Preliminary Results

Year ended 31 March 2022

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

Delivering on our Purpose for our members

Supporting the financial wellbeing of our members has underpinned our decision making throughout the pandemic and will remain at the fore as we now navigate the economic impacts of not just the actions taken to manage the economy throughout the last two years but also the effects of the invasion by Russia of Ukraine.

Although the housing market remained buoyant and competitive throughout the year, the downside consequences of this tend to affect those seeking to purchase their first home, as price inflation makes affordability more challenging, and can further marginalise other borrowers who do not fit the standard mortgage market offerings.

For savers the abundance of low cost funding, primarily via the Bank of England's liquidity scheme (the Term Funding Scheme), which was put in place at the start of the pandemic to ensure banks and building societies had sufficient access to funding to support their lending activities, meant that average rates in the market drifted lower for most of the year, and did not always benefit from material increases when interest rates in general began to increase in the second half of 2021 and early 2022.

Our Purpose focus enabled us to respond positively to these circumstances. More than half of all new home purchase lending was for first-time buyers (2020/21: 48%), with not only competitive rates but with a strong focus on structuring our underwriting to ensure we could support affordability. In addition, we remained at the forefront of helping mortgage prisoners escape from being unintentionally trapped by regulations introduced as a consequence of the 2008 financial crisis.

To support our savers, we were in the minority of those who restricted the impact of the excess low cost funding to hold interest rates where we could, but passed on benefits of the general increase in interest rates led by the Bank Rate. This meant that, whilst we already started the year with average savers rates for our members that were double the market average, by the end of the year, our rates were on average more than three times those of the market[1]. For our borrowing members on the Society's Standard Variable Rate (SVR), however, we restricted interest rate increases, to just 25% of the increases led by Bank Rate. Combined, we believe that these approaches delivered some £9.2m in direct financial benefit to our members (2020/21: £5.3m).

Financial strength

Delivering these benefits of mutuality to our members can only be achieved on the back of ensuring we remain financially strong. The previous two financial years demonstrated how we have to be ready to withstand downside risks, with concerns at that time of severe financial hardship during the pandemic requiring a cautious modelling of potential credit losses which meant profits of just £1.5m (2019/20) and £4.7m (2020/21) across those periods. However, with schemes such as furlough having successfully mitigated against the severe downside scenarios, credit impairment provisions and related charges were some £16.2m lower than the previous financial year. Also, the strength of the housing market meant that a further £5.8m was added to the value of the Society's residential letting portfolio (West Bromwich Homes Limited (WBHL)).

When combined with a £4.4m improvement in net interest income this financial performance meant that, after delivering the £9.2m of member benefits described above, £24.4m post-tax profit was added to reserves, strengthening the Society's capital. The key measure of capital, the Common Equity Tier 1 (CET 1) ratio, improved to 17.0% (31 March 2021: 16.4%), which provides not only a strong protection for the Society's members should further economic shocks occur, but moreover a capability for the Society to support future home ownership.

Environmental, Social and Governance (ESG)

For us ESG is embedded in how we operate our Society and, increasingly, in what we offer to our members and how we engage with them.

Our Member Council, which continued to meet remotely via videoconferencing or hybrid meetings since the onset of the pandemic, has been engaged on a range of strategic and operational topics. These have included decisions concerning Executive Director remuneration, operating model changes including those to branch operations as well as strategic discussions around values and our culture.

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

Our colleagues are, of course, another key stakeholder group with whom we have ongoing interactions, which include all colleague surveys, sub-working groups and the Employee Council which considers the same elements as those of the Member Council.

In designing our customer offerings, as well as delivering on our Purpose, the social aspects of what we offer increasingly shape our strategy. In addition to the core social purpose of enabling homeownership we aim to do more to help support those who are potentially being charged more than is appropriate for their mortgage. Our strongest move in this way has been to support mortgage prisoners as detailed earlier. The impact has been very significant to the members we have welcomed, who have benefitted by up to £1,000 per month in reduced payments.

In addition to our well established community and charity support activities and contributions, at the end of our financial year, we unexpectedly had an opportunity to extend our social responsibility to support families displaced by the tragic events unfolding in Ukraine, through the provision of an initial 11 homes from our rental property portfolio and living accommodation above some of our branches. We have also geared up to offer employment opportunities to those displaced either directly, or by giving support to those individuals seeking employment with others.

Outlook

As we emerge from pandemic conditions and prepare for the economic consequences of the Russian invasion of Ukraine, there is a looming cost of living crisis. Inflation is not only at levels not experienced for decades, but it is being driven by everyday basics and necessities such as energy and food essentials. The pressure on incomes that becomes almost unavoidable will potentially mean that some may temporarily find meeting their mortgage payments a challenge. As a mutual we will be looking to help our members, if affected in this way, through such periods. This goes beyond having the financial strength to withstand even the most difficult of economic downturns; it is about supporting people to remain in their homes.

Beyond that, the future is all about continuing to develop our strategy to ensure the benefits of mutuality continue to accrue to our members and other key stakeholders.

Jonathan Westhoff
Chief Executive
25 May 2022

Income Statement

for the year ended 31 March 2022

	Group 2022 £m	Group 2021 £m
Interest receivable and similar income		
Calculated using the effective interest method	**100.0**	99.4
On instruments measured at fair value through profit or loss	**(12.7)**	(15.2)
Total interest receivable and similar income	**87.3**	84.2
Interest expense and similar charges	**(25.2)**	(26.5)
Net interest receivable	**62.1**	57.7
Fees and commissions receivable	**1.9**	2.0
Other operating income	**3.7**	3.7
Fair value gains on financial instruments	**10.6**	3.4
Total income	**78.3**	66.8
Administrative expenses	**(45.5)**	(39.1)
Depreciation and amortisation	**(7.4)**	(8.1)
Operating profit before revaluation gains, impairment and provisions	**25.4**	19.6
Gains on investment properties	**5.8**	4.0
Impairment on loans and advances	**(8.1)**	(18.8)
Provisions for liabilities	**0.1**	(0.1)
Profit before tax	**23.2**	4.7
Taxation	**1.2**	0.4
Profit for the financial year	**24.4**	5.1

Statement of Comprehensive Income

for the year ended 31 March 2022

	Group 2022 £m	Group 2021 £m
Profit for the financial year	**24.4**	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	**(1.0)**	3.7
Taxation	**0.2**	(0.7)
Items that will not subsequently be reclassified to profit or loss		
Actuarial gains/(losses) on defined benefit obligations	**9.6**	(0.3)
Taxation	**(2.9)**	0.1
Other comprehensive income for the financial year, net of tax	**5.9**	2.8
Total comprehensive income for the financial year	**30.3**	7.9

Statement of Financial Position

at 31 March 2022

	Group 2022 £m	Group 2021 £m
Assets		
Cash and balances with the Bank of England	**652.0**	316.5
Loans and advances to credit institutions	**73.2**	107.3
Investment securities	**286.9**	276.5
Derivative financial instruments	**52.4**	6.5
Loans and advances to customers	**4,778.3**	4,852.3
Current tax assets	**-**	0.2
Deferred tax assets	**27.1**	21.3
Trade and other receivables	**2.2**	2.6
Intangible assets	**10.2**	16.3
Investment properties	**147.3**	143.0
Property, plant and equipment	**22.8**	24.9
Retirement benefit asset	**14.9**	1.1
Total assets	**6,067.3**	5,768.5
Liabilities		
Shares	**4,183.6**	4,234.1
Amounts due to credit institutions	**1,116.7**	751.8
Amounts due to other customers	**114.6**	90.9
Derivative financial instruments	**11.5**	40.5
Debt securities in issue	**171.2**	217.9
Current tax liabilities	**0.3**	-
Deferred tax liabilities	**14.7**	7.6
Trade and other payables	**14.0**	12.4
Provisions for liabilities	**0.5**	0.6
Subordinated liabilities	**22.9**	22.8
Total liabilities	**5,650.0**	5,378.6
Members' interests and equity		
Core capital deferred shares	**127.0**	127.0
Subscribed capital	**7.8**	7.8
General reserves	**279.1**	250.7
Revaluation reserve	**3.1**	3.3
Fair value reserve	**0.3**	1.1
Total members' interests and equity	**417.3**	389.9
Total members' interests, equity and liabilities	**6,067.3**	5,768.5

Statement of Changes in Members' Interests and Equity

for the year ended 31 March 2022

Group	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 financial year	-	-	24.4	-	-	**24.4**
Other comprehensive income for the year (net of tax)						
Retirement benefit obligations	-	-	6.9	-	-	**6.9**
Realisation of previous revaluation gains	-	-	-	(0.2)	-	**(0.2)**
Fair value through other comprehensive income investments	-	-	-	-	(0.8)	**(0.8)**
Total other comprehensive income	-	-	6.9	(0.2)	(0.8)	**5.9**
Total comprehensive income for the year	-	-	31.3	(0.2)	(0.8)	**30.3**
Distribution to the holders of core capital deferred shares	-	-	(2.9)	-	-	**(2.9)**
At 31 March 2022	127.0	7.8	279.1	3.1	0.3	**417.3**

for the year ended 31 March 2021

Group	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

Statement of Cash Flows

for the year ended 31 March 2022

	Group 2022 £m	Group 2021 £m
Net cash inflow from operating activities (below)	**365.7**	82.5
Cash flows from investing activities		
Purchase of investment securities	**(101.9)**	(37.5)
Proceeds from disposal of investment securities	**86.5**	54.0
Proceeds from disposal of investment properties	**2.1**	0.2
Purchase of property, plant and equipment and intangible assets	**(5.1)**	(5.2)
Net cash flows from investing activities	**(18.4)**	11.5
Cash flows from financing activities		
Repayment of debt securities in issue	**(47.4)**	(49.2)
Interest paid on subordinated liabilities	**(2.5)**	(2.5)
Payment of lease liabilities	**(0.4)**	(0.5)
Distribution to the holders of core capital deferred shares	**(2.9)**	(1.3)
Buyback and cancellation of subscribed capital	**-**	(0.3)
Net cash flows from financing activities	**(53.2)**	(53.8)
Net increase in cash	**294.1**	40.2
Cash and cash equivalents at beginning of year	**416.0**	375.8
Cash and cash equivalents at end of year	**710.1**	416.0

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 2022 £m	Group 2021 £m
Cash in hand (including Bank of England Reserve account)	**636.9**	304.7
Loans and advances to credit institutions	**73.2**	107.3
Investment securities	**-**	4.0
	710.1	416.0

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2022, amounted to £15.1m (2020/21: £11.8m). The movement in these balances is included within cash flows from operating activities.

Statement of Cash Flows (continued)

for the year ended 31 March 2022

	Group 2022	Group 2021
Cash flows from operating activities	**£m**	£m
Profit before tax	**23.2**	4.7
Adjustments for non-cash items included in profit before tax		
Impairment on loans and advances	**8.1**	18.8
Depreciation, amortisation and impairment	**13.0**	8.1
Disposal of property, plant and equipment	**(0.1)**	-
Revaluations of investment properties	**(5.8)**	(4.0)
Changes in provisions for liabilities	**(0.1)**	0.1
Interest on subordinated liabilities	**2.5**	2.5
Fair value (gains)/losses on equity release portfolio	**(0.2)**	0.2
Interest paid on lease liabilities	**0.1**	0.1
Changes in fair value	**63.7**	13.6
	104.4	44.1
Changes in operating assets and liabilities		
Loans and advances to customers	**2.5**	(193.3)
Loans and advances to credit institutions	**(3.3)**	(0.5)
Derivative financial instruments	**(74.9)**	(15.7)
Shares	**(50.5)**	388.0
Deposits and other borrowings	**389.3**	(134.9)
Trade and other receivables	**0.4**	1.5
Trade and other payables	**1.8**	(2.3)
Retirement benefit obligations	**(4.2)**	(4.1)
Subscribed capital	**-**	(0.3)
Tax received	**0.2**	-
Net cash inflow from operating activities	**365.7**	82.5

Ratios

for the year ended 31 March 2022

	Group 2022 %	Statutory limit %
Lending limit	**7.5**	25.0
Funding limit	**22.8**	50.0

	Group 2022 %	Group 2021 %
As a percentage of shares and borrowings:		
Gross capital	**7.88**	7.79
Free capital	**4.65**	4.32
Liquid assets	**18.12**	13.23
As a percentage of mean total assets:		
Profit for the financial year	**0.41**	0.09
Net interest margin	**1.05**	1.02
Management expenses	**0.89**	0.83

	Group 2022 %	Group 2021 %
Common Equity Tier 1 capital ratio	**17.0**	16.4
Common Equity Tier 1 capital ratio before IFRS 9 transitional relief	**16.2**	15.3

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