

Business Review

(including Summary
Financial Statement)

Year ended 31 March 2019

Key highlights of the 2018/19 financial year

New mortgage lending
£691m

Despite intensified competition, particularly in the second half of the year, £691m of new mortgage lending (2017/18: £837m) across an extended product range, continuing to support home ownership and enabling more than 2,700 borrowers (2017/18: more than 3,100) to purchase their first home.



Average rate earned

45%

more than market average

Delivering savers a significant increase in the average rate earned on their savings compared with the market average¹; during the year, on average, we paid savers some 45% more than the market average (2017/18: 26% above).

Profit before tax
£10.5m



Profit before tax of £10.5m (2017/18: £8.8m), representing a 19% increase year on year which, along with the successful modernisation of the Society's capital structure through a liability management exercise (announced in March 2018 and completed in April 2018), resulted in a 14.5% increase in members' general reserves and further strengthening of the Society's capital position. The Common Equity Tier 1 ratio increased to 16.0% from 14.8%.

Common Equity Tier 1 (CET 1)

16.0%



High
Customer satisfaction and Net Promoter Score

Sustained high levels of customer satisfaction of 94% (2017/18: 94%) and higher customer service Net Promoter Score² of +72 (2017/18: +65) which compares favourably with the Financial Services Benchmark of +50 (2017/18: +45).



Member Council

Enhanced stakeholder engagement, following the establishment of Member and Employee Councils and the sector first of a binding vote on Executive Director Remuneration Policy in July 2018.



9%
reduction in non-core commercial loan book

Continued success in rebalancing the lending portfolio: a 9% reduction in the non-core commercial loan book (2017/18: 17%) and 5% (2017/18: 13%) increase in prime owner occupied balances.

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



Dear fellow members,

I'm pleased to report that the Society has had another successful year supporting the financial wellbeing of our members through the delivery of safe, good value products and services. During the year we have continued to support first-time buyers to own their own home, launched a market-leading easy access savings account and paid on average a 45% higher rate to our savers than the market average rate¹, all of which have been achieved in a fiercely competitive market environment. This year's achievements, coupled with our long-term strategies to reduce legacy risk and keep control of costs have helped support a 19% increase in profits before tax and improved capital ratios, which provide a robust base for future investments as we celebrate our 170th year.

19% increase

in profit before tax
to £10.5m (2017/18: £8.8m)



Balancing the benefits of savers and borrowers in a highly competitive marketplace

The forces of change in mainstream financial services have perhaps never been greater with economic forces, consumer behaviour, technology and regulation all combining to drive a challenging agenda. Within this environment it's important the Society remains true to its mutual purpose and continues to balance the needs of savers and borrowers appropriately.

With market growth in gross residential lending moderated at 3.0%, HPI remaining relatively flat, the withdrawal of the Bank of England's Term Funding Scheme package and the increased lending capacity of both ring-fenced and challenger banks, in the second half of this year we took the decision to reduce our lending in those markets where, put simply, the rates we would be charging to our new borrowers would, in some cases, be uneconomic. Indeed, while the Bank of England increased the Bank Rate in August by 0.25%, the average rate paid by the market on new mortgages reduced relative to Bank Rate which meant that there was a risk of an imbalance between the value distributed to our saving and borrowing members.

At £691m (2017/18: £837m) our level of gross residential lending has achieved an appropriate balance and therefore represents a responsible decision to reposition ourselves and strengthen our lending proposition in markets that allow us to offer safe, secure returns to saving members.

The main factors underlying the financial performance and position of the Society are described in more detail below.

Net interest income

Net interest income of £58.5m (2017/18: £55.5m) increased by 5% and net interest margin improved from 0.96% to 1.03%. The reduction in asset yields driven by increased competition in the mortgage market was offset by a reduction in overall funding costs which continued to benefit from the low cost term funding made available via the Bank of England's Term Funding Scheme (which closed for new drawdowns in February 2018).

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

As a mutual, it is not our role to maximise the interest rate differential between borrowers and savers. Instead, we aim to offer competitive rates and manage net interest margin at a level which allows us to cover costs, maintain our robust capital position and invest in the future. This is why, when Bank Rate increased in August 2018 by 0.25% to 0.75%, with no appreciable increase (in fact relative reductions) in new mortgage market rates, we still raised savings rates, wherever possible, to deliver value to our saving members. Indeed, we paid our savers 0.29% above the market average for the 12 months to 31 March 2019 (31 March 2018: 0.16%)¹.

Intense competition in the mortgage markets during 2018/19 exerted pressure on net interest margin; however, this was partly offset by improved returns on the Society's free capital resulting from increases in Bank Rate during the year.

Fees, commissions and other income

The Society partners with a number of providers to offer home insurance, financial advice, will writing, life cover and funeral planning. Fees and commissions of £2.6m (2017/18: £2.7m) were earned on these products and services, which are made available to support our members' wider financial wellbeing.

In its capacity as responsible landlord, the Group earned net rental income of £4.1m (2017/18: £4.0m) on residential properties let through subsidiary company, West Bromwich Homes Limited.

Fair value (losses)/gains on financial instruments

Of the £4.4m fair value losses (2017/18: £2.5m gains) in the year £1.7m (2017/18: £nil) relates to the closed equity release portfolio measured at fair value through profit or loss under the new accounting standard IFRS 9, £2.7m (2017/18: £2.0m gain) represents fair value movements on derivatives held to hedge impaired commercial loans for which the criteria to apply hedge accounting are not met and the remaining balance, not material for 2018/19 but a gain of £0.5m in 2017/18, mainly relates to hedge ineffectiveness where the fair value movements on hedging derivatives do not fully offset the fair value changes in the corresponding hedged assets (i.e. fixed rate mortgages) and liabilities (i.e. fixed rate savings).

Management expenses

Administrative expenses have reduced from £50.7m in 2017/18 to £49.5m. As a proportion of mean total assets, management expenses remained stable at 0.87% (2017/18: 0.87%).

During the year the Society identified a number of areas where services could be provided more efficiently, resulting in cost savings, after absorbing inflationary pressures, of 2.4%. Excluding a one-off past service cost of £0.4m, for the equalisation of Guaranteed Minimum Pension (GMP) benefits between men and women - an obligation impacting all UK defined benefit schemes - the reduction in costs was 3.2%.

The Society will continue to invest in IT infrastructure, in order to meet members' expectations in a dynamic digital environment, whilst maintaining its focus on providing long-term value for members by spending their money wisely.

Gains on investment properties

The Society provides residential housing for rental through its subsidiary company, West Bromwich Homes Limited. These properties are concentrated in the West Midlands, the South West and South Wales.

House price inflation, whilst fairly slow during the year, has been positive, especially in the areas where many of the properties are situated. During the year, the market value of the properties held rose by £2.6m compared with £3.8m in the previous year.

Impairment on loans and advances

The Group adopted IFRS 9 'Financial Instruments' from 1 April 2018. Impairment is now measured on an expected loss basis rather than the incurred loss approach prescribed by IAS 39, under which the comparative information for 2018 is reported.

Residential impairment

Under IFRS 9, the calculation of expected credit losses (ECLs) incorporates forecasts of future economic conditions. During the year, in the wake of Brexit-related uncertainty, the economic outlook, in particular the assumptions surrounding house price inflation, worsened. Whilst the quality of the Society's residential mortgage books remains strong, under IFRS 9, the increased probability of a downturn drives the recognition of additional

residential impairment charges, with £1.2m reported in 2018/19 (2017/18: £0.4m credit on an IAS 39 basis, excluding equity release impairment charge of £0.3m).

As mentioned previously, equity release mortgages are held at fair value through profit or loss under IFRS 9 and are therefore not subject to an impairment assessment, with changes in credit risk now reflected as fair value gains or losses in the income statement.

Commercial impairment

All commercial loans are individually assessed using cash flow scenario modelling, which considers a range of possible outcomes to calculate ECL requirements.

Under IFRS 9, commercial impairment charges of £1.8m were recognised for the year compared with an IAS 39 charge in 2017/18 of £8.0m. After adjusting for the offsetting movements in derivatives held to hedge the impaired loans and also a £1.1m adjustment to recognise interest net of provisions for stage 3 loans (i.e. loans in default), the charges were more comparable at £5.6m and £6.0m for the current and prior year respectively.

The implementation of IFRS 9 has increased commercial provision balances which, at £70.7m (2017/18: £42.1m), represent 15.9% of the current loan book (2017/18: 8.6%). As commented upon in previous years, the commercial property sector is especially vulnerable to economic uncertainty and, under IFRS 9, this sensitivity is captured within the calculation of the provision requirement. The charge in the year is due in particular to a weakening in the economic view for the retail sector, to which the commercial portfolio is exposed.

At 31 March 2019, 58% (2017/18: 55%) of non-core commercial balances were managed by a Law of Property Act Receiver (LPAR), appointed to assist in the management of future cash flows and debt recovery.

The exit from the commercial property sector, which is deemed non-core, continues to be a strategic objective.

Provisions for liabilities

The income statement charge, in relation to provisions for liabilities, has reduced to £0.3m (2017/18: £0.9m). During the year, the Financial Services Compensation Scheme (FSCS) repaid its

loan from HM Treasury and confirmed no further loan interest would be levied. An FSCS levy charge of £0.3m was recognised in the previous year.

Refining our focus on purpose

It gives me great pride that 43% (2017/18: 34%) of all new borrowers welcomed to the Society have been first-time buyers, evidencing further the Society's commitment to help the next generation of home owners. Throughout the year we have worked hard to extend our lending proposition to support borrowers who align to our traditional building society purpose but are potentially lesser served by mainstream lenders. What we like to call 'new-traditional' lending. Increasingly, we are now able to support a diverse range of borrower needs: whether that be those looking to buy their first home with the help of a sponsor, build a home using a self-build mortgage, remortgage an existing Help to Buy property or support the private rented sector as a portfolio landlord. In the forthcoming financial year we will continue to extend our product range further whilst also introducing online functionality to our existing customers and our intermediary partners looking to change products at the end of their initial incentive periods.

43%

of all new borrowers were first time buyers
(2017/18: 34%)



Safe, good returns for savers

Our savers provide balances that support 84% (2017/18: 84%) of all our mortgage lending and are very much fundamental to the continued success of our mutual model. I'm pleased to say that following the decision of the Bank of England to increase Bank Rate we rewarded our savers by increasing the average rate of interest from 0.78% in 2017/18 to 0.94%. The rate we pay is 45% (2017/18: 26%) above the average rate paid across the rest of the market of 0.65% (2017/18: 0.62%)¹ which, in simple terms, means that the Society has paid £11.4m (2017/18: £6.5m) in mutual benefit to savers.

While the trajectory of Bank Rate remains somewhat uncertain, in the short term at least, our savings proposition will continue to offer members safe, good value products that complement a range of needs, allowing us to support sustainable levels of residential lending.

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

45%

more than the market average
rate paid to savers¹ (2017/18: 26%)



seen by many of our members as an essential part of the West Brom's regional identity. This was a view confirmed by our Member Council.



The New Square Shopping Centre now provides the location for the Society's West Bromwich branch.

Commitment to outstanding service

With price competition remaining intense, we recognise the decision of many of our members to borrow or save with us will be based as much on service as it is on price. To this end we set ourselves ambitious targets to maintain outstanding levels of service that meet the principles of our customer proposition; offering products and services that reflect *individual* customer needs, are *easy* to use and understand and help our members *trust* us with their financial wellbeing. Over the year the Society's Net Promoter Score^{®2} was an impressive +72 (2017/18: +65) and customer satisfaction was maintained at 94%.

As a regional building society which lends across the country the service offered by our mortgage intermediary partners really is something the Society values. We also recognise that maintaining this relationship is a two-way endeavour with the Society striving to extend products and services that are as accessible as possible. During the year our service standards to intermediary partners were independently recognised at the 2018 Financial Adviser Service Awards, where the Society received the highest accolade, a coveted five star rating for its quality of service. Further extensions of both our product and service offerings are planned for our intermediary partners in the coming year.

Over the last year we have maintained our commitment to the network by taking an opportunity to secure a new flagship premises right in the heart of West Bromwich. We had been actively engaged in the search for a new West Bromwich position for a number of years so securing a position in the vibrant New Square shopping area really is something to be celebrated, offering members a brand new branch right in the heart of our home town. The opening of this new site has also provided the opportunity to consolidate the two existing, poorly located, West Bromwich positions (Dartmouth Square and High Street) into one central location. We encourage our members to visit the new branch and will continue to seek opportunities to deliver a more efficient network that adds value to the membership as a whole.

+72

Net Promoter Score^{®2}
(2017/18: +65)



Responsible approach to risk

The impressive strides the Society has made to reduce exposure to those areas of lending that do not fit our mutual purpose have remained a consistent theme for the last 10 years. The scale of the progress we have made here should not be underestimated with non-core commercial exposures now reduced to just 26% of their peak position. This long-term progress to shift materially the composition and riskiness of the Society's lending activities has not however reduced our focus on pursuing opportunities to exit individual positions where these make economic sense for members. Indeed over the course of the last 12 months we have reduced non-core commercial

Presence in our heartland

With many main banks reducing their presence on the high street, it's also pleasing that our high-street proposition has continued to prove attractive with branch balances growing by 3% (£85m). While it's important to acknowledge that the branch network is expensive to run and is being used less year on year, we also recognise that the value of our branches extends beyond being an important source of funding, contributing 69% of all retail funding balances (2017/18: 66%), with the network

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.

assets by a further 9% with total remaining exposures now below £450m, which when combined with the growth in residential lending has once again supported a reduction in balance sheet risk and an improved capital position.

16.0%

Common Equity Tier 1 Capital Ratio
(2017/18: 14.8%), up 1.2%



Our responsible approach to risk is also evidenced in the performance of new lending that has been originated in the last five years with only 2 new mortgage members in arrears of three months or more. When you consider across that period we have welcomed some 35,000 new mortgage members to the Society this figure goes to evidence the responsible safeguards we put in place to ensure new borrowers can afford their mortgages both now and at interest rates much higher than they are today. Moreover when borrowers do struggle to meet their payments the West Brom prides itself on taking an individual approach that also meets our responsibility as a mutual lender.

Welcoming our Member and Employee Councils

As a building society the interests of our members guide the decisions we make and, as a member of the Society's Board, I frequently receive questions on how we make these decisions and how much consideration is given to other people's views. Following last year's introduction of a binding vote on Directors' Remuneration Policy, a position unique within the building society sector, this year we have taken our commitment to stakeholder engagement as a key principle of good, mutual corporate governance further through the creation of two consultative groups, the Member and Employee Councils.

We've formed these bodies to include as diverse a range of views as possible to ensure the views expressed are a representative cross-section of the diversity we observe, celebrate and promote in both our membership and our employee populations. Crucially the purpose of the Councils extends beyond feedback with members able to articulate stakeholder views back to the Society's Board and senior leadership team on particular matters of strategic importance. Agendas have included a

variety of topics, from Directors' remuneration to the boundaries between comply or explain under the Corporate Governance Code, and a proposition to grow home ownership from the rented sector. Each meeting has been chaired by myself, or the chair of the Remuneration Committee where the subject matter has required, with representation from senior managers and Non-Executive Directors where appropriate.



The Employee Council is sharing colleagues' views directly with our Board and business leaders.

I would like to take this opportunity to thank formally all members and employees who have helped create this pioneering initiative, setting a new standard amongst other mutuals in terms of stakeholder engagement. I would also encourage members who feel they can contribute to register their interest via our website or in person to support future recruitment to the panel.

Our people and communities

The Society takes its role as a regional building society seriously both as an employer and as a community partner. During the year we have supported another 22 members of staff to study for professional qualifications, including a Masters in Strategic Leadership in partnership with Loughborough University and the Building Societies Association. We have promoted the government's apprenticeship agenda, with 23 apprentices now working towards qualifications with the support of the Society, and continued an active programme of both in-house and external training.

Diversity of viewpoint is an essential ingredient of good decision-making. The Society has again made strides to support the Women in Finance Charter with women now occupying 33% and 29% of positions on the Board and senior management respectively. We have also encouraged diversity

and inclusion through the formation of the 'Connect' group which provides a staff diversity forum to discuss and share ideas, experiences and challenges with activities held around key cultural celebrations such as Vaisakhi, Eid, Diwali and Christmas.

We also recognise that our responsibility to support financial wellbeing extends beyond the products and services we offer to members and into the wider community. This is perhaps no better evidenced than through our 'Money Go Round' education initiative which aims to give the next generation of savers and borrowers an early insight into the value of money and impact of good financial management. Throughout the year this initiative led to delivery of presentations to schools within our heartland, involving circa 2,000 students, supporting the development of financial literacy and the key role this plays in how confident people feel in managing their finances.

The Society takes pride in its wider community work and encourages all staff to partake in 2 days volunteering per year. This has provided some 750 hours of work to our charity partners in support of much needed regional causes. This year we have partnered with Black Country Women's Aid as our charity of the year with activities throughout the year raising over £30,000 to help the much-needed work they do supporting the victims of domestic abuse, violence and exploitation. I would like to take this opportunity to thank everyone associated with the charity for their work during this relationship which has been a privilege for the Society.

Continuity, change and investment

The resilience of our mutual model throughout our 170 year history has been based on our ability to deliver both continuity and change. While the core of what the Society offers to members, both borrowers and savers, remains very much unchanged, the way in which we deliver products and services has changed beyond recognition. We now operate in an environment where our members expect us to be on the high street, on the telephone, accessible via post, on the internet and accessible by mobile and/or tablet. With this in mind it's important that we do not take our 170 year history for granted but continue to invest in the Society's core systems so we can continue to meet the product, service and security expectations of both current and future members long into the future.

As we look into the future, putting the immediate uncertainty of Brexit to one side, it remains likely that competition within core mortgage and savings markets will continue for some time. By way of response, the Society will, as it has done in the past 12 months, continue to take responsible decisions to encourage lending growth only in those markets where sustainable returns can be evidenced, whilst seeking all available opportunities to run our Society as efficiently as possible for the benefits of our members. In this sense our approach will remain allied fundamentally to our core building society purpose.

As a building society the West Brom exists for its members, bringing those who want to borrow and those who want to save together to achieve a common purpose – financial wellbeing. For us this purpose remains as relevant today as when the Society was founded and as we complete our 170th year, I'm confident that our delivery will remain resolute as we adapt to support further new-traditional methods of home ownership and embrace the opportunities created by digital innovation.

Jonathan Westhoff

Chief Executive

29 May 2019

Summary Financial Statement

Year ended 31 March 2019

This Financial Statement is a summary of the information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge on request at every office of West Bromwich Building Society from 5 June 2019.

Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 3 to 8 of this document addresses the requirements of the Summary Directors' Report.

Summary Financial Statement		
Group results for the year	2019	2018
	£m	£m
Net interest receivable	58.5	55.5
Other income and charges	6.6	6.5
Fair value (losses)/gains	(4.4)	2.5
Administrative expenses	(49.5)	(50.7)
Operating profit before revaluation gains, impairment and provisions	11.2	13.8
Gains on investment properties	2.6	3.8
Impairment losses	(3.0)	(7.9)
Provisions for liabilities	(0.3)	(0.9)
Profit before tax	10.5	8.8
Taxation	(1.4)	(0.9)
Profit for the financial year	9.1	7.9
Group financial position at end of year	2019	2018
	£m	£m
Assets		
Liquid assets	598.5	757.2
Mortgages	4,746.7	4,805.4
Derivative financial instruments	6.5	19.5
Fixed and other assets	202.2	199.4
Total assets	5,553.9	5,781.5
Liabilities		
Shares	3,991.2	4,051.4
Borrowings	1,089.1	1,197.7
Derivative financial instruments	39.3	38.7
Other liabilities	25.3	23.7
Subordinated liabilities	22.8	-
Core capital deferred shares	127.0	-
Profit participating deferred shares	-	175.0
Subscribed capital	8.9	75.0
Reserves	247.0	216.6
Revaluation reserve	3.3	3.4
Total liabilities	5,553.9	5,781.5

Summary Financial Statement (continued)

Year ended 31 March 2019

Summary of key financial ratios		
	2019	2018
	%	%
Gross capital As a percentage of shares and borrowings	8.05	8.95
Liquid assets As a percentage of shares and borrowings	11.78	14.43
Profit for the year As a percentage of mean total assets	0.16	0.14
Management expenses As a percentage of mean total assets	0.87	0.87

'Gross capital' represents the aggregate of reserves, revaluation reserve, subscribed capital, subordinated liabilities, core capital deferred shares and profit participating deferred shares.

'Shares and borrowings' represent the total of shares and borrowings, in each case including accrued interest.

'Management expenses' represent administrative expenses.

This Summary Financial Statement was approved by the Board of Directors on 29 May 2019.

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance &
Operations Director

Independent Auditor's Statement to the Members and Depositors of West Bromwich Building Society

Opinion

We have examined the summary financial statement of West Bromwich Building Society (the Society) for the year ended 31 March 2019 set out on pages 9 to 10.

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019.

We also read the other information contained in the Business Review and consider the implications for

our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Directors' responsibilities

The directors are responsible for preparing the summary financial statement within the Business Review, in accordance with applicable United Kingdom law.

Auditor's responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Andrew Walker

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

One Snowhill

Snow Hill Queensway

Birmingham

B4 6GH

29 May 2019

Directors' Remuneration Report

Annual Statement by the Chair of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report which sets out details of pay and benefits, including performance-related pay, for our Executive Directors, and fees paid to Non-Executive Directors. I was appointed Chair of the Remuneration Committee in October 2018, replacing Martin Ritchley, and would like to start by thanking Martin for chairing the Committee so effectively over the past 5 years.

The Board has decided to adopt voluntarily the relevant requirements of the UK Corporate Governance Code (the Code), in so far as they are considered appropriate for a building society. During the year the Committee undertook a detailed review of the latest update to the Code, published in July 2018 and effective for accounting periods beginning on or after 1st January 2019, to ascertain if changes were required to the Remuneration Policy and/or current practice. The Committee was confident that the majority of current remuneration practices remain aligned to the Code. However, one area of non-compliance with the July update relates to pension contribution rates for executive directors. Following a detailed review of existing arrangements (including the extent to which pension contribution rates contribute towards total remuneration), the Board has concluded that no changes to existing arrangements are appropriate. A full explanation of this and the rationale for the decision is detailed within page 15 of this report. The Committee will however continue to review this practice to ensure it remains appropriate.

The tables marked 'audited' in this report meet the requirements of the Building Societies Act 1986. The report also complies with EU Capital Requirements Directive IV and the detailed requirements of the Financial Conduct Authority's (FCA's) Remuneration Code (the Remuneration Code). Details of the Remuneration Code can be found at www.fca.org.uk. Under the Remuneration Code, the Society is required to identify those staff who are considered to have a material impact on the Society's risk profile (Code Staff). This includes all Executive and Non-Executive Directors and all members of the Society's Executive Committee (ExCo).

This report is presented in two sections:

- The Remuneration Policy – setting out the Remuneration Committee's forward-looking policy with regard to pay and benefits. No changes are proposed to the policy, therefore, in line with the members' binding vote at the 2018 AGM, the policy will remain in place for the remainder of the three year term agreed, and will be subject to a further binding vote in 2021, unless any further changes to policy are proposed in the interim period, in which case a vote would be required before the changes were implemented.
- The Annual Remuneration Report – detailing the amounts earned by Directors in respect of the financial year ended 31 March 2019 and how the policy will operate for the year ending 31 March 2020.

All eligible members receive a copy of the Remuneration Report and are entitled to participate in the advisory vote on the Annual Remuneration Report at the 2019 AGM.

The Chief Executive's Business Review reported that the Society performed strongly in 2018/19 with underlying profitability up 19% to £10.5m. New residential lending of £691m contributed to a 5% increase in the prime owner occupied book, while the Society's exposure to riskier commercial lending, an exposure that is in run-off, was down 9% year on year. This commercial exposure has reduced by 74% since the strategy was introduced in March 2008.

As reported in 2018, Mr Ashraf Piranie took up the role of Group Finance & Operations Director as of 13 March 2017. The package offered to Mr Piranie was in line with that detailed in the Remuneration Policy. In accordance with this Policy, the Board agreed to compensate Mr Piranie, who was required to forego an element of his performance-related pay awards from his previous employer. It was agreed that this compensation would replicate, as far as possible, the amount and terms that he would have received had he stayed in post. Accordingly, during the 2018/19 financial year, Mr Piranie received a payment of £31,568. Subject to checking with the previous employer that no reduction in the amount of the deferred variable amount attributable to 'unvested variable remuneration' is expected, the outstanding amount of this compensation is expected to total circa £55k, payable over the next two years.

Salary increases

For the financial year 2018/19 the Chief Executive and Group Finance & Operations Director received a pay increase of 2.25%, the same as the increase given to all other eligible staff. On 1 April 2019 both Executive Directors received an increase of 2.25%, again matching the general increase given to other eligible staff. This decision followed full discussion with both the Employee and Member Councils, which also provided overall support for the proposal.

Performance-related pay awards

The Executive Director Performance-Related Pay Award payable to the Chief Executive and Group Finance & Operations Director generated awards of 42.9% and 41.7% of salary respectively. These payments reflect the delivery of both personal and Society objectives including financial measures, the management of risk, customer and people measures and new and enhanced operational capabilities. Further detail on the Society objectives is provided within page 18 of this report.

Deferred performance-related payments in relation to 2015/16, 2016/17 and 2017/18 for the Chief Executive, Group Finance & Operations Director, and

former Group Finance & Operations Director have been approved for payment since the end of the 2018/19 financial year.

Fees for the Chairman and other Non-Executive Directors were reviewed for the 2018/19 financial year and no increases were applied. A further review for the 2019/20 financial year also resulted in no increase in fees for the Chairman or any Non-Executive Director. Non-Executive Director fees (other than the Chairman) have remained unchanged for the last nine financial reporting periods.

Gender pay

In March 2019 the Society published its update report on the gender pay gap, showing improvements in all measures from the 2018 report. Whilst there is still some way to go and some improvements were marginal, these results are encouraging and evidence the right direction of travel. A full copy of the report can be found on the Society's website at www.westbrom.co.uk.

Julie Hopes

Chair of Remuneration Committee
29 May 2019

Section 1 – The Remuneration Policy

Background

The Remuneration Policy (the Policy) provides the framework for the Committee to make remuneration decisions and recommendations to the Board in relation to Executive Directors and other Code Staff.

The Policy is designed to promote appropriate behaviours and practices consistent with the Society's risk appetite.

The approach of the Remuneration Committee is to ensure that Executive Directors' remuneration is designed to promote the long-term success of the Society, with full consideration of other stakeholders such as members, employees and regulators.

Remuneration decisions are made on the basis of total compensation comprising salary, performance-related pay and benefits, ensuring an appropriate balance between the fixed and variable components of remuneration. The variable element of the remuneration package creates flexibility to allow for changes in current and future performance.

The Society's remuneration principles are as follows:

- The Policy is in line with the strategy, objectives and values of the Society, thereby aligning it with both short and long-term interests;
- The policies, procedures, remuneration practices and performance-related payment schemes are consistent with the promotion of good and effective risk management and are structured in such a way as to discourage risk taking which is outside the Society's risk appetite;
- The Society's focus is on improving the underlying business position where management can influence performance. The Society's performance-related pay schemes may therefore exclude the impact of specific one-off items which would be agreed at the outset by the Society's Board following a recommendation by the Remuneration Committee;
- All remuneration packages are designed such that the Society can attract and retain high calibre individuals;
- Performance measures for individuals are challenging and robust, and measured on a consistent basis; and

- Performance-related pay is performance dependent, an element of which is deferred over a three year period, to allow the Remuneration Committee to review whether the payment remains appropriate, and providing the ability to reduce or cancel the payment. The Committee also has discretion to recover payments previously made (clawback), should information

come to light subsequent to the payment being made, that would have resulted in the Committee withholding the payment, had this information been known.

The Policy follows, as a minimum, regulatory requirements and good corporate governance practices.

Remuneration policy and practice - Components of remuneration

The table below describes the Society's policy with respect to each element of pay for Executive Directors:

Component	Operation and performance metrics	Opportunity
<p>Basic salary</p> <p>Fixed remuneration set to attract and retain Executives of sufficient calibre through the payment of competitive rates.</p>	<p>Reviewed annually (or more frequently if required).</p> <p>Influencing factors include: role and experience, personal performance, salary increases awarded across the Society, and benchmarking comparisons against organisations of a similar size/complexity, and roles of similar responsibilities.</p>	<p>Set at a level considered appropriate, taking into account the relevant factors tabled. The Committee considers very carefully any pay awards which do not reflect the wider increases across the Society and will only make them where there is a clear commercial rationale for doing so.</p>
<p>Performance-related pay</p> <p>Linked to the delivery of Society and personal objectives. Used to reward Executive Directors within the context of achieving the Society's goals and objectives.</p>	<p>40% of the performance-related pay earned is deferred over a three year period. Deferred payments are made in equal instalments over the following three years, are subject to annual review and recommendation by the Committee and require approval by the Non-Executive members of the Board. The Committee has discretion to make a reduction in the level of award (down to zero) or recover awards if necessary including withholding vested awards (malus arrangements) and recovering payments (clawback arrangements). The annual review prior to payment of a deferred element will take into account a number of factors, making sure management has operated within the risk appetite of the Society, not exposed the Society to regulatory or control failings, or taken other such actions that would represent a poor outcome for members.</p> <p>All awards are non-pensionable.</p> <p>Based on a number of measures, including: financial, customer, people, risk and new and enhanced operational capabilities.</p> <p>Reviewed by the Committee annually to ensure that the measures are appropriate.</p>	<p>Maximum annual opportunity is 50% of basic salary, which the Committee has the authority to increase to 75% for financial years commencing 2019/20 should it be considered appropriate. The right to increase from 50% to 75% was approved by voting members at the 2018 AGM.</p>
<p>Pension or pension allowance</p> <p>A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.</p>	<p>Executive Directors are invited to join the Society's stakeholder pension plan or, as an alternative, be provided with a cash allowance (for example, where they have exceeded the annual or lifetime allowance).</p>	<p>A cash allowance of up to 25% of basic salary for the Executive Directors.*</p>
<p>Benefits</p> <p>A part of fixed remuneration intended to attract and retain Executive Directors of sufficient calibre.</p>	<p>Executive Directors receive benefits in line with market practice, which include a fully expensed car or cash allowance, private medical care for themselves and their family, and life assurance (4 X basic salary). Other benefits may be provided in individual circumstances.</p>	<p>Set at a level considered appropriate, as part of a review of total compensation arrangements.</p>

*The UK Corporate Governance Code, updated in July 2018, includes a new provision that pension contributions for Executive Directors, or payments in lieu, should be 'aligned with' those available to the workforce. The Remuneration Committee reviewed this proposal against current practice on behalf of the Board, and the Board agreed to maintain pension contribution levels for Executive Directors for the following reasons:

- Compensation arrangements for Executive Directors are agreed on the basis of externally benchmarked 'total remuneration', and the Board is satisfied that total pay is at a level sufficient to attract and retain the quality of individuals required.
- Whilst Executive Directors have a relatively high pension contribution, their base salaries are low when benchmarked externally, hence the focus on total remuneration arrangements.
- Pension contributions are not included within the calculation for performance-related pay (PRP).

The table below shows the policy for Non-Executive Directors:

Component	Operation	Application
Fees To attract and retain Non-Executive Directors of the right calibre for the Society.	Fees are reviewed annually for Non-Executive Directors by the Chairman and Executive Directors. Fees for the Chairman are recommended by the Remuneration Committee and approved by the Board. The Chairman is not present when his fees are discussed or approved.	Fees are set at a level to attract individuals with the appropriate knowledge and experience and to reflect the responsibilities and time commitment for Board and Board Committees, taking into account market practice. Reimbursement is also made for reasonable travel expenses for attending meetings/Society business.

Whilst Non-Executive Directors do not participate in any performance-related pay scheme, their overall performance is reviewed annually by the Chairman.

Recruitment policy for Executive Directors

The appointment of an Executive Director could be either an internal or external appointment. In principle, the Society would look to provide no additional benefits to a new Director than those provided to an existing Director.

The approach is to offer a package that is sufficient to recruit an individual of sufficient calibre, but to pay no more than is necessary to attract the appropriate candidate.

Component	Application
Basic salary	A Director would receive an amount commensurate with their experience and responsibilities.
Benefits	A Director would receive comparable benefits to existing Directors, although if required to attract the right candidate these may be widened to include additional benefits, such as a relocation allowance.
Performance-related pay	The maximum performance-related award would be in line with current policy, unless the market rate required to recruit the individual supported a higher amount. In any event, this would be no more than what is considered commercially justifiable.
Pension or pension allowance	An Executive Director would have the option to join the Society's stakeholder pension scheme or to receive a cash allowance of up to 25% of salary (with the latter subject to tax and national insurance).
Recruitment compensation	Compensation arrangements are only considered if the new Director was required to forego an arrangement from their previous employer. In such instances the award would be no more in terms of amount than the award due to be foregone. The timing and vesting requirements of any payment would be replicated as far as possible.

The Remuneration Committee has the right to exercise discretion within the Policy, and recommend to the Board an over-ride of any formulaic approach laid out in the PRP Scheme Rules should it be deemed appropriate in line with good corporate governance.

In recommending remuneration arrangements for new hires, the Committee will consider the value of the total package on offer compared to similar positions in the market, the structure of the remuneration and the experience of the candidate, to ensure that arrangements are in the best interests of both the Society and its members, without paying in excess of what is deemed necessary to recruit a Director of the required calibre.

Recruitment policy for Non-Executive Directors

As with Executive Directors, the approach is to offer a package that is sufficient to recruit an individual of sufficient calibre, but to pay no more than is necessary to attract the appropriate candidate.

Component	Application
Fees	A new Non-Executive Director would receive fees. The level of fees would be set at a level commensurate with the Director's experience and responsibilities and with due regard to the fees of other Non-Executive Directors.

Service contracts

The terms and conditions of employment for Executive Directors are detailed in their service contracts. The contract is terminable with twelve months' notice if given by the Society or six months' notice if given by the Director.

Non-Executive Directors do not have service contracts and instead have letters of engagement which set out their time commitments and responsibilities.

Policy on payment for loss of office

The approach is to pay no more than is necessary in such circumstances. Since 2012, the Society's policy is for new contracts to require Executive Directors to mitigate the Society's loss in the event of receiving a 'loss of office' payment.

Component	Application
Salary and benefits	A termination payment would be on the basis of the relevant notice period. There would be no payment in the event of misconduct or poor performance.
Performance-related pay	Any performance-related pay awards would be made solely at the discretion of the Committee. Any deferred awards would remain payable in future years subject to the normal rules of the Scheme, including possible reduction or cancellation.

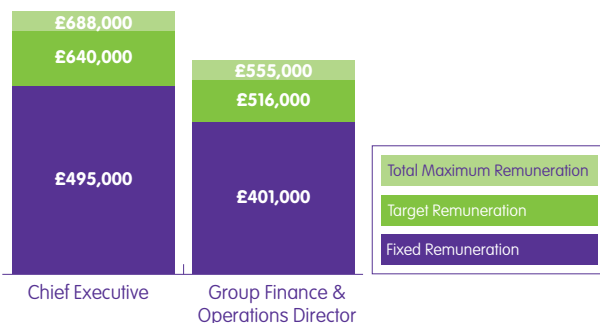
Employment conditions elsewhere in the Society

The pay and benefits of staff are considered annually by the Committee, which also determines the amount of general performance-related pay. The Society, subject to eligibility, offers a comprehensive range of benefits to staff, including pension, life assurance, health care, employee car scheme and performance-related pay. In April 2018 an increase in salary of 2.25% was agreed for staff, plus a 0.6% increase in employer contributions for those participating in the stakeholder pension scheme. In April 2019 a further increase in base salary of 2.25% was agreed.

Remuneration scenarios

The following charts show the breakdown of the component parts of the remuneration package for Executive Directors for 2018/19 on the following basis:

- Fixed remuneration – comprising of basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 18).
- Target remuneration – the anticipated annual remuneration incorporating a performance-related award.
- Maximum remuneration – the maximum remuneration that could be awarded.



When developing the scenarios, the following assumptions were made:

- Fixed remuneration includes basic salary, pension and benefits (excluding compensation for the Group Finance & Operations Director in respect of performance-related pay foregone from his previous employer, as explained on page 18) only;
- Target remuneration is based on a performance-related award of 37.5% of basic salary; and
- Maximum award is based on a performance-related award of the maximum achievable which is 50% of basic salary (as stated on page 14 the Remuneration Committee has the right to propose an increase in performance-related award to 75% if deemed appropriate, with effect from financial year 2019/20).

Section 2 – Annual Report on Remuneration

Non-Executive Director fees (audited)

Non-Executive Director		Date appointed	2018/19 Fees ⁽²⁾ £000	2018/19 Benefits ⁽¹⁾ £000	2017/18 Fees £000	2017/18 Benefits ⁽¹⁾ £000
Mark Nicholls	(Society Chairman)	01/01/10	120	3	120	3
Claire Hafner	until 27/07/17	01/09/11	-	-	16	1
Julie Hopes	(Remuneration Committee Chair from 01/10/18)	01/04/16	55	3	50	3
Mark Preston	(Risk Committee Chair from 01/09/17)	18/05/11	60	3	55	4
Martin Ritchley	(Deputy Chairman & Remuneration Committee Chair until 30/09/18)	01/09/09	70	2	70	2
Richard Sommers	until 30/07/18 (Risk Committee Chair until 31/08/17)	01/10/09	17	1	55	4
Colin Walklin	until 31/12/18 (Audit Committee Chair until 31/07/18)	20/07/11	41	2	60	4
James Turner	(Audit Committee Chair from 01/08/18)	01/04/17	57	1	50	3
Victoria Mitchell		01/04/18	50	1	-	-
Lynne Shamwana		01/02/19	8	-	-	-
Total			478	16	476	24

Notes:

1. In addition to the payment of fees, Non-Executive Directors receive expenses for travel and accommodation in relation to their attendance at meetings.
2. Fees for Non-Executive Directors, at the rate shown above, have been in place since April 2010. Fees for the Society's Chairman were last increased in April 2014.

Executive Director remuneration – 2018/19 (audited)

Executive Director	Basic salary £000	Performance-related pay ⁽¹⁾ £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff (Chief Executive)	386	166	97	12	661
Ashraf Piranie (Group Finance & Operations Director)	307	128	77	49 ⁽²⁾	561
Total	693	294	174	61	1,222

Executive Director remuneration – 2017/18 (audited)

Executive Director	Basic salary £000	Performance-related pay ⁽¹⁾ £000	Pension £000	Other benefits £000	Total £000
Jonathan Westhoff (Chief Executive)	378	164	94	9	645
Ashraf Piranie (Group Finance & Operations Director)	300	125	75	74 ⁽³⁾	574
Total	678	289	169	83	1,219

Notes:

1. Includes an element that is subject to deferral. The subsequent table headed 'Executive Director deferred performance-related pay payable in future years' details the amount due for payment, subject to review by the Committee at the appropriate time.
2. Mr Piranie received compensation of £31,568 which was determined with reference to the amount of performance-related pay award that he would have received from his previous employer if he had stayed in post.
3. Mr Piranie received compensation of £56,800 which was determined with reference to the amount of performance-related pay award that he would have received from his previous employer if he had stayed in post.

For 2018/19 a review of performance against objectives agreed at the start of the year has generated awards for Executive Directors of 42.9% and 41.7% resulting in the amounts shown in the 'Executive Director remuneration – 2018/19' table. These payments are based on performance against both Society and personal objectives.

Society overall objectives for the year include:

Objectives	% of overall award weighting
Financial Profitability, Net interest margin, Cost efficiency	15%
Customer Gross residential lending, Retention of lending, Customer satisfaction	20%
Change System enhancement and implementation	20%
Risk Developing an internal ratings based approach to risk, Development of risk/reward capability	15%
People Strengthening diversity	10%
Overall assessment by the Board of executive performance	20%

A proportion of the Executive Directors' performance-related pay has been deferred as shown in the table below. Payment of any deferred award is subject to review by the Remuneration Committee and approval by the Board, and may be reduced or cancelled as appropriate.

Executive Director deferred performance-related pay Payable in future years		Payable after year ending			
		2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Executive Director Jonathan Westhoff	Deferred from 2015/16	20	-	-	-
	2016/17	19	19	-	-
	2017/18	22	22	22	-
	2018/19	-	22	22	22
Total		61	63	44	22
Mark Gibbard	2015/16	16	-	-	-
	2016/17	17	17	-	-
Total		33	17	-	-
Ashraf Piranie	2017/18	17	17	17	-
	2018/19	-	17	17	17
Total		17	34	34	17

Deferred elements due after the year ending 2018/19 (shown in the table) have subsequently been approved by the Board for payment.

Statement on member voting at the 2018 AGM

At the 2018 AGM members voted on two resolutions, the results of which are shown below:

- (i) Approval of the Directors' Remuneration Report (advisory vote, i.e. not conditional on resolution being passed):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Report	15,809	90.28%	1,702	364

- (ii) Approval of the Remuneration Policy for Executive Directors (binding vote, i.e. conditional on resolution being passed):

Vote	Votes for	% of votes	Votes against	Withheld*
To approve the Directors' Remuneration Policy	15,671	89.5%	1,839	364

* The withheld figures are not included in the calculation of % 'Votes for'.

Application of the Remuneration Policy for 2019/20

The Remuneration Committee is required annually to review the salaries of the Executive Directors.

The Remuneration Committee undertook a benchmarking exercise of all Director remuneration to include the Executive Directors, Non-Executive Directors and the Chairman during the 2017/18 financial year. In light of the benchmarking report, a recommendation was made by the Committee, and approved by the Board, to allow the Board discretion to increase the maximum potential performance-related pay award for Executive Directors from up to 50% to up to 75% of basic salary for 2019/20. This proposal was subject to member approval by way of a binding vote at the 2018 AGM, and approved by 89.5% of voting members.

A recommendation was also made by the Remuneration Committee (after full discussion with the Employee and Member Councils) and subsequently approved by the Board, to increase the basic annual salary of the Chief Executive from £386,162 to £394,851 and Group Finance & Operations Director from £306,750 to £313,651 from 1 April 2019, representing a 2.25% award.

The annual salary review for eligible staff, which provided an increase of 2.25%, was applied from 1 April 2019.

Non-Executive Directors, including the Chairman, received no increase in fees from April 2019.

The Remuneration Committee will continue to strive to align its decisions with industry best practice and regulatory requirements whilst considering both the best interests of the Society and the interests of members.

Julie Hopes

Chair of Remuneration Committee

29 May 2019

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