# Preliminary Results

Year ended 31 March 2023

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 Officer's Review

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

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

## Our Purpose-led activities

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

During the period, we took action to support our borrowing members by becoming the first lender in the market to align our approach for existing members on our Standard Variable Rate (SVR) to that of new mortgage members. This new approach means that all owner occupier mortgage members reverting to SVR at the end of their product term will have their rate determined by their Loan to Value (LTV), with a lower rate for those with more equity in their property. Around 90% of owner occupier mortgage members on our SVR saw savings on their interest rates, with the majority seeing a reduction of 0.75%. This has provided real relief for our members at a time when mortgage costs are increasing. A borrower on SVR at the West Brom would save circa £1,400[2] a year for each £100,000 borrowed compared with an average market SVR of 7.12%[3].

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

For our savers, who this year have helped 3,413 members buy their first home, we have continued to provide 'best buy' fixed savings rates and responded to the increase in interest rates led by the Bank of England Bank Rate, with improved variable saving rates so that they were almost double the average rates paid by the market[1]. This means we saw the savings member mutual benefit increase from £9.0m to £33.2m this financial year. We have also gone above and beyond our statutory duties by individually notifying members of any material rate increases to their savings rates to ensure that their product remains appropriate. For those members that wish to benefit from investing with the advantage of independent financial advice, through our partnership with Wren Sterling, we have again negotiated a changed commission structure, which results in a reduction of circa 25% to their ongoing service (annual) charge. On the average investment this is a benefit of £180 per year per investor.

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

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

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

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

## Building on our financial strength

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

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

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

## Supporting our colleagues and communities

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

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

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

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

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

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

## Outlook

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

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

**Jonathan Westhoff**
Chief Executive Officer
31 May 2023

## Income Statement

for the year ended 31 March 2023

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| Interest receivable and similar income | | |
| Calculated using the effective interest method | **145.9** | 100.0 |
| On instruments measured at fair value through profit or loss | **28.3** | (12.7) |
| Total interest receivable and similar income | **174.2** | 87.3 |
| Interest expense and similar charges | **(91.0)** | (25.2) |
| **Net interest receivable** | **83.2** | 62.1 |
| Fees and commissions receivable | **1.4** | 1.9 |
| Other operating income | **4.4** | 3.7 |
| Fair value gains on financial instruments | **6.6** | 10.6 |
| **Total income** | **95.6** | 78.3 |
| Administrative expenses | **(39.9)** | (45.5) |
| Depreciation and amortisation | **(5.8)** | (7.4) |
| **Operating profit before revaluation gains, impairment and provisions** | **49.9** | 25.4 |
| Gains on investment properties | **6.0** | 5.8 |
| Impairment on loans and advances | **(24.1)** | (8.1) |
| Provisions for liabilities | **-** | 0.1 |
| **Profit before tax** | **31.8** | 23.2 |
| Taxation | **(5.6)** | 1.2 |
| **Profit for the financial year** | **26.2** | 24.4 |

## Statement of Comprehensive Income

for the year ended 31 March 2023

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| **Profit for the financial year** | **26.2** | 24.4 |
| **Other comprehensive income/(expense)** | | |
| **Items that may subsequently be reclassified to profit or loss** | | |
| Fair value through other comprehensive income investments | | |
| Valuation losses taken to equity | **(0.3)** | (1.0) |
| Taxation | **0.1** | 0.2 |
| **Items that will not subsequently be reclassified to profit or loss** | | |
| Gains on revaluation of land and buildings | **0.6** | - |
| Actuarial (losses)/gains on defined benefit obligations | **(10.8)** | 9.6 |
| Taxation | **2.2** | (2.9) |
| **Other comprehensive (expense)/income for the financial year, net of tax** | **(8.2)** | 5.9 |
| **Total comprehensive income for the financial year** | **18.0** | 30.3 |

## Statement of Financial Position

at 31 March 2023

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| **Assets** | | |
| Cash and balances with the Bank of England | **598.2** | 652.0 |
| Loans and advances to credit institutions | **72.8** | 73.2 |
| Investment securities | **315.6** | 286.9 |
| Derivative financial instruments | **100.5** | 52.4 |
| Loans and advances to customers | **4,370.3** | 4,778.3 |
| Deferred tax assets | **25.0** | 27.1 |
| Trade and other receivables | **10.7** | 2.2 |
| Intangible assets | **9.9** | 10.2 |
| Investment properties | **152.7** | 147.3 |
| Property, plant and equipment | **22.7** | 22.8 |
| Retirement benefit asset | **10.9** | 14.9 |
| **Total assets** | **5,689.3** | 6,067.3 |
| **Liabilities** | | |
| Shares | **4,306.3** | 4,183.6 |
| Amounts due to credit institutions | **826.2** | 1,116.7 |
| Amounts due to other customers | **63.1** | 114.6 |
| Derivative financial instruments | **6.7** | 11.5 |
| Debt securities in issue | **-** | 171.2 |
| Current tax liabilities | **0.6** | 0.3 |
| Deferred tax liabilities | **15.4** | 14.7 |
| Trade and other payables | **17.1** | 14.0 |
| Provisions for liabilities | **0.5** | 0.5 |
| Subordinated liabilities | **22.9** | 22.9 |
| **Total liabilities** | **5,258.8** | 5,650.0 |
| **Members' interests and equity** | | |
| Core capital deferred shares | **127.0** | 127.0 |
| Subscribed capital | **7.8** | 7.8 |
| General reserves | **292.4** | 279.1 |
| Revaluation reserve | **3.3** | 3.1 |
| Fair value reserve | **-** | 0.3 |
| **Total members' interests and equity** | **430.5** | 417.3 |
| **Total members' interests, equity and liabilities** | **5,689.3** | 6,067.3 |

## Statement of Changes in Members' Interests and Equity

for the year ended 31 March 2023

| Group | Core capital deferred shares £m | Subscribed capital £m | General reserves £m | Revaluation reserve £m | Fair value reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 April 2022** | 127.0 | 7.8 | 279.1 | 3.1 | 0.3 | **417.3** |
| Profit for the financial year | - | - | 26.2 | - | - | **26.2** |
| **Other comprehensive income for the year (net of tax)** | | | | | | |
| Retirement benefit obligations | - | - | (8.5) | - | - | **(8.5)** |
| Gains on revaluation of land and buildings | - | - | - | 0.6 | - | **0.6** |
| Realisation of previous revaluation gains | - | - | 0.4 | (0.4) | - | **-** |
| Fair value through other comprehensive income investments | - | - | - | - | (0.3) | **(0.3)** |
| **Total other comprehensive income** | - | - | (8.1) | 0.2 | (0.3) | **(8.2)** |
| **Total comprehensive income for the year** | - | - | 18.1 | 0.2 | (0.3) | **18.0** |
| Distribution to the holders of core capital deferred shares | - | - | (4.8) | - | - | **(4.8)** |
| **At 31 March 2023** | 127.0 | 7.8 | 292.4 | 3.3 | - | **430.5** |

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 |

## Statement of Cash Flows

for the year ended 31 March 2023

| | Group 2023 £m | Group 2022 £m |
|---|---|---|
| **Net cash inflow from operating activities (below)** | **161.3** | 365.7 |
| **Cash flows from investing activities** | | |
| Purchase of investment securities | **(240.5)** | (101.9) |
| Proceeds from disposal of investment securities | **211.4** | 86.5 |
| Proceeds from disposal of investment properties | **2.1** | 2.1 |
| Purchase of property, plant and equipment and intangible assets | **(7.8)** | (5.1) |
| **Net cash outflows from investing activities** | **(34.8)** | (18.4) |
| **Cash flows from financing activities** | | |
| Repayment of debt securities in issue | **(172.0)** | (47.4) |
| Interest paid on subordinated liabilities | **(2.5)** | (2.5) |
| Payment of lease liabilities | **(0.3)** | (0.4) |
| Distribution to the holders of core capital deferred shares | **(4.8)** | (2.9) |
| **Net cash outflows from financing activities** | **(179.6)** | (53.2) |
| Net (decrease)/increase in cash | **(53.1)** | 294.1 |
| Cash and cash equivalents at beginning of year | **710.1** | 416.0 |
| **Cash and cash equivalents at end of year** | **657.0** | 710.1 |

| **Analysis of cash and cash equivalents** | Group 2023 £m | Group 2022 £m |
|---|---|---|
| Cash in hand (including Bank of England Reserve account) | **584.2** | 636.9 |
| Loans and advances to credit institutions | **72.8** | 73.2 |
| | **657.0** | 710.1 |

## Statement of Cash Flows (continued)

for the year ended 31 March 2023

| | Group 2023 | Group 2022 |
|---|---|---|
| **Cash flows from operating activities** | **£m** | £m |
| Profit before tax | **31.8** | 23.2 |
| **Adjustments for non-cash items included in profit before tax** | | |
| Impairment on loans and advances | **24.1** | 8.1 |
| Depreciation, amortisation and impairment | **7.7** | 13.0 |
| Disposal of property, plant and equipment | **-** | (0.1) |
| Revaluations of investment properties | **(6.0)** | (5.8) |
| Changes in provisions for liabilities | **-** | (0.1) |
| Interest on subordinated liabilities | **2.5** | 2.5 |
| Fair value losses/(gains) on equity release portfolio | **0.5** | (0.2) |
| Interest paid on lease liabilities | **-** | 0.1 |
| Changes in fair value | **40.0** | 63.7 |
| | **100.6** | 104.4 |
| **Changes in operating assets and liabilities** | | |
| Loans and advances to customers | **343.3** | 2.5 |
| Loans and advances to credit institutions | **1.1** | (3.3) |
| Derivative financial instruments | **(52.9)** | (74.9) |
| Shares | **122.7** | (50.5) |
| Deposits and other borrowings | **(341.2)** | 389.3 |
| Trade and other receivables | **(8.5)** | 0.4 |
| Trade and other payables | **3.2** | 1.8 |
| Retirement benefit obligations | **(6.8)** | (4.2) |
| Tax received | **(0.2)** | 0.2 |
| **Net cash inflow from operating activities** | **161.3** | 365.7 |

## Ratios

for the year ended 31 March 2023

| | Group 2023 % | Statutory limit % |
|---|---|---|
| Lending limit | **6.8** | 25.0 |
| Funding limit | **17.1** | 50.0 |

| | Group 2023 % | Group 2022 % |
|---|---|---|
| As a percentage of shares and borrowings: | | |
| Gross capital | **8.73** | 7.88 |
| Free capital | **5.16** | 4.65 |
| Liquid assets | **18.99** | 18.12 |
| As a percentage of mean total assets: | | |
| Profit for the financial year | **0.45** | 0.41 |
| Net interest margin | **1.42** | 1.05 |
| Management expenses | **0.78** | 0.89 |

| | Group 2023 % | Group 2022 % |
|---|---|---|
| Common Equity Tier 1 capital ratio | **18.7** | 17.0 |
| Common Equity Tier 1 capital ratio before IFRS 9 transitional relief | **18.3** | 16.2 |

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