Condensed consolidated half-yearly financial information

30 September 2021

the West Brom

Although the latter part of the half year saw some optimism following the removal of restrictions and the initial success of the vaccination programme, the period continued to be dominated by the pandemic and the knock on impact on our members, colleagues and communities. Against this backdrop, performance was strong as we continued to deliver our Purpose through 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 granted 14% of our residential mortgage borrowers with payment deferrals of which over 97% have been supported back into full payment status;
- Continued to provide tailored support and solutions for our members including vulnerable customers and mortgage prisoners;
- Rewarded savers by paying £8.8m more in interest than the market average[1]; and
- Progressed multiple fundraising and volunteering initiatives, including a new partnership with Barnados, for those causes hit hardest 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 has remained important. Throughout the first half of the year we have:

- Extended an additional £479m (30 September 2020: £248m) of new residential mortgage lending including £123m (30 September 2020: £102m) to first-time buyers;
- Continued to raise awareness of mortgage prisoners and enhance our Modified Affordability proposition to make it more widely accessible;
- Received recognition in three categories of the Moneyfacts 2021 awards including Winner of Best Building Society Mortgage Provider, Highly Commended Best Fixed Rate Mortgage Provider and Commended Innovation in Personal Finance for the Modified Affordability proposition;
- Followed government guidance in keeping all of our 34 branches and head office site COVID-19 secure as the country emerged from lockdown; and
- Continued with remote working for over 80% of our staff and progressed our approach to hybrid working through feedback from our colleagues and the formation of a 'Hybrid Working Group'.

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 +76 at March 2021 to +80, with customer satisfaction remaining strong at 96%;
- Maintained our financial strength with our CET 1 ratio at 16.3% (31 March 2021: 16.4%); and
- Reported a statutory profit before tax of £14.6m (30 September 2020: £2.9m).

[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. The Net Promoter Score is a measure of how likely our customers are to recommend us.

Key highlights for the six months to 30 September 2021

New mortgage lending

£479m

£479m of new mortgage lending (30 September 2020: £248m), with **£123m** of new mortgages to first-time buyers (30 September 2020: £102m).

Profit before tax

£14.6m

Statutory profit before tax of **£14.6m** (30 September 2020: £2.9m) driven by higher net interest income and fair value gains and lower impairment requirements.

98% above the market average

Rewarded savers with rates that were, on average, 98% above those paid by the market for the period (30 September 2020: 17%).

Common Equity Tier 1 (CET 1)

16.3%

Capital position remains strong with the Common Equity Tier 1 (CET 1) capital ratio of **16.3%** (31 March 2021: 16.4%).

Net Promoter Score

+80

Improved Net Promotor Score®[2] to **+80** from +76 at March 2021, with customer satisfaction maintained at **96%**.

1

WINNER
Moneyfacts Awards 2021
Best Building Society Mortgage Provider

Recognition in three categories of the Moneyfacts 2021 awards including **Winner of Best Building Society Mortgage Provider, Highly Commended Best Fixed Rate Mortgage Provider and Commended Innovation in Personal Finance for the Modified Affordability proposition.**

[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

A Purpose-led performance

We have delivered a strong first half performance, driven by increased lending volumes and the emergence from lockdowns being more positive than some of the scenarios that may have adversely affected people's ability to maintain their mortgage commitments.

Once again my colleagues have demonstrated a great degree of innovation, flexibility, commitment and agility in continuing to deliver a high level of service to our customers, constantly responding to changing circumstances. There is some cause for optimism as we emerge from the pandemic and, in the expectation that we may soon find ourselves in the 'new normal', we have turned our attention to what that may mean for us. This has seen changes to some of our branch operations and the development of a new 'hybrid' way of working. We want to harness the creativity and flexibility that our colleagues have demonstrated over the past 18 months to continue to adapt the way we work and deliver the best outcomes for our members and colleagues.

We have maintained our high service standards in the six month period, most notably in the mortgage market where, despite the challenges brought about by the pandemic, we won the award for Best Building Society Mortgage Provider[1]. Our new lending increased by 93% to £479m compared with the first six months of the last financial year.

£479m

of new mortgage lending (30 September 2020: £248m)

Our ongoing support for mortgage prisoners through our Modified Affordability product range has been a key feature of us innovating to deliver on our Purpose. We continue to lead the way in working with this segment of the market, with a recent increase in our Loan to Value (LTV) criteria broadening this offering to include more eligible borrowers. Our market leading contribution was recognised as we were awarded a 'Commended Innovation in Personal Finance' for our Modified Affordability proposition[1].

The ultra-low interest rate environment has continued, and the uptick in inflation, even if proven to be temporary is, of course, particularly troubling for our saving members who provide us with the valuable funds to help the likes of first-time buyers achieve their goals and mortgage prisoners to escape the trap of inflated costs. This is why we strive to provide savers with what support we can in their efforts to build financial resilience and a steady income. In the six months to 30 September 2021, we paid our savers 98% above the market average[2] (30 September 2020: 17%). This means that during this period, the Society has paid an additional annualised £8.8m (30 September 2020: £2.6m) in interest.

98%

more than the market average[2] paid to savers (30 September 2020: 17%)

Although the macroeconomic environment emerging from the pandemic restrictions appears initially promising, there remain many factors creating uncertainty about the future which will impact the potential for interest rates to increase to a level above inflation. As the government support schemes put in place to mitigate the financial impacts of the pandemic draw to an end, the longer term effect on unemployment remains unknown. What is more likely is that supply chain issues, and sharp rises in energy costs, maintain inflationary pressures in the near term and adversely impact on households, reducing disposable income. We will be focused on supporting our borrowers should they be impacted in this way.

Performance update

Our capability to navigate any such economic pressures safely is underpinned by a strong capital base, as measured through the Common Equity Tier 1 (CET 1) ratio, which ended the period at 16.3% (31 March 2021: 16.4%). The very modest reduction in the ratio is primarily as a consequence of the unwind of IFRS 9 transitional arrangements and the increase in lending as we looked to support borrowers throughout the difficult pandemic conditions. New mortgage lending, at £479m, was almost double that delivered in the first six months of the last financial year (30 September 2020: £248m).

Pre-tax profits increased to £14.6m (30 September 2020: £2.9m) driven in the main by improvement in net interest income of £2.6m, fair value gains of £3.9m (30 September 2020: losses of £1.8m), a release of residential impairment provisions of £3.0m (30 September 2020: charge of £0.2m) and a reduced commercial impairment provision charge of £2.7m (30 September 2020: £5.8m).

£14.6m

Profit before tax (30 September 2020: £2.9m)

[1] Moneyfacts 2021 Awards
[2] Average market rates sourced from Bank of England Bankstats table A6.1

The Net Interest Margin (NIM) rose to 1.07% (30 September 2020: 1.04%) reflecting higher margins on new lending as well as the continued benefits of low cost funding through the Term Funding Scheme with additional incentives for SMEs (TFSME) and lower wholesale funding costs. The end of the TFSME and increased competition in the mortgage market, combined with the increase in retail funding costs and falling lending rates, may create downward pressure on NIM.

The interim valuation for the West Brom Homes portfolio indicates a gain of £0.4m (30 September 2020: £2.0m). This represents an increase in property valuations based on regional house price index movements offset by an additional charge recorded for the impact of planned property improvements which were delayed due to the pandemic.

Costs have increased to £24.4m (30 September 2020: £23.1m) with the one-off cost of the write down of certain project related costs and the accelerated depreciation of core systems being offset by cost savings that have been achieved as a result of our ongoing efforts towards operational efficiency.

Exposure to credit losses on residential loans has fallen resulting in a release of provision of £3.0m. The predominant driver for this is the improvement in house prices. Offsetting this is the impact of model enhancements and increase in overlays, including the overlay for potential losses associated with combustible materials where borrowers struggle to meet the demands of freeholders, which has risen by £0.3m to £1.5m. Although the longer term trajectory for the economy, and in particular house prices remains uncertain, our exposure to credit losses from residential loans is mitigated by a modest average LTV with 84% of loans (30 September 2020: 79%) being below 75%.

The provision charge against legacy commercial exposures, which include particular concentrations in retail, healthcare and leisure sectors, has reduced to £2.7m (30 September 2020: £5.8m) reflecting the improved economic certainty in comparison to our 31 March year end. These exposures remain materially sensitive to changes in the wider economic climate and we continue to make appropriate provisions against them, resulting in increased provision coverage of 24.5% (31 March 2021: 23.1%). Balances on the non-core commercial book have reduced in the last six months by 5% to £378.6m (31 March 2021: £398.3m). A full breakdown of this position is included on page 25 of this report.

The increase in profitability has added a further £11.9m to member reserves, and reduced the notional Profit Participating Deferred Shares (PPDS) reserve deficit by £3.2m to £0.7m which is important to the holders of the Society's Permanent Interest Bearing Shares (PIBS) as, under the forecast distribution policy announced in April 2018, interest payments (which are entirely at the Board's discretion) will only be considered once the reserve moves into surplus. For Core Capital Deferred Share (CCDS) holders, this means that the Board currently expects to return to the path of forecast distributions outlined in April 2018, which would mean that the interim distribution would be £1.50 per CCDS to be paid in February 2022.

Capital resources

	Transitional 30 Sep 21 £m	**Full implementation[3] 30 Sep 21 £m**
Members' interests and equity	**400.6**	**400.6**
Permanent interest bearing shares (PIBS) deduction	**(7.8)**	**(7.8)**
Other adjustments[1]	**(3.7)**	**(26.1)**
Common Equity Tier 1 (CET 1) capital	**389.1**	**366.7**
Additional Tier 1 capital	**-**	**-**
Total Tier 1 capital	**389.1**	**366.7**
Tier 2 capital[2]	**21.7**	**21.7**
Total regulatory capital resources	**410.8**	**388.4**
Risk weighted assets (RWA)	**2,389.7**	**2,367.3**
Leverage ratio exposure	**6,055.8**	**6,033.4**
Capital ratios	**%**	**%**
Common Equity Tier 1 ratio (as a percentage of RWA)	**16.3**	**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)	**16.3**	**15.5**
Total capital ratio (as a percentage of RWA)	**17.2**	**16.4**
Leverage ratio	**6.4**	**6.1**

	Transitional 31 Mar 21 £m	Full implementation[3] 31 Mar 21 £m
Members' interests and equity	389.9	389.9
Permanent interest bearing shares (PIBS) deduction	(7.8)	(7.8)
Other adjustments[1]	5.5	(26.5)
Common Equity Tier 1 (CET 1) capital	387.6	355.6
Additional Tier 1 capital	7.5	-
Total Tier 1 capital	395.1	355.6
Tier 2 capital[2]	21.6	21.6
Total regulatory capital resources	416.7	377.2
Risk weighted assets (RWA)	2,360.0	2,328.0
Leverage ratio exposure	5,785.2	5,753.2
Capital ratios	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	16.4	15.3
Common Equity Tier 1 before IFRS 9 transitional arrangements (as a percentage of RWA)	15.3	15.3
Tier 1 ratio (as a percentage of RWA)	16.7	15.3
Total capital ratio (as a percentage of RWA)	17.7	16.2
Leverage ratio	6.8	6.2

[1] Other adjustments mainly comprise IFRS 9 transitional arrangements and deductions for intangible assets and deferred tax assets.

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

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

Prioritising the wellbeing of our members, colleagues and communities

We remain committed to supporting the wellbeing of our members, colleagues and communities as described below.

For members

New lending performance has been supported by very competitive purchase and remortgage products. As detailed previously, new lending almost doubled in the first half of the year compared with the same period last year. In the first six months of the year, we have helped a further 814 first-time buyers, who are very much at the heart of our Purpose (30 September 2020: 699).

The average LTV on new mortgage lending has been maintained at 71% in the first six months of the year. Many lenders initially restricted high LTV products in response to market uncertainty created by the pandemic, which of course impacted key segments such as first-time buyers. This segment of the market has since opened up and we have continued to achieve high levels of new lending, whilst maintaining balance against our internal risk appetite.

The Society adopts a compassionate, fair and flexible approach towards borrowers who are unable to meet their payments. At 30 September, Group arrears for the core residential book stood at 0.34% (31 March 2021: 0.43%) which continues to compare favourably against the UK Finance average of 0.78% (31 March 2021: 0.85%).

We are also continuing to offer support to any borrowers struggling to meet their payments in the current climate, and we understand the impacts of events like the pandemic are often felt hardest amongst the most vulnerable. We take proactive action that is tailored to members' individual needs, and provide on-going training to colleagues to ensure this remains the case. We have recently signed up to the IEP Debt Code of Best Practice for Debt Collection and Recovery, an initiative launched by the Inclusive Economy Partnership, to ensure all consumers with low financial resilience are treated fairly and consistently across all sectors.

The Bank of England (BoE) Bank Rate has remained at an all-time low of 0.10%; whilst at this time last year the prospect of interest rates turning negative was a real possibility, the current inflationary pressures mean an increase in interest rates in the near future is more likely than has been the case since the start of the pandemic. We have continued to support savers as much as possible and during the first six months of the year paid rates 98% above (30 September 2020: 17% above) the market average[2]. This means that during this period, the Society has paid an additional annualised £8.8m (30 September 2020: £2.6m) in interest. We also welcomed 2,877 new savers (30 September 2020: 1,380).

For colleagues

We supported colleagues throughout the pandemic in a number of ways, including providing physical and mental wellbeing initiatives, and adapted our working model to meet government guidelines during the various lockdowns. We are now in a position to use these learnings to reimagine the way we work to better support our colleagues and service our members in the future. We have set up a 'Hybrid Working Group' with colleagues from across the business, with a focus on shaping our new ways of working. We continue to engage with both our Employee and Member Councils to ensure the new model delivers the needs of our colleagues and members.

Given the 'v-shaped' economic recovery, demand for people skills has grown and there is increased competition for skilled resource. Like many in the sector and beyond, we are now facing greater staff turnover than seen in recent years. We have implemented targeted staff retention measures to minimise the impact to the business.

Diversity and inclusion in the workplace, including gender and BAME (Black, Asian and minority ethnic) representation, remains a top priority. We recently published the Society's first Ethnicity Pay Gap report on a voluntary basis, and were one of the few companies in financial services to do so, to achieve better transparency and drive the diversity agenda. Using similar methodology to the Gender Pay Gap report, it is pleasing to see that the Society's ethnicity pay gap statistics and representation across all levels of the Society are in a strong position, however, we acknowledge there is still more work to be done.

For our communities

As a mutual, supporting the communities in which we operate is a core part of our ethos. In the first six months of the year, we announced our new charity partnership with Barnardo's, which is closely linked to our Purpose. Over the next two years, the Society is looking to provide £500,000 for the development of four 'Gap Homes' using the Dormant Accounts Scheme, to support Barnardo's mission to provide accommodation for vulnerable young people leaving the care system in the Black Country area. Colleagues also supported local charities such as food banks, local health services and took part in 'The Great British Spring Clean'. In addition, a further £36,000 was raised for Birmingham Children's Hospital Charity through the Red Balloon Appeal Account, a special savings product designed to benefit both customers and the hospital.

Ensuring the Society's products, services and premises are safe and accessible

Throughout the pandemic, we followed all government guidelines in place to create a safe environment for our customers and colleagues. As restrictions have lifted, we continue to follow the updated guidance, and this, together with the changes to our branch network operating model discussed below, allows us to provide our customers with the services they require while continuing to provide the sense of community we have always done.

In September 2020 we became the first lender to support mortgage prisoners through the development of a new mortgage product proposition. Mortgage prisoners 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. Our response led to greater public awareness of the issue and other lenders followed suit. We recently extended our offering to help mortgage prisoners by introducing products up to 85% LTV, providing the most comprehensive options to help these borrowers in the current market. As a result of our efforts, the Society was commended in the Innovation in Personal Finance category for our Modified Affordability proposition at the Moneyfacts 2021 awards.

Remaining operationally and financially resilient

Throughout the pandemic, we continued to operate as a financially secure and resilient building society. Our performance and results for the six months to 30 September are a further reflection of that. The Society has reported an increased level of profit before tax to £14.6m (2019/20: reduction in profit to £2.9m) which maintains our CET 1 capital ratios, a key measure of financial resilience, at 16.3% (31 March 2021: 16.4%).

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

We adapted well to the operational challenges presented by the pandemic and continued to provide the level of service that our customers expect. 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 +80 (31 March 2021: +76), well in excess of the average across financial services of +50, with our customer satisfaction rating maintained at 96% (31 March 2021: 96%). These results are testament to our colleagues' commitment to work flexibly during the pandemic and reflects the customer-centred approach adopted by our colleagues. Our branch network remained open throughout the pandemic, although at reduced hours. This, combined with a change in how customers use the branches has resulted in reduced branch usage over the past 18 months. Feedback reflects that members value the branches, albeit at reduced hours. In response to the changing needs we have revised our branch network operating model so that branches maintain their valuable role in local communities without presenting an unfair cost burden on members who do not use the branch network.

+80

Net Promoter Score®[3]
(31 March 2021: +76)

Engagement through the pandemic

Our Member and Employee Councils have continued to meet virtually through the pandemic, enabled by videoconferencing technology and have provided much valued input to key focus areas such as ways of working post pandemic and the proposed approach to member and staff engagement on the roll out of our digital savings programme and input to our Purpose-led strategy.

Principal risks and uncertainties

We 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 36 to 43 of the 2020/21 Annual Report and Accounts.

Principal risks

The Society's identified principal risk categories have remained unchanged in the period. To avoid repetition, we have chosen to focus on developments in certain areas during the first six months of the year.

Business conditions and the economic environment

As lockdown restrictions were eased throughout the second quarter of 2021 the UK economy showed signs of recovering from the effects of the pandemic. GDP grew by 5.5% in the second quarter of the year, and inflation has picked up significantly, reducing the lingering threat of negative interest rates which had been a concern in late 2020. The Bank of England (BoE) now forecasts inflation to rise above 4% by the end of the year, and it is now expected that the Bank will increase the Bank Rate in an effort to bring inflation back down in line with its target of 2%.

Furthermore, the winding down of the government's Job Retention Scheme (furlough) has not yet resulted in the expected redundancies with the level of employment actually rising. The proportion of mortgage payments deferrals that subsequently experienced payment difficulties is significantly less than initially expected. Against this backdrop, HPI has remained robust, with the associated positive impact on the West Brom Homes portfolio and provisions, although its growth has recently been moderated due to the ending of the Stamp Duty holiday in June. We have drawn funds from the BoE's TFSME Scheme which helped to supplement retail funding over the pandemic period and refinance legacy BoE Term Funding Scheme exposure.

Credit risk

It was anticipated that the end of the government support schemes such as furlough would be followed by an impact on levels of unemployment. This would then potentially have a knock on impact on arrears levels and credit losses should borrowers be presented with more long term difficulties. This impact, to date, has not come to fruition with the economic recovery following the pandemic continuing. We remain watchful to delayed adverse outcomes and emerging risks such as interest rate rises that could put pressure on the ability of households to meet their financial commitments. This is possibly exacerbated by rising inflation costs having an impact on day-to-day living expenses as well as the significant uplift in energy costs recently observed.

Given this, our provision models continue to reflect the uncertainty in economic outlook at 30 September 2021 by using a range of economic scenarios, albeit this uncertainty has reduced in comparison to the last year end and last interim reporting date. Our stress testing continues to reflect the broad range of outcomes we may see as the pandemic comes to an end. 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 60.7% (30 September 2020: 59.4%).

Margin compression

Margin Compression Risk (MCR) is the risk of margin squeeze caused by having limited ability to increase rates on the mortgage book if the Society were to experience a relative increase in funding costs affecting variable rate funding, and in particular the administered rate retail balances. Throughout the year MCR has reduced as the Society has lower exposure to an increase in administered rate funding costs through utilisation of the Bank of England's TFSME funding.

Given the strong recovery in GDP growth and inflation experienced in the first half of the year, the probability of negative interest rates, and the potential for further margin compression, has significantly decreased. The Society is well prepared should the prospect of negative rates occur. If Bank Rate is forecast to rise to counter inflation, we will continue to balance the support provided to both savers and borrowers in this rising rate environment.

Operational resilience and technology investment

The Policy Statements have now been issued by the regulatory authorities and we have a plan in place to meet the requirements laid down by the regulators in line with the March 2022 deadline, including both supplier management and outsourcing. Further plans are being developed for the transition period that runs through to March 2025. Outside this our focus on operational resilience remains high to ensure that important business services are readily available to meet members' expectations. We continue to respond to the impact of COVID-19 and the revised operating model was successfully implemented. We remain committed to developing an operational environment that is strong and resilient, meeting members' and regulatory expectations.

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

Investment in the core technology platforms, to allow greater digital capability in both savings and mortgage origination, has continued and this is expected to retain significant management focus through to 2023.

Outlook

As we come to the end of another reporting cycle in the seemingly 'post-pandemic' environment, I continue to be extremely proud of all the efforts of my colleagues and the determination to ensure the Society delivers and remains focused on its Purpose. As we move into the second half of the year, we have a cautiously optimistic outlook whilst remaining aware of the potential challenges ahead, which are supported by our strong capital position to weather any future storms. We will continue on our journey of adopting hybrid working and modernising our services to best support our saving and borrowing members, as well as our colleagues, in this new environment.

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 2021

	Notes	**6 months ended 30 Sep 21 unaudited £m**	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Interest receivable and similar income				
Calculated using the effective interest method		**50.5**	50.1	99.4
On instruments measured at fair value through profit or loss		**(7.3)**	(7.1)	(15.2)
Total interest receivable and similar income		**43.2**	43.0	84.2
Interest expense and similar charges		**(11.7)**	(14.1)	(26.5)
Net interest receivable		**31.5**	28.9	57.7
Fees and commissions receivable		**1.0**	0.9	2.0
Other operating income		**1.8**	2.0	3.7
Fair value gains/(losses) on financial instruments		**3.9**	(1.8)	3.4
Total income		**38.2**	30.0	66.8
Administrative expenses		**(19.4)**	(19.5)	(39.1)
Depreciation and amortisation	10	**(5.0)**	(3.6)	(8.1)
Operating profit before revaluation gains, impairment and provisions		**13.8**	6.9	19.6
Gains on investment properties	11	**0.4**	2.0	4.0
Impairment on loans and advances	6	**0.3**	(6.0)	(18.8)
Provisions for liabilities	7	**0.1**	-	(0.1)
Profit before tax		**14.6**	2.9	4.7
Taxation		**(2.7)**	(0.5)	0.4
Profit for the period		**11.9**	2.4	5.1

Condensed consolidated half-yearly Statement of Comprehensive Income

for the six months ended 30 September 2021

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Profit for the period	**11.9**	2.4	5.1
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation (losses)/gains taken to equity	**(0.3)**	3.1	3.7
Taxation	**0.1**	(0.6)	(0.7)
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	**-**	-	(0.3)
Taxation	**-**	-	0.1
Other comprehensive income for the period, net of tax	**(0.2)**	2.5	2.8
Total comprehensive income for the period	**11.7**	4.9	7.9

Condensed consolidated half-yearly Statement of Financial Position

at 30 September 2021

	Notes	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Assets				
Cash and balances with the Bank of England		**482.2**	294.7	316.5
Loans and advances to credit institutions		**85.7**	133.3	107.3
Investment securities		**276.6**	259.1	276.5
Derivative financial instruments		**11.8**	3.8	6.5
Loans and advances to customers	8	**4,979.0**	4,624.0	4,852.3
Current tax assets		**0.2**	0.4	0.2
Deferred tax assets		**18.5**	19.9	21.3
Trade and other receivables		**3.0**	3.6	2.6
Intangible assets	10	**14.5**	16.0	16.3
Investment properties	11	**141.9**	140.9	143.0
Property, plant and equipment	10	**24.0**	26.8	24.9
Retirement benefit assets		**3.2**	-	1.1
Total assets		**6,040.6**	5,522.5	5,768.5
Liabilities				
Shares	9	**4,267.7**	3,719.6	4,234.1
Amounts due to credit institutions		**996.4**	966.5	751.8
Amounts due to other customers		**110.4**	100.6	90.9
Derivative financial instruments		**24.9**	61.0	40.5
Debt securities in issue	12	**196.9**	244.8	217.9
Deferred tax liabilities		**7.5**	7.2	7.6
Trade and other payables		**12.8**	11.3	12.4
Provisions for liabilities	7	**0.5**	0.5	0.6
Retirement benefit obligations		**-**	0.6	-
Subordinated liabilities	16	**22.9**	22.8	22.8
Total liabilities		**5,640.0**	5,134.9	5,378.6
Members' interests and equity				
Core capital deferred shares	13	**127.0**	127.0	127.0
Subscribed capital	15	**7.8**	7.8	7.8
General reserves		**261.6**	248.9	250.7
Revaluation reserve		**3.3**	3.3	3.3
Fair value reserve		**0.9**	0.6	1.1
Total members' interests and equity		**400.6**	387.6	389.9
Total members' interests, equity and liabilities		**6,040.6**	5,522.5	5,768.5

Condensed consolidated Statement of Changes in Members' Interests and Equity

for the six months ended 30 September 2021

6 months ended 30 September 2021 (unaudited)

	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2021	127.0	7.8	250.7	3.3	1.1	**389.9**
Profit for the period	-	-	11.9	-	-	**11.9**
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	**-**	**-**	**11.9**	**-**	**(0.2)**	**11.7**
Distribution to the holders of core capital deferred shares	-	-	(1.0)	-	-	**(1.0)**
At 30 September 2021	**127.0**	**7.8**	**261.6**	**3.3**	**0.9**	**400.6**

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

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

Year ended 31 March 2021 (audited)

	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 financial year	-	-	5.1	-	-	5.1
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	(0.2)	-	-	(0.2)
Fair value through other comprehensive income investments	-	-	-	-	3.0	3.0
Total other comprehensive income	-	-	(0.2)	-	3.0	2.8
Total comprehensive income for the year	-	-	4.9	-	3.0	7.9
Distribution to the holders of core capital deferred shares	-	-	(1.3)	-	-	(1.3)
Buyback and cancellation of subscribed capital	-	(1.1)	0.6	-	-	(0.5)
At 31 March 2021	127.0	7.8	250.7	3.3	1.1	389.9

Condensed consolidated half-yearly Statement of Cash Flows

for the six months ended 30 September 2021

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Net cash inflow from operating activities (below)	**166.9**	37.6	82.5
Cash flows from investing activities			
Purchase of investment securities	**(38.5)**	(14.6)	(37.5)
Proceeds from disposal of investment securities	**34.1**	43.8	54.0
Proceeds from disposal of investment properties	**1.5**	-	0.2
Purchase of property, plant and equipment and intangible assets	**(2.0)**	(2.1)	(5.2)
Net cash flows from investing activities	**(4.9)**	27.1	11.5
Cash flows from financing activities			
Repayment of debt securities in issue	**(21.6)**	(21.7)	(49.2)
Interest paid on subordinated liabilities	**(1.2)**	(1.2)	(2.5)
Payment of lease liabilities	**(0.2)**	(0.2)	(0.5)
Distribution to the holders of core capital deferred shares	**(1.0)**	(0.6)	(1.3)
Buyback and cancellation of subscribed capital	**-**	(0.3)	(0.3)
Net cash flows from financing activities	**(24.0)**	(24.0)	(53.8)
Net increase in cash	**138.0**	40.7	40.2
Cash and cash equivalents at beginning of period	**416.0**	375.8	375.8
Cash and cash equivalents at end of period	**554.0**	416.5	416.0

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 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Cash and cash equivalents			
Cash in hand (including Bank of England Reserve account)	**468.3**	283.2	304.7
Loans and advances to credit institutions	**85.7**	133.3	107.3
Investment securities	**-**	-	4.0
	554.0	416.5	416.0

The Group is required to maintain certain mandatory balances with the Bank of England which, at 30 September 2021, amounted to £13.9m (30 September 2020: £11.5m and 31 March 2021: £11.8m). The movement in these balances is included within cash flows from operating activities.

The Group's loans and advances to credit institutions includes £43.0m (30 September 2020: £49.9m and 31 March 2021: £41.7m) 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 2021

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Cash flows from operating activities			
Profit before tax	**14.6**	2.9	4.7
Adjustments for non-cash items included in profit before tax			
Impairment on loans and advances	**(0.3)**	6.0	18.8
Depreciation and amortisation	**5.0**	3.6	8.1
Revaluation of investment properties	**(0.4)**	(2.0)	(4.0)
Changes in provision for liabilities	**(0.1)**	(0.1)	0.1
Interest on subordinated liabilities	**1.2**	1.2	2.5
Fair value (gains)/losses on equity release portfolio	**(0.5)**	0.4	0.2
Interest paid on lease liabilities	**-**	-	0.1
Other non-cash movements	**16.2**	(5.1)	13.6
	35.7	6.9	44.1
Changes in operating assets and liabilities			
Loans and advances to customers	**(142.0)**	66.4	(193.3)
Loans and advances to credit institutions	**(2.1)**	(0.2)	(0.5)
Derivative financial instruments	**(20.9)**	7.5	(15.7)
Shares	**33.6**	(126.5)	388.0
Deposits and other borrowings	**264.7**	88.9	(134.9)
Trade and other receivables	**(0.4)**	0.5	1.5
Trade and other payables	**0.4**	(3.5)	(2.3)
Retirement benefit obligations	**(2.1)**	(2.1)	(4.1)
Subscribed capital	**-**	(0.3)	(0.3)
Tax paid	**-**	-	-
Net cash inflow from operating activities	**166.9**	37.6	82.5

Notes to condensed consolidated half-yearly financial information for the six months ended 30 September 2021

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 2021 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 2021 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 2021 and 30 September 2020 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 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and in accordance with the UK adopted International Accounting Standards (IAS 34 'Interim Financial Reporting'). The half-yearly condensed consolidated financial report should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2021, which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 2020/21 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 48 of the 2020/21 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 2020/21 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 2021.

IBOR transition

The amendments to IAS 39 and IFRS 7 (Phase 2) are effective for the period beginning on or after 1 January 2021. The amendments provide practical expedients in respect of accounting for changes to financial assets and liabilities where the modification is as a direct result of the IBOR reforms. The amendments allow firms to account for the modification to the asset or liability by applying the updated effective interest rate following a transition to a new benchmark interest rate to value the financial asset or liability, rather than continuing to discount the asset or liability at the original discount rate and recognising a gain or loss in the *Income Statement as per the usual requirements under IFRS 9 for modifications of financial assets and liabilities.*

The Group is continuing to wind down its exposure to LIBOR linked derivatives using a mixed approach to active transition and reliance on fallbacks to minimise operational impacts and manage risks. The Group is on track to complete this activity in accordance with the regulator's expectations.

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 2021 are unchanged from those existing at 31 March 2021.

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 2021 (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	54.4	3.7	-	(7.6)	**50.5**
On instruments measured at fair value through profit or loss	(7.3)	-	-	-	**(7.3)**
Total interest receivable and similar income	47.1	3.7	-	(7.6)	**43.2**
Interest expense and similar charges	(11.9)	(6.0)	(1.4)	7.6	**(11.7)**
Net interest receivable/(expense)	**35.2**	**(2.3)**	**(1.4)**	**-**	**31.5**
Fees and commissions receivable	1.0	-	-	-	**1.0**
Other operating income	-	-	1.8	-	**1.8**
Fair value gains on financial instruments	2.0	1.9	-	-	**3.9**
Total income	**38.2**	**(0.4)**	**0.4**	**-**	**38.2**
Administrative expenses	(18.9)	(0.5)	-	-	**(19.4)**
Depreciation and amortisation	(5.0)	-	-	-	**(5.0)**
Operating profit/(loss) before revaluation gains, impairment and provisions	**14.3**	**(0.9)**	**0.4**	**-**	**13.8**
Gains on investment properties	-	-	0.4	-	**0.4**
Impairment on loans and advances	3.0	(2.7)	-	-	**0.3**
Provisions for liabilities	0.1	-	-	-	**0.1**
Profit/(Loss) before tax	**17.4**	**(3.6)**	**0.8**	**-**	**14.6**
Total assets	**6,103.5**	**294.2**	**144.4**	**(501.5)**	**6,040.6**
Total liabilities	**5,750.4**	**427.6**	**121.6**	**(659.6)**	**5,640.0**

5. Business segments (continued)

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)

Year ended 31 March 2021 (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	104.6	8.0	-	(13.2)	99.4
On instruments measured at fair value through profit or loss	(15.2)	-	-	-	(15.2)
Total interest receivable and similar income	89.4	8.0	-	(13.2)	84.2
Interest expense and similar charges	(26.7)	(10.1)	(3.0)	13.3	(26.5)
Net interest receivable/(expense)	62.7	(2.1)	(3.0)	0.1	57.7
Fees and commissions receivable	2.0	-	-	-	2.0
Other operating income	-	-	3.7	-	3.7
Fair value gains on financial instruments	2.5	0.9	-	-	3.4
Total income	67.2	(1.2)	0.7	0.1	66.8
Administrative expenses	(38.1)	(0.9)	(0.1)	-	(39.1)
Depreciation and amortisation	(8.1)	-	-	-	(8.1)
Operating profit/(loss) before revaluation gains, impairment and provisions	21.0	(2.1)	0.6	0.1	19.6
Gains on investment properties	-	-	4.0	-	4.0
Impairment on loans and advances	(4.8)	(14.0)	-	-	(18.8)
Provisions for liabilities	(0.1)	-	-	-	(0.1)
Profit/(Loss) before tax	16.1	(16.1)	4.6	0.1	4.7
Total assets	5,771.7	315.9	145.4	(464.5)	5,768.5
Total liabilities	5,434.3	439.0	123.4	(618.1)	5,378.6

6. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Impairment (credit)/charge for the period	**(0.3)**	6.0	18.8
Impairment provision at end of period			
Loans fully secured on residential property	**9.0**	7.2	11.8
Loans fully secured on land	**92.8**	87.7	91.9
Total	**101.8**	94.9	103.7

In accordance with IFRS 9, 'Financial instruments', forecasts of future economic conditions are integral to the Expected Credit Loss (ECL) calculations. At 30 September 2021, the Group modelled four forward-looking macroeconomic scenarios: central, upside, downside and severe with respective probability weightings reviewed and updated from those applied at 31 March 2021. The Group's scenario weightings as at 30 September 2021 are 60% for the central scenario, 5% for the upside scenario, 25% for the downside scenario and 10% for the severe scenario (31 March 2021: central scenario 50%, upside scenario 10%, downside scenario 25% and severe scenario 15%). The amendments to the weightings reflect that the macroeconomic forecasts are more promising than anticipated along with house price growth since the year end. Individual economic variables within the scenarios are regularly reviewed and updated to reflect the current economic outlook.

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 with an opposing fair value movement. Compared with the central economic forecast, the exit yield requirement for each loan increases by 0.8% and 1.9% in the downside and severe scenarios respectively and reduces 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)**
			2021/22	**2022/23**	**5 year average**		
Central scenario	**60%**	Bank Rate	0.1	0.3	0.5	(11.4)	-
		HPI	5.3	1.4	2.5		
		Unemployment	4.9	4.8	4.5		
		GDP	7.3	4.9	3.4		
Upside scenario	**5%**	Bank Rate	0.3	0.5	0.8	(14.8)	(0.3)
		HPI	8.5	3.9	4.7		
		Unemployment	4.8	4.6	4.2		
		GDP	8.0	6.7	4.6		
Downside scenario	**25%**	Bank Rate	0.1	-	-	13.8	2.5
		HPI	(5.0)	(5.1)	(1.5)		
		Unemployment	7.4	8.3	6.7		
		GDP	4.0	2.1	1.9		
Severe scenario	**10%**	Bank Rate	-	(0.1)	(0.1)	43.1	5.3
		HPI	(10.9)	(12.5)	(4.6)		
		Unemployment	10.0	12.0	9.2		
		GDP	(5.0)	(15.0)	(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 2021 (unaudited)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Residential expected credit loss allowance				
At 1 April 2021	1.8	7.4	2.6	11.8
Transfers due to increased credit risk:				
From stage 1 to stage 2	(0.1)	0.3	-	0.2
From stage 1 to stage 3	(0.1)	-	0.3	0.2
From stage 2 to stage 3	-	(0.1)	0.1	-
Transfers due to decreased credit risk:				
From stage 2 to stage 1	0.2	(2.5)	-	(2.3)
From stage 3 to stage 2	-	0.1	(0.1)	-
Remeasurement of expected credit losses with no stage transfer	0.2	(0.9)	0.1	(0.6)
Redemptions	(0.2)	(0.1)	(0.1)	(0.4)
Amounts written off	-	-	(0.3)	(0.3)
Other movements	0.1	-	(0.1)	-
Movement in provision overlays	-	0.4	-	0.4
At 30 September 2021	**1.9**	**4.6**	**2.5**	**9.0**

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

Year ended 31 March 2021 (audited)	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)	3.2	-	3.1
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	(0.2)	-	(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	1.1	1.0	(0.3)	1.8
Redemptions	(0.2)	-	(0.1)	(0.3)
Amounts written off	-	-	(0.5)	(0.5)
Other movements	(0.1)	-	(0.2)	(0.3)
Movement in provision overlays	-	0.8	-	0.8
At 31 March 2021	1.8	7.4	2.6	11.8

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

6 months ended 30 September 2021 (unaudited)	**Stage 1** **£m**	**Stage 2** **£m**	**Stage 3** **£m**	**Total** **£m**
Commercial expected credit loss allowance				
At 1 April 2021	-	8.4	83.5	91.9
Transfers due to increased credit risk:				
From stage 1 to stage 3	-	-	1.2	1.2
From stage 2 to stage 3	-	(0.3)	0.4	0.1
Remeasurement of expected credit losses with no stage transfer	-	-	3.7	3.7
Amounts written off	-	-	(1.4)	(1.4)
Other movements	-	-	0.1	0.1
Movement in provision overlays	-	-	(2.8)	(2.8)
At 30 September 2021	**-**	**8.1**	**84.7**	**92.8**

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

Year ended 31 March 2021 (audited)

	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
Transfers due to increased credit risk:				
From stage 2 to stage 3	-	(1.4)	1.8	0.4
Remeasurement of expected credit losses with no stage transfer	-	0.5	9.2	9.7
Amounts written off	-	-	(2.8)	(2.8)
Movement in provision overlays	-	-	2.8	2.8
At 31 March 2021	-	8.4	83.5	91.9

7. Provisions for liabilities

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
At beginning of period	**0.6**	0.6	0.6
Utilised in the period	**-**	(0.1)	(0.1)
(Release)/charge for the period	**(0.1)**	-	0.1
At end of period	**0.5**	0.5	0.6

Provisions for liabilities

Provisions for liabilities represent the Group's best estimate of customer redress payable. The calculation is based on a series of assumptions, including the number of affected accounts, appropriate level of remediation and resulting administrative costs.

8. Loans and advances to customers

	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Amortised cost			
Loans fully secured on residential property	**4,713.6**	4,293.2	4,556.2
Loans fully secured on land	**345.8**	368.8	361.6
	5,059.4	4,662.0	4,917.8
Fair value through profit or loss			
Loans fully secured on residential property	**11.9**	12.5	12.5
	5,071.3	4,674.5	4,930.3
Fair value adjustment for hedged risk	**9.5**	44.4	25.7
Less: impairment provisions	**(101.8)**	(94.9)	(103.7)
	4,979.0	4,624.0	4,852.3

Included within loans and advances to customers are £378.6m (31 March 2021: £398.3m) of commercial lending balances of which £13.0m (31 March 2021: £18.6m) 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 expected 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, granted payment deferrals to its borrowers. In relation to accounts that previously had payment deferrals, an overlay is recorded of £0.2m (31 March 2021: £0.2m) to reflect the risk that granting of deferred payments has masked a true increase in credit risk. In calculating this overlay, the Society applies higher Probability of Default (PDs) for all borrowers who received a payment deferral reflecting the fact that the full impact on future arrears for this cohort is yet to be observed due to the ongoing government support schemes, i.e. furlough.

At 30 September 2021 (unaudited)

	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**
Residential loans held at amortised cost			
Stage 1	**4,131.4**	**1.9**	**0.05**
Stage 2			
> 30 days past due	**7.7**	**0.1**	**1.30**
Other SICR indicators	**501.8**	**2.4**	**0.48**
Provision overlays	**-**	**2.1**	**-**
Stage 3	**58.3**	**2.5**	**4.28**
	4,699.2	**9.0**	**0.19**

8. Loans and advances to customers (continued)

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

At 31 March 2021 (audited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	3,863.1	1.8	0.05
Stage 2			
> 30 days past due	8.8	0.1	1.14
Other SICR indicators	610.4	5.6	0.92
Provision overlays	-	1.7	-
Stage 3	59.0	2.6	4.41
	4,541.3	11.8	0.26

At 30 September 2021 (unaudited)

	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**
Commercial loans held at amortised cost			
Stage 1	**18.3**	**-**	**0.03**
Stage 2			
> 30 days past due	**-**	**-**	**-**
Other SICR indicators	**80.6**	**8.1**	**10.05**
Stage 3	**279.7**	**84.7**	**30.28**
	378.6	**92.8**	**24.51**

8. Loans and advances to customers (continued)

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

At 31 March 2021 (audited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans held at amortised cost			
Stage 1	57.6	-	-
Stage 2			
> 30 days past due	2.1	0.1	4.76
Other SICR indicators	80.7	8.3	10.29
Stage 3	257.9	80.7	31.29
Provision overlays	-	2.8	-
	398.3	91.9	23.07

9. Shares

	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Held by individuals	**4,266.7**	3,718.6	4,233.0
Other shares	**1.0**	1.0	1.1
	4,267.7	3,719.6	4,234.1

10. Property, plant, equipment and intangible assets

6 months ended 30 September 2021 (unaudited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2021	**16.3**	**24.9**
Additions	**1.8**	**0.5**
Depreciation, amortisation, impairment and other movements	**(3.6)**	**(1.4)**
Net book value at 30 September 2021	**14.5**	**24.0**

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

Year ended 31 March 2021 (audited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2020	16.3	28.2
Additions	4.7	0.5
Depreciation, amortisation, impairment and other movements	(4.7)	(3.8)
Net book value at 31 March 2021	16.3	24.9

11. Investment properties

	6 months ended 30 Sep 21 unaudited £m	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
Valuation			
At beginning of period	**143.0**	138.9	138.9
Disposals and other movements	**(1.5)**	-	0.1
Revaluation gains	**0.4**	2.0	4.0
At end of period	**141.9**	140.9	143.0

12. Debt securities in issue

	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Certificates of deposit	**-**	-	-
Non-recourse finance on securitised advances	**196.9**	244.8	217.9
	196.9	244.8	217.9

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 2021 (unaudited)	**1,288,813**	**1.3**	**125.7**	**127.0**
At 30 September 2020 (unaudited)	1,288,813	1.3	125.7	**127.0**
At 31 March 2021 (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 2021 of £0.75 per CCDS, which was paid in August 2021. 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 £1.50 per CCDS in respect of the period to 30 September 2021 which would be paid in February 2022. 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 2021 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 2021.

15. Subscribed capital

	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Permanent Interest Bearing Shares	**7.8**	7.8	7.8

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.

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 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 30 September 2021, the Board resolved not to make an interest payment on the scheduled interest payment date of 5 October 2021.

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 Liability Management Exercise (LME) 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 2021, the Society disclosed a deficit balance on this notional reserve of £3.9m. For the 6 month period ended 30 September 2021, the Society generated a reported profit after tax of £11.9m, including the impact of £1.2m Tier 2 interest payable. The net profit disregarding Tier 2 interest (after tax) would therefore have been £12.9m. Accordingly, during the period the notional PPDS reserve deficit reduced by £3.2m (25% of £12.9m) leaving a deficit of £0.7m at 30 September 2021.

16. Subordinated liabilities

	30 Sep 21 unaudited £m	30 Sep 20 unaudited £m	31 Mar 21 audited £m
Subordinated notes due 2038 – 11.0%	**22.9**	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 2021 (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	**85.7**	-	85.7	-	**85.7**
Loans and advances to customers	**4,967.1**	-	-	5,035.7	**5,035.7**
	5,052.8	**-**	**85.7**	**5,035.7**	**5,121.4**
Financial liabilities					
Shares	**4,267.7**	-	-	4,232.0	**4,232.0**
Amounts due to credit institutions	**996.4**	-	996.4	-	**996.4**
Amounts due to other customers	**110.4**	-	101.6	8.8	**110.4**
Debt securities in issue	**196.9**	197.4	0.2	-	**197.6**
Subordinated liabilities	**22.9**	-	22.9	-	**22.9**
	5,594.3	**197.4**	**1,121.1**	**4,240.8**	**5,559.3**

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	-	86.8	13.8	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	1,076.3	3,714.5	5,029.2

17. Financial instruments (continued)

At 31 March 2021 (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	107.3	-	107.3	-	107.3
Loans and advances to customers	4,839.8	-	-	4,854.3	4,854.3
	4,947.1	-	107.3	4,854.3	4,961.6
Financial liabilities					
Shares	4,234.1	-	-	4,231.5	4,231.5
Amounts due to credit institutions	751.8	-	751.8	-	751.8
Amounts due to other customers	90.9	-	77.0	13.8	90.8
Debt securities in issue	217.9	218.1	0.2	-	218.3
Subordinated liabilities	22.8	-	22.8	-	22.8
	5,317.5	218.1	851.8	4,245.3	5,315.2

*Deemed loans of £13.8m have been recategorised as fair value level 3 at 30 September 2020 (previously fair value level 2) following a reassessment of the estimation technique at 31 March 2021.

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 2021.

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 2021.

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 2021 (unaudited)

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investment securities				
At fair value through other comprehensive income	276.0	-	-	**276.0**
At fair value through profit or loss	0.6	-	-	**0.6**
Derivative financial instruments	-	11.8	-	**11.8**
Loans and advances to customers	-	-	11.9	**11.9**
	276.6	**11.8**	**11.9**	**300.3**
Financial liabilities				
Derivative financial instruments	**-**	**24.9**	**-**	**24.9**

17. Financial instruments (continued)

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

At 31 March 2021 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities				
At fair value through other comprehensive income	275.6	-	-	275.6
At fair value through profit or loss	0.9	-	-	0.9
Derivative financial instruments	-	6.5	-	6.5
Loans and advances to customers	-	-	12.5	12.5
	276.5	6.5	12.5	295.5
Financial liabilities				
Derivative financial instruments	-	40.5	-	40.5

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

Equity release portfolio	**6 months ended 30 Sep 21 unaudited £m**	6 months ended 30 Sep 20 unaudited £m	Year ended 31 Mar 21 audited £m
At beginning of period	**12.5**	13.3	13.3
Items recognised in the Income Statement			
Interest receivable and similar income	**0.4**	0.4	0.8
Fair value gains/(losses) on financial instruments	**0.5**	(0.4)	(0.2)
Redemption payments	**(1.5)**	(0.8)	(1.4)
At end of period	**11.9**	12.5	12.5

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', and that the interim management report herein includes a fair review of the information required by:

- DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events during the first six months of the financial year and the description of principal risks and uncertainties for the remaining six months of the financial year; and
- DTR 4.2.8R of the *Disclosure and Transparency Rules*, being an indication of any material related party transactions that have taken place in the first six months of the financial year and any material changes in the related party transactions described in the last annual report.

The Directors of West Bromwich Building Society are listed in the West Bromwich Building Society Annual Report for the year ended 31 March 2021. On 1 September 2021, Dave Dyer was appointed to the Board as a Non-Executive Director, having many years' experience in the retail banking sector. Manjit Hayre was appointed to the Board as Executive Director on 1 September 2021 as Chief Risk Officer having joined the Society in 2006.

Signed on behalf of the Board of Directors:

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

24 November 2021

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the West Brom

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