Preliminary Results

Year ended 31 March 2020

the West Brom

Forward-Looking Statements

Statements in this document are forward-looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of the West Brom. 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 including, amongst other things, UK domestic and global economic business conditions, market-related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which the West Brom operates. 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.

Chief Executive's Review

Challenging and uncertain times

The COVID-19 pandemic and the unprecedented actions required to minimise what is first and foremost a tragic human crisis has, despite representing only a small part of the Society's financial year, had a very significant impact on our results. Of course, the economic consequences of the lockdown period are secondary to the terrible human cost. Our prime focus has, therefore, been to ensure that we continue to deliver the essential services that allow our members to manage their financial affairs. At the most fundamental level this means having access to their money when needed, subject to our being able to maximise the safety of both staff and members. Before detailing the financial impact, and presenting a wider review of the year, the section below outlines the approach we have taken to the dual objective of maintaining operations while protecting people.

Our response to the crisis: keeping people safe and maintaining access to key services

The Society has always ensured that detailed plans were in place for events that would severely disrupt operations; whilst these resiliency plans did not contemplate a scenario as severe as that which has regrettably become a reality, they were able to be scaled up quickly to meet the challenge. This has resulted in our essential services to members remaining operational across the period to date, albeit at a reduced level in one or two instances, to maintain our overriding safety objective. I would like to take this opportunity to thank members for bearing with us where we have made changes to our usual service arrangements in the interests of health and safety.

In addition to maintaining services, we have also needed to develop, without notice, new ways of operating in order to deal with requirements emerging specifically out of the government's lockdown arrangements. For example, the agreement to allow mortgage borrowers affected by the crisis to take a payment holiday, resulted in mortgage related calls into our contact centre increasing by 37%, as we accommodated requests from over 5,000 of our mortgage borrowers. The vast majority of these requests were dealt with by a rapidly developed online solution, removing waiting times on the telephones and the need for borrowers to visit our branches. This also reduced anxiety as borrowers' applications were very quickly accepted and the payment holiday confirmed.

Other measures we've taken over the last 3 months to support both our members and our people include:-

- The removal of all notice and penalty periods across our savings range to support those members who have a need to access their money sooner than planned for;
- Increased flexibility on the use of third-party withdrawals to allow friends and family to access essential funds for those members self-isolating or vulnerable;
- Prioritising calls into our contact centre from key workers; and
- Reducing the number of people working in our head office by up to 90% through extensions of our homeworking capabilities.

Whilst our actions have resulted in a proportion of colleagues experiencing reduced hours or periods without any work, much of what has created this 'dormancy' has been a direct consequence of our decision to put the safety and wellbeing of people first. A combination of that 'choice' and the Society's fundamental financial strength which derives from the capital reserves we have built up specifically to protect our members in times of economic stress, meant that the Board did not consider it correct to place employees on the government's furlough scheme, rescind offers of employment already issued or consider any redundancies for the remainder of 2020. Importantly, every employee, regardless of the hours we have required them to work, has not suffered any reduction in pay.

Needless to say, this response continues to be underpinned by the enormous hard work, flexibility and commitment of our people and our suppliers. I would therefore like to thank our staff for the contribution they have made in helping the Society to meet the immediate financial needs of our members across a period of considerable operational challenge.

Financial strength and providing for the impact

As with the financial impact on the economy, the longer-term impact on the Society is, as yet, unquantifiable with any degree of confidence. The sheer scale of the government's various support initiatives for individuals and businesses is targeted at making the economic impact short, even though severe. Our challenge has been to try and anticipate what this may mean for the Society.

As a result of our efforts to anticipate, as best we can at this stage, a plausible range of outcomes, our financial performance across the year has been disproportionately impacted by the lockdown introduced on 23 March. The most material impact has been in terms of provisions for potential credit losses, primarily in respect of the legacy commercial lending exposures that remain, with an additional £12.1m in the final quarter largely as a result of the potential impacts on key sectors, such as retail and leisure. In terms of our residential mortgages, the impact at this stage is expected to be less severe, with the position coming into the lockdown reflecting the credit quality of these exposures. At 31 March 2020, 3 month arrears rates across both our Owner Occupied and Buy to Let portfolios at 0.33% and 0.28% respectively (2018/19: 0.36%, 0.12%), remained well below the industry averages of 0.82% and 0.37% as published by UK Finance. In addition our residential lending portfolio continues to be predominantly low loan to value (LTV) with 74% (2018/19: 71%) of all our loans being 75% LTV or less. Despite this, we still set aside an additional £2.6m in Q4 to provide for potential losses in our residential loan books.

Despite these additional provision costs, which total £14.7m, the Society has recorded a statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) for the year. Had these additional provisions not been required profit before tax would have been significantly higher. While it is prudent to set aside these amounts, I must stress that it is extremely difficult, if not impossible, to predict the impact on the economy of this pandemic. A great deal depends on the success of the government's support schemes. This means we cannot discount further credit loss provisions being required.

However, the Society is sufficiently capitalised to absorb further provisions if required. Despite the additional provisions made, the financial strength of the Society, as measured by its CET 1 capital ratio, ended the financial year unchanged at 15.9% (2018/19 (restated): 15.9%). As a comparison, during the financial crisis of 2008/9, the Society's Core Tier Capital 1 ratio was 6.8%. In the years since that crisis, the strategy has been to build up capital to cope with the most extreme of economic shocks.

In simple terms the work we have done over the last 10 years, to rebuild the Society and realign it to a traditional building society directed towards a Purpose of enabling home ownership and generating sustainable levels of profit, has placed the Society in the best possible position to face the challenges that the next period will inevitably bring.

Commitment to Purpose

Our Purpose as a building society is grounded in supporting the financial wellbeing of members. This is achieved by providing safe, good returns through our savings products and promoting home ownership through responsible mortgage lending. We also provide a range of other insurance and investment products from our chosen third-party partners.

Delivering on this commitment requires a careful balancing of what can appear to be the competing interests of two sets of members - savers and borrowers. Managing these interests fairly means we only grow the Society at levels, and in markets, where sustainable returns can be evidenced. This means accepting mortgage returns that are in the best interests of the membership as a whole and do not reduce the interest rate we are able to pay our savers below what is fair or expose the Society to any unacceptable risk. This mutual approach helps to direct the development of our mortgage proposition to the Purpose-led lending markets, particularly those in which a genuine home ownership need exists.

A safe, good return for savers

In what has been a highly competitive marketplace, our approach to managing the interests of savers over the last 12 months has been to preserve rates for existing members rather than to grow new savings balances at their expense and, where we have been forced by the market environment to make changes, to apply these as fairly as possible. I am pleased to say that across the year we have continued to deliver on our commitment to provide savers with a safe and good return by paying an average interest rate 49% (2018/19: 45%) above that paid by the market[1] which, in monetary terms, represents an additional £13.0m (2018/19: £11.4m) in interest directly to savers. This represents a very meaningful contribution in what has, even prior to recent emergency measures, remained a very low interest rate environment.

As members may be aware, attention from competition authorities and financial services regulators has focused on savings providers' pricing practices, specifically the difference between the interest paid to new customers compared to existing customers. The Society's approach to this is to offer the best rate at the time in terms of what is fair, when compared against the rates of equivalent products offered by high-street savings providers. The results of this pricing approach are evident in the difference in interest rate paid to new and existing customers, being less than half the market average differential – proof of our commitment to provide savers with a good, fair return regardless of how long they have chosen to remain a Society saver[2].

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

2 The difference in the rate paid to Society members opening a non-ISA savings account in the last 12 months compared to those who have held equivalent accounts for over 5 years was 0.2%. This compares to an equivalent market differential of 0.42% as revealed by the FCA's analysis in CP20/1.

Promoting home ownership

Throughout the year our mortgage proposition has continued to be led by our commitment to enable people to have a place to call home, whatever form that may take, extending a further 3,423 new mortgages, circa 50% (2018/19: 42%) of these to first-time buyers.

As forecast in my half-year review, in value terms at £569m (2018/19: £691m), our gross new lending was lower than the previous year, due to a conscious decision to scale back lending where returns would prove uneconomic or where pricing would be irresponsible for the associated risk. Of course, the effective closure of the housing market throughout the lockdown will affect volumes in 2020/21 but it is not possible to estimate the extent with any certainty.

Our Purpose for borrowers means we place as much focus on who we lend to as how much we lend. Over successive periods we have developed our product set considerably, from a very simple purchase and remortgage range to include specialist products for first-time buyers, borrowers looking to remortgage with a help to buy equity loan, along with self-build and assisted options for those looking for support from a sponsor. In support of successive governments' drive for more affordable housing options, our new range of shared ownership products has proved particularly popular, supporting 481 borrowers to become part homeowners through both lower initial deposits and more affordable monthly payments.

As with our savings members, we recognise that our commitment to mortgage members extends beyond new borrowers, ensuring existing borrowers are afforded equal access to switch to a new product, at the end of their fixed or discounted period. During the year we have worked hard to ensure that all our borrowers eligible to switch are notified around four months prior to the end of any initial fixed or discounted rate period and again at regular intervals until their rate ultimately reverts to the Society's Standard Variable Rate which, following recent amendments, remains amongst the lowest charged by any building society. Also we ensure that existing borrowers, either at product maturity or at any time they wish to switch, have access to a range of product options priced at rates, and with terms, that are at least as good as those offered to new borrowers. Our work and investment to improve the experience of borrowers in this area has been considerable, with maturing customers now contacted and able to switch in a way which suits them: in branch, over the phone, via post, online and by mobile.

Service development in a digital world

In a financial services industry where providers seek to differentiate themselves on the service they provide to customers, the Society continues to take pride in maintaining outstanding levels of service across all our customer interactions – in branch, via the telephone, via post, online and increasingly by mobile. Across the year our Net Promoter Score®[3] (how likely customers are to recommend us) has increased to +73, which is well ahead of the industry average for Financial Services of +50, with customer satisfaction also increased at equally impressive levels to 96% (2018/19: 94%). These metrics provide us with confidence that the level of service provided by our people is of the very highest standard and that this is valued by our members.

With service being a key differentiator for why customers choose to use or stay with providers, we understand that we can't take performance against these metrics for granted and must constantly challenge ourselves to improve and innovate, particularly by harnessing the benefits that digital service solutions can bring to solving simple problems. Across the year we have delivered a number of digital service extensions, including the launch of a 'track my mortgage' portal, allowing new customers to view the status of applications, which has been used by over 3,000 customers and brokers since it went live. We also introduced live chat services across our consumer website.

To improve our digital capability further, therefore, we launched a programme to update our core savings platform and introduce, over the next two years, new features that will enhance our digital capability. This will be a very significant investment and bring our various channels into one core system, which will deliver efficiencies, enhanced customer experience and a capability to adopt changing digital technology.

A safe and responsible approach to risk

Over the course of the year our gross exposure to legacy higher-risk commercial real estate loans has reduced by £27m (6%). Our strategy for reduction of the book continues to be guided by our detailed knowledge of individual loans held, which has been developed over the course of a full economic cycle, and ensures any decision to exit is taken in the interests of members so not to unnecessarily impact the capital position. This decade-long strategy has resulted in associated balances being reduced from a peak of £1.7bn to their current position of £417m and with £23m of these balances securitised, effectively transferring the risk away from the Society, commercial exposures are now 75% less than they were 10 years ago. Provision coverage for potential losses, including the additional provisions as a consequence of the potential long term impact for the COVID-19 pandemic referred to earlier, increased to 20%.

In addition, a further £50m of capital has been set aside should the economic scenario be significantly worse than that currently forecast by the Bank of England's Financial Planning Committee. This means that through a combination of provisions and capital, the loss coverage is at over 30% of total exposures.

Throughout the year the Society has continued to develop its Purpose-led, prime owner- occupied residential lending strategy. Delivery of this strategy has seen associated balances increase by 3% over the period, with total prime owner occupied balances now increased by 114% since the Society made the decision to restart lending in 2012 following the financial crash. Despite the expansion of the Society's prime owner occupied lending the credit quality has been maintained, with only 0.03% of lending undertaken since 2012 now being 3 months or more

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

in arrears. The Society's commitment to supporting home ownership remains simple and very much supports our long-term strategy to reduce exposure to legacy commercial assets.

Building capability through our people

We recognise that the simplest way to improve the capability of the Society is to support and invest in the development of our people. As an employer, we take this responsibility seriously and throughout the year we have supported 26 staff to study for professional and vocational qualifications. We also support a diverse range of roles and qualifications from information technology and data security to a Masters in Strategic Leadership, in partnership with Loughborough University. We are now seeing the investment come to fruition with 85% of those studying further developing their careers within the Society.

Along with capability, diversity is also an essential ingredient of good decision-making with our diversity and inclusivity agenda focused on developing a culture in which all colleagues feel included and able to contribute to the future of the Society. As one of the original signatories to the Women in Finance Charter we are pleased to report that female representation on the Society's Board and within the Senior Management population now stands at 38% and 35% respectively, with the first six candidates to our newly launched talent programme also being female, not because of their gender but because of their stand-out capabilities.

In addition to the external targets we have set ourselves for gender diversity, we continue to champion the diversity that comes with the majority of the Society's operations being located in one of the most ethnically diverse regions in the UK, with 30% of the Society's workforce being drawn from ethnic minority communities. Our diversity and inclusion group – Connect – continues to play an active role in supporting our people to understand, celebrate and value all aspects of diversity.

Best in class stakeholder engagement

We have continued to foster meaningful links with our various community and charity partners. Our charity of the year, nominated and voted for by colleagues, has been the Midlands Air Ambulance Charity with fundraising events across the year contributing in excess of £30,000 in donations which will go towards supporting the lifesaving work this service provides across the region. In addition to our fundraising activities, colleagues have once again provided over 700 volunteering hours, providing direct support to small local charities within our immediate operating area.

Ensuring the views of the Society's primary stakeholders, members and employees are considered in a formal way as part of our decision making structures has, for a number of years, been one of my personal endeavours. We now pride ourselves on the way we have given substance to this stakeholder engagement through our Member and Employee Councils; this is best in class amongst the industry. Across the year these groups have met four times with all meetings chaired by members of the Society's Board – including me, our Group Finance and Operations Director and Non-Executive Directors. Topics discussed have included strategic items such as Directors' Remuneration, Product and Service Development, Pay and Reward Structures and Corporate Social Responsibility, with views from both Councils shared with the Executive Committee and directly with the Board for consideration as part of formal decision making and to inform the development of the Society's strategy. I would like to take this opportunity to thank those members and employees who have given their time and effort to make the Councils a success over the last 18 months.

Looking forward

Uncertainty of outlook has become a consistent theme of my reports for the last few years, with Brexit and geopolitical and economic tensions conspiring to create a sense of unpredictability in the markets in which we operate. Those drivers of uncertainty, however, pale into a level of insignificance against what has unfolded in the last few months, presenting not only enormous challenges to the safety and soundness of markets but to the safety and soundness of everyday life, where remaining in good health and having a source of income is something that is perhaps now less taken for granted.

Over the first six months of the new financial year our energy will be focused on continuing to maintain the critical services on which our members depend and those which are integral to support the foundations of the UK economy. Providing these services in a way that is safe and responsible, so as not to unwind what we have achieved over the last decade, will be paramount. We have built a Society that has a sustainable business model and robust capital base, capable of withstanding a range of severe shocks to the economy.

As I have said consistently, over the last decade the Society has been on a simple mission. A mission to repair our business model and transform the balance sheet to be reflective of what a building society should be - an organisation that lends savers' money for the purpose of putting people in homes in a way that is safe and responsible. Our progress against this mission is manifest with over 95% of our new lending now in support of our primary Purpose, home ownership, and 76% of all our funding provided by our loyal retail savers. The challenges of the immediate environment are very different to the ones we saw a decade ago and I take an enormous amount of confidence from the progress the Society has made throughout this period, with the Society being well positioned, both financially and operationally, to meet the challenges that lie ahead; far stronger than it was when facing the financial crisis of 2008/09.

In closing, I must again thank all of my colleagues who have worked so conscientiously to ensure our services have been maintained, and thank our members for helping us to respect our 'people, safety and wellbeing first' approach to this pandemic. More than ever, we do not take your support for granted.

Jonathan Westhoff
Chief Executive
2 June 2020

Income Statement

for the year ended 31 March 2020

	Group 2020 £m	Group 2019 Restated* £m
Interest receivable and similar income		
Calculated using the effective interest method	**118.6**	118.5
On instruments measured at fair value through profit or loss	**(4.5)**	(6.9)
Total interest receivable and similar income	**114.1**	111.6
Interest expense and similar charges	**(55.0)**	(53.1)
Net interest receivable	**59.1**	58.5
Fees and commissions receivable	**2.3**	2.6
Other operating income	**4.0**	4.0
Fair value losses on financial instruments	**(8.5)**	(5.7)
Gain on deconsolidation of commercial securitisations	**5.3**	-
Write down of goodwill	**(0.5)**	-
Total income	**61.7**	59.4
Administrative expenses	**(38.2)**	(42.6)
Depreciation and amortisation	**(8.0)**	(6.9)
Operating profit before revaluation gains, impairment and provisions	**15.5**	9.9
Gains on investment properties	**4.2**	2.6
Impairment on loans and advances	**(17.5)**	(3.0)
Provisions for liabilities	**(0.7)**	(0.3)
Profit before tax	**1.5**	9.2
Taxation	**-**	(1.2)
Profit for the financial year	**1.5**	8.0

*2019 fair value losses on financial instruments and taxation have been restated. Certain hedged mortgages had been valued with reference to SONIA rather than the documented hedged risk, LIBOR. The restatement corrects this position to reflect the fair value movement with reference to movements in LIBOR only. The cumulative fair value adjustment on current mortgages will tend to nil over the remaining fixed term, and this adjustment will unwind over this period.

Statement of Comprehensive Income

for the year ended 31 March 2020

	Group 2020 £m	Group 2019 Restated* £m
Profit for the financial year	**1.5**	8.0
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Fair value through other comprehensive income investments		
Valuation losses taken to equity	**(2.2)**	(1.1)
Taxation	**0.4**	0.2
Items that will not subsequently be reclassified to profit or loss		
Actuarial losses on defined benefit obligations	**(0.7)**	(2.5)
Taxation	**0.3**	0.5
Other comprehensive income for the financial year, net of tax	**(2.2)**	(2.9)
Total comprehensive income for the financial year	**(0.7)**	5.1

*2019 profit for the financial year has been restated as described above..

Statement of Financial Position

at 31 March 2020

	Group 2020 £m	Group 2019 Restated* £m
Assets		
Cash and balances with the Bank of England	**263.5**	182.5
Loans and advances to credit institutions	**123.6**	106.7
Investment securities	**285.3**	309.3
Derivative financial instruments	**4.5**	6.5
Loans and advances to customers	**4,691.6**	4,745.4
Current tax assets	**0.4**	-
Deferred tax assets	**20.4**	18.9
Trade and other receivables	**4.1**	3.7
Intangible assets	**16.3**	16.5
Investment properties	**138.9**	134.7
Property, plant and equipment	**28.2**	28.4
Total assets	**5,576.8**	5,552.6
Liabilities		
Shares	**3,846.1**	3,991.2
Amounts due to credit institutions	**883.8**	667.3
Amounts due to other customers	**94.6**	77.7
Derivative financial instruments	**54.2**	39.3
Debt securities in issue	**266.3**	344.1
Current tax liabilities	**-**	0.9
Deferred tax liabilities	**6.7**	5.8
Trade and other payables	**15.2**	12.1
Provisions for liabilities	**0.6**	1.4
Retirement benefit obligations	**2.7**	4.9
Subordinated liabilities	**22.8**	22.8
Total liabilities	**5,193.0**	5,167.5
Members' interests and equity		
Core capital deferred shares	**127.0**	127.0
Subscribed capital	**8.9**	8.9
General reserves	**246.5**	246.0
Revaluation reserve	**3.3**	3.3
Fair value reserve	**(1.9)**	(0.1)
Total members' interests and equity	**383.8**	385.1
Total members' interests, equity and liabilities	**5,576.8**	5,552.6

*2019 loans and advances to customers, current tax liabilities and general reserves have been restated as described above. There was no impact on the brought forward figures for the year ended 31 March 2019 from the restatement.

Statement of Changes in Members' Interests and Equity

for the year ended 31 March 2020

Group	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**

for the year ended 31 March 2019

Group*	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018	175.0	-	75.0	215.8	3.4	0.8	-	470.0
Changes on initial application of IFRS 9	-	-	-	(27.8)	-	(0.8)	0.8	(27.8)
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	188.0	3.4	-	0.8	442.2
Profit for the financial year (restated)*	-	-	-	8.0	-	-	-	8.0
Other comprehensive income for the period (net of tax)								
Retirement benefit obligations	-	-	-	(2.0)	-	-	-	(2.0)
Realisation of previous revaluation gains	-	-	-	0.1	(0.1)	-	-	-
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.9)	(0.9)
Total other comprehensive income	-	-	-	(1.9)	(0.1)	-	(0.9)	(2.9)
Total comprehensive income for the year (restated)*	-	-	-	6.1	(0.1)	-	(0.9)	5.1
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	(62.2)
At 31 March 2019 (restated)*	-	127.0	8.9	246.0	3.3	-	(0.1)	385.1

*2019 profit for the financial year and general reserves have been restated as described above.

Statement of Cash Flows

for the year ended 31 March 2020

	Group 2020 £m	Group 2019 £m
Net cash inflow from operating activities (below)	**140.3**	30.7
Cash flows from investing activities		
Purchase of investment securities	**(121.8)**	(120.1)
Proceeds from disposal of investment securities	**124.7**	87.8
Proceeds from disposal of investment properties	**-**	0.1
Purchase of property, plant and equipment and intangible assets	**(5.6)**	(6.7)
Proceeds from disposal of property, plant and equipment	**0.7**	-
Net cash flows from investing activities	**(2.0)**	(38.9)
Cash flows from financing activities		
Issue of debt securities	**-**	1.0
Repayment of debt securities in issue	**(57.5)**	(149.2)
Capital restructuring	**-**	(36.2)
Interest paid on subordinated liabilities	**(2.5)**	(1.2)
Payment of lease liabilities	**(0.6)**	-
Distribution to the holders of core capital deferred shares	**(0.6)**	-
Net cash flows from financing activities	**(61.2)**	(185.6)
Net increase/(decrease) in cash	**77.1**	(193.8)
Cash and cash equivalents at beginning of year	**298.7**	492.5
Cash and cash equivalents at end of year	**375.8**	298.7

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following balances with less than 90 days' original maturity:

Analysis of cash and cash equivalents	Group 2020 £m	Group 2019 £m
Cash in hand (including Bank of England Reserve account)	**252.2**	172.0
Loans and advances to credit institutions	**123.6**	106.7
Investment securities	**-**	20.0
	375.8	298.7

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2020, amounted to £11.3m (2018/19: £10.5m). The movement in these balances is included within cash flows from operating activities.

Statement of Cash Flows (continued)

for the year ended 31 March 2020

Cash flows from operating activities	Group 2020 £m	Group 2019 Restated* £m
Profit before tax	**1.5**	9.2
Adjustments for non-cash items included in profit before tax		
Impairment on loans and advances	**17.5**	3.0
Depreciation and amortisation	**8.0**	6.9
Disposal of property, plant and equipment	**(0.2)**	-
Revaluations of investment properties	**(4.2)**	(2.6)
Gain on deconsolidation of commercial securitisations	**(5.3)**	-
Write down of goodwill	**0.5**	-
Changes in provisions for liabilities	**(0.8)**	(0.7)
Interest on subordinated liabilities	**2.5**	2.4
Fair value losses on equity release portfolio	**0.1**	1.7
Interest paid on lease liabilities	**0.1**	-
Changes in fair value	**3.4**	(12.3)
	23.1	7.6
Changes in operating assets and liabilities		
Loans and advances to customers	**31.3**	31.3
Loans and advances to credit institutions	**(2.5)**	(3.9)
Derivative financial instruments	**20.2**	13.6
Shares	**(145.1)**	(59.9)
Deposits and other borrowings	**216.8**	42.0
Trade and other receivables	**(0.4)**	2.4
Trade and other payables	**0.9**	0.3
Retirement benefit obligations	**(2.9)**	(2.7)
Tax paid	**(1.1)**	-
Net cash inflow from operating activities	**140.3**	30.7

*2019 profit before tax and loans and advances to customers have been restated, as described above, which have no impact on net cash inflow from operating activities.

Ratios

for the year ended 31 March 2020

	Group 2020 %	Statutory limit %
Lending limit	**7.7**	25.0
Funding limit	**20.3**	50.0

	Group 2020 %	Group 2019 Restated* %
As a percentage of shares and borrowings:		
Gross capital	**7.99**	8.03
Free capital	**4.38**	4.49
Liquid assets	**13.21**	11.78
As a percentage of mean total assets:		
Profit for the financial year	**0.03**	0.14
Net interest margin	**1.06**	1.03
Management expenses	**0.83**	0.87

	Group 2020 %	Group 2019 Restated* %
Common Equity Tier 1 capital ratio	**15.9**	15.9
Common Equity Tier 1 capital ratio before IFRS 9 transitional relief	**15.0**	15.1

*2019 ratios have been restated as described above.

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

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

the West Brom

A11006-05/20-01