Business Review

(including Summary Financial Statement)

Year ended 31 March 2022

the West Brom

Key highlights of the 2021/22 financial year

New mortgage lending
£756m

£756m in new mortgage lending (2020/21: £784m), with **54%** of loans for house purchase supporting first-time buyers onto the property ladder (2020/21: 48%).

Best in class
#1

Recognised in three categories of the Moneyfacts 2021 awards, including **Winner of Best Building Society Mortgage Provider**. Also awarded the highest accolade in the Financial Adviser Service Awards for the 4th consecutive year.

3 times more
than the market average

Savers rewarded with rates that were, by the end of the year, **more than three times** the average rates paid by the market[1] (end of 2020/21: more than double). Only passed on a quarter of the increases led by the Bank Rate to borrowers on Standard Variable Rate (SVR); equivalent to a combined benefit to our members of **£9.2m** (2020/21: £5.3m).

Profit before tax
£23.2m

Statutory profit before tax of **£23.2m** (2020/21: £4.7m), driven by strong net interest income, fair value gains, the release of residential mortgage provisions that increased during the pandemic and a lower commercial impairment charge. This statutory profit includes the one-off charge of taking £5.6m of previously capitalised costs relating to the ongoing development of our online savings platform to the income statement; our underlying profit, which excludes this and the hedge ineffectiveness impact was £26.6m (2020/21: £2.4m).

Net Promoter Score
+81

A Net Promoter Score®[2] of **+81** (2020/21: +76) with customer satisfaction maintained at **96%**.

Common Equity Tier 1 (CET 1)
17.0%

Strong capital position maintained with an improved Common Equity Tier 1 (CET 1) capital ratio of **17.0%** (2020/21: 16.4%) and a leverage ratio of **6.5%** (2020/21: 6.8%).

Supporting refugees

Supporting refugees from the Ukrainian conflict by making homes primarily from our rental property portfolio available to **house families impacted by the crisis**.

[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,

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.

54%
of loans for house purchase supporting first-time buyers (2020/21: 48%).

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).

3 times more
Savers rewarded with rates that were, by the end of the year, more than three times the average rates paid by the market[1] (end of 2020/21: more than double).

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

> The Society has remained committed to supporting its members by continuing to pay rates above the market average.

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 and writing off £5.6m of previously capitalised costs in relation to the project to implement a new digital savings platform, £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) capital 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.

£23.2m

Profit before tax (2020/21: £4.7m).

17.0%

Common Equity Tier 1 capital ratio (2020/21: 16.4%).

Net interest income

Net interest income increased in the year to £62.1m (2020/21: £57.7m), with an improved net interest margin of 1.05% (2020/21: 1.02%). Higher margins on new lending in the first half of the year combined with the lower non-retail funding costs due to the Term Funding Scheme (TFSME), which was introduced at the start of the pandemic contributed to the year end position.

This improved net interest income was after increasing our savings rates across the year as the Society remained committed to supporting its members by continuing to pay rates above the market average. For the 12 months to 31 March 2022, we paid our savers 0.21% above the market average[1] (31 March 2021: 0.14%). This represents a considerable £9.0m (2020/21: £5.3m) provided in mutual benefit to savers.

Fees, commissions and other income

The Society partners with a number of third party providers to offer home insurance, financial advice, will writing and life cover. Fees and commissions of £1.9m (2020/21: £2.0m) were earned on these products and services, which are made available to support our members' wider financial wellbeing.

In its capacity as a responsible landlord, the Group earned net rental income of £3.7m (2020/21: £3.8m) on residential properties let through the subsidiary company WBHL.

Fair value gains on financial instruments

Of the £10.6m fair value gains (2020/21: £3.4m gains) in the year, £6.9m gains (2020/21: £1.4m gains) represents fair value movements on derivatives held to provide an economic hedge against movements in impaired commercial provisions for which the criteria to apply hedge accounting are not met, £3.5m gains (2020/21: £2.3m gains) relates to the element of ineffectiveness in the hedge relationships which still meet hedge accounting criteria and £0.2m gains (2020/21: £0.2m losses) arises due to the impact of house price increases on the closed equity release portfolio.

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

> Statutory profit before tax has increased driven by strong net interest income, fair value gains, the release of residential mortgage provisions and a lower commercial impairment charge.

Management expenses

Management expenses have increased from £47.2m in 2020/21 to £52.9m. The management expense ratio increased to 0.89% (2020/21: 0.83%); excluding the decision to write off £5.6m of costs previously capitalised in relation to the digital savings platform the ratio would have been 0.84%, in line with the prior year.

In order to better serve our current and future members, a new online savings platform has been under development. As a result of delays in the build and implementation of this platform, and in line with the requirements of *IAS 38: Intangible Assets*, we have written off £5.6m of previously capitalised costs.

The Society has continued to focus its efforts on reducing costs to remain efficient and agile. In the past five years management expenses, excluding depreciation and the additional system write downs explained above, have reduced by £3.6m (circa 8%) in absolute terms, after absorbing inflation.

Depreciation has reduced from the prior year, from £8.1m to £7.4m. Looking ahead, we anticipate the inflationary challenges being experienced across the economy will impact the management expense position.

Gains on investment properties

The Society provides residential housing for rent through its subsidiary company, WBHL. The portfolio includes properties across England and Wales, with substantial investments concentrated in the West Midlands, the South West and South Wales.

House price inflation has continued in the year to March 2022, with strong growth despite the end to the stamp duty payment holiday. During the year, the market value of the properties held rose by £5.8m compared with £4.0m in the previous year. Included in this gain is an allowance for costs for planned property improvements which were delayed due to the pandemic.

Impairment on loans and advances

Residential impairment

Impairment charges on the residential loan portfolio are based on expected credit loss (ECL) calculations which take into account the credit risk of the loans and assumptions of future economic scenarios in line with IFRS 9 requirements.

The residential impairment credit for the year was £4.4m (2020/21: £4.8m charge). The predominant driver for the movement in the current year has been house price inflation along with the improved economic outlook factored into our year end model assumptions.

We continue to hold post model adjustment overlays for uncertainties not included in modelling. The most significant overlay of £1.8m (2020/21: £1.3m) relates to the heightened risk of default and reducing property values on flats where combustible material, including combustible cladding, may be present.

Group arrears at 0.31% (31 March 2021: 0.43%) have remained low as employment levels remained strong, but this position will be closely monitored as household incomes are expected to be squeezed, in particular due to the increase in energy costs and rising inflation. This could have a knock on impact on arrears levels and subsequently generate potential credit losses.

Commercial impairment

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

Commercial impairment charges reduced in the year to £12.5m from £14.0m in 2020/21. After adjusting for the offsetting movements in derivatives held to hedge the impact of changes in interest rates the net charges were £5.6m and £12.6m for the current and prior year respectively.

The lifting of most COVID-19 restrictions in the second half of our financial year resulted in signs of improvement in the retail, leisure and hospitality sectors driving the lower impairment charge. The commercial property sector remains exposed to changes in the wider economic climate and we continue to make appropriate provisions against our exposures, resulting in an increase in commercial provision balances to £99.9m (2020/21: £91.9m), which represents 28.7% of the current loan book (2020/21: 23.1%). The majority of the Group's commercial portfolio comprises loans to the retail sector. Provision coverage against loans to the retail sector has strengthened to circa 40% from circa 24% prior to the onset of the pandemic.

At 31 March 2022, 63% (2020/21: 59%) of non-core commercial balances were managed by a Law of Property Act Receiver, appointed to assist in the management of future cash flows and debt recovery.

The commercial lending segment is strategically deemed non-core and we continue to manage the exit from this sector.

> Environmental, Social and Governance principles are embedded in how we operate our Society.

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.

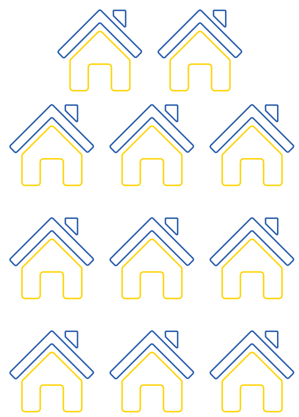
Our colleagues are, of course, another key stakeholder group with whom we have ongoing interactions, which include all colleague surveys, sub-working groups and the Employee Council which considers the same elements as those of the Member Council.

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.

Conflict in Ukraine

11 homes made available, primarily from our rental property portfolio, for Ukrainian refugees



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

Summary Financial Statement

Year ended 31 March 2022

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.

Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 3 to 9 of this document addresses the requirements of the Summary Directors' Report.

Summary Financial Statement

Group results for the year	2022 £m	2021 £m
Net interest receivable	**62.1**	57.7
Other income and charges	**5.6**	5.7
Fair value gains	**10.6**	3.4
Administrative expenses	**(52.9)**	(47.2)
Operating profit before revaluation gains, impairment and provisions	**25.4**	19.6
Gains on investment properties	**5.8**	4.0
Impairment losses	**(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 year	**24.4**	5.1

Group financial position at end of year	2022 £m	2021 £m
Assets		
Liquid assets	**1,012.1**	700.3
Mortgages	**4,778.3**	4,852.3
Derivative financial instruments	**52.4**	6.5
Fixed and other assets	**224.5**	209.4
Total assets	**6,067.3**	5,768.5
Liabilities		
Shares	**4,183.6**	4,234.1
Borrowings	**1,402.5**	1,060.6
Derivative financial instruments	**11.5**	40.5
Other liabilities	**29.5**	20.6
Subordinated liabilities	**22.9**	22.8
Core capital deferred shares	**127.0**	127.0
Subscribed capital	**7.8**	7.8
Reserves	**279.4**	251.8
Revaluation reserve	**3.1**	3.3
Total liabilities	**6,067.3**	5,768.5

Summary Financial Statement (continued)

Year ended 31 March 2022

Summary of key financial ratios

	2022 %	2021 %
Gross capital As a percentage of shares and borrowings	**7.88**	7.79
Liquid assets As a percentage of shares and borrowings	**18.12**	13.23
Profit for the year As a percentage of mean total assets	**0.41**	0.09
Management expenses As a percentage of mean total assets	**0.89**	0.83

'Gross capital' represents the aggregate of general reserves, revaluation reserve, fair value reserve, subscribed capital, subordinated liabilities and core capital 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 25 May 2022.

John Maltby
Chair

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

Independent auditors' statement on the Summary Financial Statement to the members of West Bromwich Building Society

We have examined the Summary Financial Statement of West Bromwich Building Society (the 'Society') set out on pages 3 to 11, which comprises the Summary Directors' report, Group results for the year, Group financial position at year end and summary of key financial ratios.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Summary Financial Statement, in accordance with the Building Societies Act 1986.

Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement with the full Annual Accounts, the Annual Business Statement and the Directors' Report and its compliance with the relevant requirements of Section 76 of the Building Societies Act 1986 and the regulations made under it.

We also read the other information contained in the Business Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. The other information comprises only the Chief Executive's Business Review and Directors' Remuneration Report.

This statement, including the opinion, has been prepared for and only for the Society's members as a body in accordance with Section 76 of the Building Societies Act 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion

Our examination involved agreeing the balances in the Summary Financial Statement to the full Annual Accounts. Our report on the Society's full Annual Accounts describes the basis of our audit opinion on those Annual Report and Accounts, the Annual Business Statement and the Directors' Report.

Opinion

In our opinion the Summary Financial Statement is consistent with the full Annual Report and Accounts, the Annual Business Statement and the Directors' Report of West Bromwich Building Society for the year ended 31 March 2022 and complies with the applicable requirements of Section 76 of the Building Societies Act 1986, and the regulations made under it.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Birmingham

25 May 2022

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

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