year ended 31 March 2020 (audited)

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	124.1	10.5	-	(16.0)	118.6
On instruments measured at fair value through profit or loss	(4.4)	(0.1)	-	-	(4.5)
Total interest receivable and similar income	119.7	10.4	-	(16.0)	114.1
Interest expense and similar charges	(54.0)	(13.5)	(2.9)	15.4	(55.0)
Net interest receivable/(expense)	65.7	(3.1)	(2.9)	(0.6)	59.1
Fees and commissions receivable	2.3	-	-	-	2.3
Other operating income	-	-	4.0	-	4.0
Fair value losses on financial instruments	(3.7)	(4.1)	-	(0.7)	(8.5)
Gain on deconsolidation of commercial securitisations	-	5.3	-	-	5.3
Write down of goodwill	(0.5)	-	-	-	(0.5)
Total income	63.8	(1.9)	1.1	(1.3)	61.7
Administrative expenses	(37.5)	(0.4)	(0.3)	-	(38.2)
Depreciation and amortisation	(8.0)	-	-	-	(8.0)
Operating profit/(loss) before revaluation gains, impairment and provisions	18.3	(2.3)	0.8	(1.3)	15.5
Gains on investment properties	-	-	4.2	-	4.2
Impairment on loans and advances	(2.9)	(14.6)	-	-	(17.5)
Provisions for liabilities	(0.5)	(0.2)	-	-	(0.7)
Profit/(Loss) before tax	14.9	(17.1)	5.0	(1.3)	1.5
Total assets	5,539.7	343.6	141.5	(448.0)	5,576.8
Total liabilities	5,208.7	445.2	123.5	(584.4)	5,193.0

6. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 20 unaudited £m	6 months ended 30 Sep 19 unaudited £m	Year ended 31 Mar 20 audited £m
Impairment charge for the period	**6.0**	0.5	17.5
Impairment provision at end of period			
Loans fully secured on residential property	**7.2**	4.3	7.0
Loans fully secured on land	**87.7**	70.4	81.8
Total	**94.9**	74.7	88.8

In accordance with IFRS 9, 'Financial instruments', forecasts of future economic conditions are integral to the expected credit loss calculations. At 30 September 2020, the Group modelled four forward-looking macroeconomic scenarios: central, upside, downside and stress with respective probability weightings unchanged from 31 March 2020. Individual economic variables within the scenarios are regularly reviewed and updated to reflect the current economic outlook.

Consistent with residential mortgages, the IFRS 9 ECL calculation for the commercial portfolio incorporates central, upside, downside and stress economic scenarios with the same probability weightings applied.

In addition to the scenario weightings and account-specific factors that impact cashflows, the key model assumption for commercial provisioning is considered to be the exit yield requirement, which is used to estimate the cash flows arising from realisation of the property values on sale. While interest rates also have a significant impact on the ECL, via the discount factor applied in the model, compensating economic hedge arrangements would substantially offset the movement in profit or loss terms. Compared with the central economic forecast, the exit yield requirement for each loan increases by 0.9% and 2.0% in the downside and stress scenarios respectively and reduced by 0.2% in the upside scenario. This compares to an average exit yield of 8%.

Presented below is the sensitivity to the total residential and commercial ECL provision arising from the application of 100% weighting to each scenario.

	Probability weighting		**Current scenario (%)**			**Increase/(decrease) in provision with 100% scenario weighting (£m)**	**Increase/(decrease) in provision with 10% increase in weighting* (£m)**
			2020/21	**2021/22**	**5 year average**		
Central scenario	**50%**	Bank Rate	0.1	-	0.1	(13.3)	-
		HPI	2.0	(4.0)	1.9		
		Unemployment	7.5	6.6	6.1		
		GDP	(9.5)	6.8	0.9		
Upside scenario	**5%**	Bank Rate	0.1	0.3	0.5	(17.1)	(0.3)
		HPI	1.0	4.1	5.1		
		Unemployment	4.8	5.7	4.5		
		GDP	(6.5)	10.0	3.1		
Downside scenario	**30%**	Bank Rate	0.1	(0.1)	-	9.0	2.2
		HPI	(2.4)	(6.0)	(0.7)		
		Unemployment	10.0	8.0	7.2		
		GDP	(15.0)	-	(1.2)		
Stress scenario	**15%**	Bank Rate	-	(0.1)	(0.1)	33.9	4.6
		HPI	(5.0)	(15.0)	(2.3)		
		Unemployment	12.0	10.0	8.7		
		GDP	(15.0)	(5.0)	(2.0)		

*(increase in 10% weighting with a corresponding reduction in the central scenario)

6. Allowance for losses on loans and advances to customers (continued)

The tables below analyse the movement in residential impairment provisions by IFRS 9 stage.

6 months ended 30 September 2020 (unaudited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Residential expected credit loss allowance				
At 1 April 2020	1.1	2.7	3.2	7.0
Transfers due to increased credit risk:				
From stage 1 to stage 2	(0.1)	0.4	-	0.3
From stage 1 to stage 3	(0.1)	-	0.4	0.3
From stage 2 to stage 3	-	(0.1)	0.5	0.4
Transfers due to decreased credit risk:				
From stage 2 to stage 1	-	(0.1)	-	(0.1)
From stage 3 to stage 1	-	-	(0.1)	(0.1)
From stage 3 to stage 2	-	-	(0.3)	(0.3)
Remeasurement of expected credit losses with no stage transfer	0.2	(0.3)	-	(0.1)
Redemptions	(0.1)	-	(0.1)	(0.2)
Amounts written off	-	-	(0.2)	(0.2)
Other movements	0.2	-	-	0.2
At 30 September 2020	**1.2**	**2.6**	**3.4**	**7.2**

6 months ended 30 September 2019 (unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Residential expected credit loss allowance				
At 1 April 2019	0.6	1.1	4.3	6.0
Transfers due to increased credit risk:				
From stage 1 to stage 2	-	0.1	-	0.1
From stage 1 to stage 3	-	-	0.1	0.1
From stage 2 to stage 3	-	(0.1)	0.3	0.2
Transfers due to decreased credit risk:				
From stage 2 to stage 1	-	(0.1)	-	(0.1)
From stage 3 to stage 2	-	-	(0.2)	(0.2)
Remeasurement of expected credit losses with no stage transfer	(0.2)	(0.1)	0.2	(0.1)
Redemptions	-	-	(0.1)	(0.1)
Amounts written off	-	-	(1.5)	(1.5)
Other movements	-	-	(0.1)	(0.1)
At 30 September 2019	0.4	0.9	3.0	4.3

6. Allowance for losses on loans and advances to customers (continued)

Year ended 31 March 2020 (audited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Residential expected credit loss allowance				
At 1 April 2019	0.6	1.1	4.3	6.0
Transfers due to increased credit risk:				
From stage 1 to stage 2	-	0.5	-	0.5
From stage 1 to stage 3	-	-	0.5	0.5
From stage 2 to stage 3	-	(0.1)	0.8	0.7
Transfers due to decreased credit risk:				
From stage 2 to stage 1	0.1	(0.3)	-	(0.2)
From stage 3 to stage 2	-	-	(0.2)	(0.2)
Remeasurement of expected credit losses with no stage transfer	0.4	0.5	0.5	1.4
Redemptions	(0.1)	-	(0.2)	(0.3)
Amounts written off	-	-	(2.5)	(2.5)
Other movements	0.1	-	-	0.1
Overlays in respect of payment deferrals	-	1.0	-	1.0
At 31 March 2020	1.1	2.7	3.2	7.0

The tables below analyse the movement in commercial impairment provisions by IFRS 9 stage.

6 months ended 30 September 2020 (unaudited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Commercial expected credit loss allowance				
At 1 April 2020	-	9.3	72.5	81.8
Remeasurement of expected credit losses with no stage transfer	-	1.1	4.7	5.8
Other movements	-	-	0.1	0.1
At 30 September 2020	**-**	**10.4**	**77.3**	**87.7**

6 months ended 30 September 2019 (unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial expected credit loss allowance				
At 1 April 2019	0.3	8.8	61.6	70.7
Transfers due to increased credit risk:				
From stage 2 to stage 3	-	(2.7)	2.8	0.1
Remeasurement of expected credit losses with no stage transfer	0.1	(0.4)	3.0	2.7
Redemptions	-	-	(0.7)	(0.7)
Amounts written off	-	-	(2.4)	(2.4)
At 30 September 2019	0.4	5.7	64.3	70.4

6. Allowance for losses on loans and advances to customers (continued)

Year ended 31 March 2020 (audited)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial expected credit loss allowance				
At 1 April 2019	0.3	8.8	61.6	70.7
Transfers due to increased credit risk:				
From stage 1 to stage 2	(0.3)	0.4	-	0.1
From stage 2 to stage 3	-	(2.7)	2.6	(0.1)
Remeasurement of expected credit losses with no stage transfer	-	2.8	16.9	19.7
Redemptions	-	-	(0.8)	(0.8)
Amounts written off	-	-	(7.8)	(7.8)
At 31 March 2020	-	9.3	72.5	81.8

7. Provisions for liabilities

	6 months ended 30 Sep 20 unaudited £m	6 months ended 30 Sep 19 unaudited £m	Year ended 31 Mar 20 audited £m
At beginning of period	**0.6**	1.4	1.4
Utilised in the period	**(0.1)**	(0.6)	(1.5)
Charge for the period	**-**	0.7	0.7
At end of period	**0.5**	1.5	0.6

Provisions for liabilities

Provisions for liabilities primarily relate to Payment Protection Insurance (PPI) redress. The level of provision has reduced in the period after the 29 August 2019 deadline set by the Financial Conduct Authority (FCA) was passed.

8. Loans and advances to customers

	30 Sep 20 unaudited £m	30 Sep 19 unaudited Restated* £m	31 Mar 20 audited £m
Amortised cost			
Loans fully secured on residential property	**4,293.2**	4,303.7	4,354.5
Loans fully secured on land	**368.8**	382.1	373.3
	4,662.0	4,685.8	4,727.8
Fair value through profit or loss			
Loans fully secured on residential property	**12.5**	14.3	13.3
	4,674.5	4,700.1	4,741.1
Fair value adjustment for hedged risk	**44.4**	39.8	39.3
Less: impairment provisions	**(94.9)**	(74.7)	(88.8)
	4,624.0	4,665.2	4,691.6

*2019 loans and advances to customers have been restated as explained in note 4.

Included within loans and advances to customers are £413.2m (31 March 2020: £417.2m) of commercial lending balances of which £22.4m (31 March 2020: £22.7m) have been sold by the Group to bankruptcy remote structured entities.

The tables below illustrate the IFRS 9 staging distribution of residential and commercial loans and advances to customers held at amortised cost and related credit loss provisions. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR) and those which meet other SICR criteria. For the purposes of this disclosure, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

As outlined in the year-end Report and Accounts, the Society, in common with other lenders, has granted payment deferrals to its borrowers. At 30 September, payment deferrals had been utilised on 5,306 residential mortgage accounts, of which 15% had received an extension. In line with regulatory guidance, these arrangements did not result in the loans being categorised as forborne for reporting purposes. An overlay of £1.0m (31 March 2020: £1.0m) has been recorded in respect of these accounts. During the period, the Society has refined its assessment of accounts receiving payment deferrals in order to estimate this overlay, by applying a higher probability of default to those accounts which demonstrate indicators of long term financial difficulties.

At 30 September 2020 (unaudited)	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	**3,781.7**	**1.2**	**0.03**
Stage 2			
> 30 days past due	**9.5**	**0.1**	**1.05**
Other SICR indicators	**424.5**	**1.5**	**0.35**
Overlays in respect of payment deferrals	**-**	**1.0**	**-**
Stage 3	**61.1**	**3.4**	**5.56**
	4,276.8	**7.2**	**0.17**

8. Loans and advances to customers (continued)

At 30 September 2019 (unaudited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	3,793.3	0.4	0.01
Stage 2			
> 30 days past due	17.4	0.1	0.57
Other SICR indicators	416.9	0.8	0.19
Stage 3	56.7	3.0	5.29
	4,284.3	4.3	0.19

At 31 March 2020 (audited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	3,888.0	1.1	0.03
Stage 2			
> 30 days past due	12.9	0.2	1.55
Other SICR indicators	380.6	1.5	0.39
Overlays in respect of payment deferrals	-	1.0	-
Stage 3	56.5	3.2	5.66
	4,338.0	7.0	0.16

At 30 September 2020 (unaudited)

	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**
Commercial loans held at amortised cost			
Stage 1	**59.2**	**-**	**0.02**
Stage 2			
> 30 days past due	**5.7**	**0.2**	**3.51**
Other SICR indicators	**94.3**	**10.2**	**10.82**
Stage 3	**252.5**	**77.3**	**30.61**
	411.7	**87.7**	**21.30**

8. Loans and advances to customers (continued)

At 30 September 2019 (unaudited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans held at amortised cost			
Stage 1	71.0	0.4	0.57
Stage 2			
> 30 days past due	-	-	-
Other SICR indicators	97.3	5.7	5.90
Stage 3	264.2	64.3	24.33
	432.5	70.4	16.28

At 31 March 2020 (audited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans held at amortised cost			
Stage 1	59.5	-	0.00
Stage 2			
> 30 days past due	-	-	-
Other SICR indicators	103.6	9.3	8.98
Stage 3	254.1	72.5	28.53
	417.2	81.8	19.61

9. Shares

	30 Sep 20 unaudited £m	30 Sep 19 unaudited £m	31 Mar 20 audited £m
Held by individuals	**3,718.6**	3,981.3	3,845.1
Other shares	**1.0**	1.0	1.0
	3,719.6	3,982.3	3,846.1

10. Property, plant, equipment and intangible assets

6 months ended 30 September 2020 (unaudited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2020	16.3	28.2
Additions	1.7	0.2
Depreciation, amortisation, impairment and other movements	(2.0)	(1.6)
Net book value at 30 September 2020	**16.0**	**26.8**

6 months ended 30 September 2019 (unaudited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2019	16.5	28.4
Changes on initial application of IFRS 16	-	2.6
At 1 April 2019 including impact of IFRS 16 adoption	16.5	31.0
Additions	2.7	0.8
Disposals	-	(0.5)
Depreciation, amortisation, impairment and other movements	(2.0)	(1.5)
Net book value at 30 September 2019	17.2	29.8

Year ended 31 March 2020 (audited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2019	16.5	28.4
Changes on initial application of IFRS 16	-	2.6
At 1 April 2019 including impact of IFRS 16 adoption	16.5	31.0
Additions	5.1	0.9
Disposals	-	(0.5)
Depreciation, amortisation, impairment and other movements	(5.3)	(3.2)
Net book value at 31 March 2020	16.3	28.2

11. Investment properties

	6 months ended 30 Sep 20 unaudited £m	6 months ended 30 Sep 19 unaudited £m	Year ended 31 Mar 20 audited £m
Valuation			
At beginning of period	**138.9**	134.7	134.7
Revaluation gains	**2.0**	2.8	4.2
At end of period	**140.9**	137.5	138.9

12. Debt securities in issue

	30 Sep 20 unaudited £m	30 Sep 19 unaudited £m	31 Mar 20 audited £m
Certificates of deposit	**-**	1.0	1.0
Non-recourse finance on securitised advances	**244.8**	321.0	265.3
	244.8	322.0	266.3

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over portfolios of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom. Prior to redemption of the Notes on the final interest payment date, the Notes will be subject to mandatory and/or optional redemption, in certain circumstances, on each interest payment date.

13. Core capital deferred shares

	Number of shares	**CCDS nominal amount £m**	**Share premium £m**	**Total £m**
At 30 September 2020 (unaudited)	**1,288,813**	**1.3**	**125.7**	**127.0**
At 30 September 2019 (unaudited)	1,288,813	1.3	125.7	**127.0**
At 31 March 2020 (audited)	1,288,813	1.3	125.7	**127.0**

CCDS are perpetual instruments and a form of Common Equity Tier 1 (CET 1) capital.

CCDS are the most junior-ranking capital instrument of the Society, ranking behind the claims of all depositors, payables and investing members.

Each holder of CCDS has one vote, regardless of the number of CCDS held.

The CCDS holders are entitled to receive a distribution at the discretion of the Society. The total distribution paid on each CCDS in respect of any given financial year of the Society is subject to a cap provided for in the Rules of the Society and adjusted annually for inflation. The Directors declared a final distribution in May 2020 of £0.50 per CCDS, which was paid in August 2020. These distributions have been recognised in the Statement of Changes in Members' Interests and Equity.

Subsequent to the balance sheet date, the Directors have announced their intention to declare an interim distribution of £0.50 per CCDS in respect of the period to 30 September 2020 which would be paid in February 2021. The interim distribution is not reflected in the members reserves of these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared, although they are accrued for in capital calculations. In the event of a winding up or dissolution of the Society, the share of surplus assets (if any) a CCDS holder would be eligible to receive is determined by the calculation of a core capital contribution proportion, limited to a maximum of the average principal amount, currently £100 per CCDS.

14. Related party transactions

Related party transactions for the six months to 30 September 2020 are within the normal course of business and of a similar nature to those for the last financial year, full details of which are disclosed in the Annual Report and Accounts for the year ended 31 March 2020.

15. Subscribed capital

	30 Sep 20 unaudited £m	30 Sep 19 unaudited £m	31 Mar 20 audited £m
Permanent interest bearing shares	**7.8**	8.9	8.9

The 6.15% permanent interest bearing shares (PIBS) comprise 7,847 PIBS of £1,000 each issued at a price of 99.828% of their principal amount, with the issue premium amortised. £66,109,000 in aggregate nominal amount of the PIBS were exchanged or tendered and subsequently cancelled as part of the Liability Management Exercise (LME) in April 2018.

On 22 July 2020, the Society purchased and cancelled £1,044,000 of its remaining PIBS.

The PIBS are repayable at the option of the Society in whole on 5 April 2021 or any scheduled interest payment thereafter, subject to approval by the Prudential Regulation Authority (PRA).

In a winding up or dissolution of the Society the claims of the holders of permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, with the exception of the claims of holders of core capital deferred shares (CCDS). The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

Future interest payments are at the discretion of the Society, up to a maximum 6.15% prior to 5 April 2021 and, thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8%. As announced on 2 October 2020, the Board resolved not to make an interest payment on the scheduled interest payment date of 5 October 2020.

Whilst noting that any interest payments on the PIBS are at the sole discretion of the Society, the Society announced during its capital restructuring in 2018 that any future payments on PIBS will be made only if and to the extent that they would have been permitted had the LME had not taken place, and in the context of determining the equivalent annual yield that would have been paid to holders of the Society's Profit Participating Deferred Shares (PPDS) had they remained in issue on their original terms. Under the terms and conditions of the PPDS (which are available for viewing on the Society's website), the Society's ability to pay PPDS distributions was constrained by reference to a percentage of profits generated in the relevant financial year, and to the extent of any positive balance on a special PPDS reserve account (to which a percentage of profits or losses of the Society was allocated each year).

Whilst PPDS instruments no longer exist (having been exchanged during the LME), the Society continues to monitor a notional PPDS reserve. At 31 March 2018 (the last accounting date before the completion of the LME) the deficit on the PPDS reserve stood at £9.1m. At 31 March 2020, the Society disclosed a deficit balance on this notional reserve of £5.7m. For the 6 month period ended 30 September 2020, the Society generated a reported net profit of £2.4m, including the impact of £1.3m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £3.4m. Accordingly, during the period the notional PPDS reserve deficit reduced by £0.8m (25% of £3.4m) leaving a deficit of £4.9m at 30 September 2020.

16. Subordinated liabilities

	30 Sep 20 unaudited £m	30 Sep 19 unaudited £m	31 Mar 20 audited £m
Subordinated notes due 2038 – 11.0%	**22.8**	22.8	22.8

The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

17. Financial instruments

Fair values of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group determines fair values by the following three tier valuation hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques where significant inputs are not based on observable market data.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length. Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

The carrying value of cash and balances with the Bank of England are assumed to approximate their fair value.

Financial assets and financial liabilities held at amortised cost

The tables below show the fair values of the Group's financial assets and liabilities held at amortised cost in the Statement of Financial Position, analysed according to the fair value hierarchy described above.

At 30 September 2020 (unaudited)

	Carrying value £m	**Fair value Level 1 £m**	**Fair value Level 2 £m**	**Fair value Level 3 £m**	**Fair value Total £m**
Financial assets					
Loans and advances to credit institutions	**133.3**	-	133.3	-	**133.3**
Loans and advances to customers	**4,611.5**	-	-	4,625.3	**4,625.3**
	4,744.8	**-**	**133.3**	**4,625.3**	**4,758.6**
Financial liabilities					
Shares	**3,719.6**	-	-	3,700.7	**3,700.7**
Amounts due to credit institutions	**966.5**	-	966.5	-	**966.5**
Amounts due to other customers	**100.6**	-	100.6	-	**100.6**
Debt securities in issue	**244.8**	238.4	0.2	-	**238.6**
Subordinated liabilities	**22.8**	-	22.8	-	**22.8**
	5,054.3	**238.4**	**1,090.1**	**3,700.7**	**5,029.2**

At 30 September 2019 (unaudited)

	Carrying value Restated* £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	126.9	-	126.9	-	126.9
Loans and advances to customers	4,650.9	-	-	4,645.3	4,645.3
	4,777.8	-	126.9	4,645.3	4,772.2
Financial liabilities					
Shares	3,982.3	-	-	3,948.2	3,948.2
Amounts due to credit institutions	631.9	-	631.9	-	631.9
Amounts due to other customers	105.2	-	105.2	-	105.2
Debt securities in issue	322.0	306.4	15.5	-	321.9
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,064.2	306.4	775.4	3,948.2	5,030.0

17. Financial instruments (continued)

At 31 March 2020 (audited)	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Loans and advances to credit institutions	123.6	-	123.6	-	123.6
Loans and advances to customers	4,678.3	-	-	4,707.3	4,707.3
	4,801.9	-	123.6	4,707.3	4,830.9
Financial liabilities					
Shares	3,846.1	-	-	3,827.4	3,827.4
Amounts due to credit institutions	883.8	-	883.8	-	883.8
Amounts due to other customers	94.6	-	94.6	-	94.6
Debt securities in issue	266.3	258.0	1.7	-	259.7
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,113.6	258.0	1,002.9	3,827.4	5,088.3

*30 September 2019 loans and advances to customers have been restated as explained in note 4.

a) Loans and advances to customers

The fair value of loans and advances to customers has been determined taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and, as such, do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 30 September 2020.

b) Shares and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 30 September 2020.

c) Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Financial assets and financial liabilities held at fair value

The tables below show the fair values of the Group's financial assets and liabilities held at fair value in the Statement of Financial Position, analysed according to the fair value hierarchy described previously.

At 30 September 2020 (unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investment securities				
At fair value through other comprehensive income	258.1	-	-	**258.1**
At fair value through profit or loss	1.0	-	-	**1.0**
Derivative financial instruments	-	3.8	-	**3.8**
Loans and advances to customers	-	-	12.5	**12.5**
	259.1	**3.8**	**12.5**	**275.4**
Financial liabilities				
Derivative financial instruments	**-**	**61.0**	**-**	**61.0**

17. Financial instruments (continued)

At 30 September 2019 (unaudited)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	330.3	-	-	330.3
At fair value through profit or loss	0.9	-	-	0.9
Derivative financial instruments	-	4.4	-	4.4
Loans and advances to customers	-	-	14.3	14.3
	331.2	4.4	14.3	349.9
Financial liabilities				
Derivative financial instruments	-	52.7	-	52.7

At 31 March 2020 (audited)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	284.3	-	-	284.3
At fair value through profit or loss	1.0	-	-	1.0
Derivative financial instruments	-	4.5	-	4.5
Loans and advances to customers	-	-	13.3	13.3
	285.3	4.5	13.3	303.1
Financial liabilities				
Derivative financial instruments	-	54.2	-	54.2

The table below analyses movements in the level 3 portfolio during the period.

Equity release portfolio	**6 months ended 30 Sep 20 unaudited £m**	6 months ended 30 Sep 19 unaudited £m	Year ended 31 Mar 20 audited £m
At beginning of period	**13.3**	14.8	14.8
Items recognised in the Income Statement			
Interest receivable and similar income	**0.4**	0.5	1.0
Fair value losses on financial instruments	**(0.4)**	(0.1)	(0.1)
Redemption payments	**(0.8)**	(0.9)	(2.4)
At end of period	**12.5**	14.3	13.3

There have been no transfers of financial assets or liabilities between levels of the valuation hierarchy in the period.

18. Statement of Directors' responsibilities

The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of West Bromwich Building Society are listed in the West Bromwich Building Society Annual Report for the year ended 31 March 2020. On 1 August 2020, David Thomas was appointed to the Board as a Non-Executive Director. He brings a wealth of experience in general management, risk management, internal audit and regulatory activities.

Signed on behalf of the Board of Directors:

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

26 November 2020

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

the West Brom

A10591-11/20-01