Business Review

(including Summary Financial Statement)

Year ended 31 March 2020

the West Brom

Key highlights of the 2019/20 financial year

New mortgage lending

£569m

£569m of new mortgage lending across an extended product range, a reduction from the previous year (2018/19: £691m) reflecting our strategy of only lending if it is in the best interest of our membership. At points in the year, the pricing available for the risk was not achievable in certain segments.

3%

increase in owner occupied lending balances

Lending to support home ownership leading to a **3% increase in owner occupied lending balances** (2018/19: 5%) and circa 50% of new mortgages to first-time buyers (2018/19: 42%), a segment at the heart of our mutual purpose.

49%

higher than market average

Delivering savers an average rate earned on their savings some **49% higher than the market average**[1] (2018/19: 45% above), delivering a benefit of £13.0m (2018/19: £11.4m).

Net Promoter Score

+73

Strong levels of **customer satisfaction of 96%** (2018/19: 94%) and **Net Promoter Score®[2] of +73** (2018/19: +72) significantly ahead of the Financial Services benchmark (+50).

Profit before tax

£1.5m

Statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) after setting aside additional provisions for potential credit losses in Q4 of £14.7m, a significant proportion being in respect of the anticipated economic impact arising from the COVID-19 pandemic.

Common Equity Tier 1 (CET 1)

15.9%

A strong capital position with a **Common Equity Tier 1** (CET 1) **capital ratio unchanged at 15.9%** (2018/19 (restated): 15.9%) despite the increased provisions for potential credit losses resulting from the COVID-19 pandemic lockdown.

6%

reduction in non-core commercial loan book

Further progress in reducing exposure to the legacy lending portfolio with a **6% reduction in the non-core commercial loan book** (2018/19: 9%).

Further improvements in our digital offering

The launch of a major investment programme in our core systems to enable **further improvements in our digital offering**.

[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,

Challenging and uncertain times

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

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

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

In addition to maintaining services, we have also needed to develop, without notice, new ways of operating in order to deal with requirements emerging specifically out of the government's lockdown arrangements. For example, the agreement to allow mortgage borrowers affected by the crisis to take a payment holiday, resulted in mortgage related calls into our contact centre increasing by 37%, as we accommodated requests from over 5,000 (over 2,600 at 31 March) of our mortgage borrowers. The vast majority of these requests were dealt with by a rapidly developed online solution, removing waiting times on the telephones and the need for borrowers to visit our branches. This also reduced anxiety as borrowers' applications were very quickly accepted and the payment holiday confirmed.

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

- The removal of all notice and penalty periods across our savings range to support those members who have a need to access their money sooner than planned for;
- Increased flexibility on the use of third party withdrawals to allow friends and family to access essential funds for those members self-isolating or vulnerable;

- Prioritising calls into our contact centre from key workers; and
- Reducing the number of people working in our head office by up to 90% through extensions of our homeworking capabilities.

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

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

Financial strength and providing for the impact

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

3%

increase in owner occupied lending balances

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

Despite these additional Q4 provision costs, which total £14.7m, the Group has recorded a statutory profit before tax of £1.5m (2018/19 (restated): £9.2m) for the year. Had these additional provisions not been required, profit before tax would have been significantly higher. While it is prudent to set aside these amounts, I must stress that it is extremely difficult, if not impossible, to predict the impact on the economy of this pandemic. A great deal depends on the success of the government's support schemes. This means we cannot discount further credit loss provisions being required.

£1.5m

Profit before tax
(2018/19 (restated): £9.2m)

However, the Society is sufficiently capitalised to absorb such further provisions if required. Despite the additional provisions made, the financial strength of the Society, as measured by its Common Equity Tier 1 (CET 1) capital ratio, ended the financial year unchanged at 15.9% (2018/19 (restated): 15.9%). As a comparison, during the financial crisis of 2008/09, the Society's Core Tier 1 capital ratio was 6.8%. In the years since that crisis, the strategy has been to build up capital to cope with the most extreme of economic shocks.

15.9%

Common Equity Tier 1 capital ratio (2018/19 (restated): 15.9%)

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

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

Net interest income

Net interest income improved in the year by £0.6m to £59.1m (2018/19: £58.5m), with the net interest margin at 1.06% (2018/19: 1.03%). The improvement in asset yields and the positive impact of lower cost non-retail funding made available by various Bank of England schemes has been offset by the increase in retail saving rates.

Bank Rate has remained at a low level, with two consecutive cuts in March 2020 taking the rate to a record low of 0.10% at the year end.

The competition in the UK mortgage market continued to intensify in the last financial year.

The Society moderated its lending in the second half of the year as the targeted risk adjusted returns on capital were not achievable. Through the year the Society continued its focus on purpose-led lending with a range of product propositions which included an increased proportion of lending to first-time buyers and additional lending through the launch of its shared ownership range.

As a result, overall asset yield improved by 0.07% in the year. This, combined with lower non-retail costs (explained above), enabled the Society to pay 0.10% higher rates on average to retail savings members. We paid our savers 0.33% above the market average for the 12 months to 31 March 2020 (31 March 2019: 0.29%). This represents a considerable £13.0m (2018/19: £11.4m) provided in mutual benefit to savers.

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 £2.3m (2018/19: £2.6m) 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 £4.0m (2018/19: £4.1m) on residential properties let through the subsidiary company, West Bromwich Homes Limited.

Fair value losses on financial instruments

Of the £8.5m fair value losses (2018/19 (restated): £5.7m losses) in the year, £0.1m (2018/19: £1.7m) relates to the closed equity release portfolio measured at fair value through profit or loss under IFRS 9, and £4.0m (2018/19: £2.7m) represents fair value movements on derivatives held to hedge impaired commercial loans for which the criteria to apply hedge accounting are not met.

Management expenses

Over the last three years the Society has embarked on a Cost Efficiency Programme which has delivered a £6.2m (14.0%) improvement in administrative expenses (excluding depreciation) in absolute terms absorbing inflation and pay-award increases. Management expenses have reduced by 6.7% to £46.2m from £49.5m in 2018/19 leading to a reduction in the management expense ratio to 0.83%, compared with 0.87% in the prior year.

6.7%

Management expenses down 6.7%, reducing the management expense ratio to 0.83% (2018/19: 0.87%)

Through benchmarking and peer analysis we identified target areas over which to focus our cost reduction efforts. This included a review of processes and resource requirements in these target areas.

There has been an increase in IT business investment during the year with an increase in depreciation from £6.9m to £8.0m (of which £0.4m relates to depreciation of right-of-use assets under IFRS 16). This is expected to continue into the near future to ensure the Society remains at the forefront of technological change to meet customer expectations with particular focus on front end digital capability. Once this investment has been delivered we expect to see further cost benefits across the Society.

Gains on investment properties

The Society provides residential housing for rent through its subsidiary company, West Bromwich Homes Limited. The portfolio includes substantial investments concentrated in the West Midlands, the South West and South Wales.

House price inflation has been positive in the year to March 2020, especially in the areas of concentration. During the year, the market value of the properties held rose by £4.2m compared with £2.6m in the previous year.

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.

House price index (HPI) forecasts have been positive in the financial year to March due to positive employment conditions and the competition in the mortgage market supporting demand. The impairment charge for the year has increased to £2.9m (2018/19: £1.2m). The onset of the COVID-19 pandemic, together with government support schemes such as offering of payment holidays to borrowers, has resulted in a post model adjustment of £1.0m to the residential impairment provision.

Group arrears have remained at low levels, evidence of the superior credit quality of new residential lending.

Commercial impairment

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

Commercial impairment charges of £14.6m were recognised for the year compared with £1.8m in 2018/19. After adjusting for the offsetting movements in derivatives held to hedge the impaired loans the net charges were £18.6m and £4.5m for the current and prior year respectively.

Commercial provision balances at £81.8m (2018/19: £70.7m), represent 19.6% of the current loan book (2018/19: 15.9%). The commercial property sector has continued to be vulnerable to economic uncertainty, especially in the retail sector which has seen unprecedented levels of deterioration recently and which forms over half of the Group's commercial portfolio.

The increase in commercial provision charge during the year is attributed to the worsening economic outlook and more pessimistic assumptions for the retail sector. The impact of COVID-19 is estimated to increase the impairment charge by £12.1m in the final quarter. This is factored into the commercial provisioning process through revised assumptions for the purpose of the ECL calculations.

At 31 March 2020, 58% (2018/19: 58%) 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, remains a strategic objective.

Provisions for liabilities

The payment protection insurance (PPI) deadline passed in August 2019, which led to a surge in complaints at the time. Provisions were raised at the half year following the increase in complaints received and were subsequently utilised through to the year end, which has reduced the required liability to cover any outstanding amounts. The current year Income Statement charge of £0.7m accounts for the increase in complaints received in the run up to the aforementioned deadline.

Commitment to Purpose

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

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

A safe, good return for savers

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

49%
higher than the market average rate paid to savers (2018/19: 45% above)

As members may be aware, attention from competition authorities and financial services regulators has focused on savings providers' pricing practices, specifically the difference between the interest paid to new customers compared to existing customers. The Society's approach to this is to offer the best rate at the time in terms of what is fair, when compared against the rates of equivalent products offered by high street savings providers.

The results of this pricing approach are evident in the difference in interest rate paid to new and existing customers, being less than half the market average differential – proof of our commitment to provide savers with a good, fair return regardless of how long they have chosen to remain a Society saver[2].

Promoting home ownership

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

£569m
New mortgage lending (2018/19: £691m)

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

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

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

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

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

Service development in a digital world

Further improvements in our digital offering

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

+73

Net Promoter Score
(2018/19: +72)

With service being a key differentiator in why customers choose to use or stay with providers, we understand that we can't take performance against these metrics for granted and must constantly challenge ourselves to improve and innovate, particularly by harnessing the benefits that digital service solutions can bring to solving simple problems. Across the year we have delivered a number of digital service extensions, including the launch of a 'track my mortgage' portal, allowing new customers to view the status of applications, which has been used by over 3,000 customers and brokers since it went live. We also introduced live chat services across our consumer website. To improve our digital capability further, therefore, we launched a programme to update our core savings platform and introduce, over the next two years, new features that will enhance our digital capability. This will be a very significant investment and bring our various channels into one core system, which will deliver efficiencies, enhanced customer experience and a capability to adopt changing digital technology.

A safe and responsible approach to risk

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

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

increased to 20%. In addition, a further £50m of capital has been set aside should the economic scenario be significantly worse than that currently forecast by the Bank of England's Financial Planning Committee. This means that through a combination of provisions and capital, the loss coverage is at over 30% of total exposures.

6%

reduction in the non-core commercial loan book (2018/19: 9%)

Throughout the year the Society has continued to develop its Purpose-led, prime owner occupied residential lending strategy. Delivery of this strategy has seen associated balances increase by 3% over the period, with total prime owner occupied balances now increased by 114% since the Society made the decision to restart lending in 2012 following the financial crash. Despite the expansion of the Society's prime owner occupied lending the credit quality has been maintained with only 0.03% of lending undertaken since 2012 now being 3 months or more in arrears. The Society's commitment to supporting home ownership remains simple and very much supports our long-term strategy to reduce exposure to legacy commercial assets.

Building capability through our people

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

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

Connect, our diversity and inclusion group, supports our people to understand, celebrate and value all aspects of diversity

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

Best in class stakeholder engagement

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

The West Brom raised in excess of £30,000 for Midlands Air Ambulance Charity over the last 12 months

Ensuring the views of the Society's primary stakeholders, members and employees are considered in a formal way as part of our decision making structures has, for a number of years been one of my personal endeavours. We now pride ourselves on the way we have given substance to this stakeholder engagement through our Member and Employee Councils; this is best in class amongst the industry.

The Members and Employee Councils met four times across the year, discussing strategic items such as Director Remuneration, Product and Service Development and Pay and Reward Structures

Across the year these groups have met four times with all meetings chaired by members of the Society's Board – including me, our Group Finance & Operations Director and Non-Executive Directors. Topics discussed have included strategic items such as Directors' Remuneration, Product and Service Development, Pay and Reward Structures and Corporate Social Responsibility, with views from both Councils shared with the Executive Committee and directly with the Board for consideration as part of formal decision making and to inform the development of the Society's strategy. I would like to take this opportunity to thank those members and employees who have given their time and effort to make the Councils a success over the last 18 months.

Looking forward

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

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

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

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

Jonathan Westhoff
Chief Executive
2 June 2020

Summary Financial Statement

Year ended 31 March 2020

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 2020.

Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 3 to 11 of this document addresses the requirements of the Summary Directors' Report.

Summary Financial Statement

Group results for the year	2020 £m	2019 Restated* £m
Net interest receivable	**59.1**	58.5
Other income and charges	**6.3**	6.6
Fair value losses	**(8.5)**	(5.7)
Gain on deconsolidation of commercial securitisations	**5.3**	-
Write down of goodwill	**(0.5)**	-
Administrative expenses	**(46.2)**	(49.5)
Operating profit before revaluation gains, impairment and provisions	**15.5**	9.9
Gains on investment properties	**4.2**	2.6
Impairment losses	**(17.5)**	(3.0)
Provisions for liabilities	**(0.7)**	(0.3)
Profit before tax	**1.5**	9.2
Taxation	**-**	(1.2)
Profit for the year	**1.5**	8.0

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

Group financial position at end of year	2020 £m	2019 Restated* £m
Assets		
Liquid assets	**672.4**	598.5
Mortgages	**4,691.6**	4,745.4
Derivative financial instruments	**4.5**	6.5
Fixed and other assets	**208.3**	202.2
Total assets	**5,576.8**	5,552.6

Summary Financial Statement (continued)

Year ended 31 March 2020

Group financial position at end of year	2020 £m	2019 Restated* £m
Liabilities		
Shares	**3,846.1**	3,991.2
Borrowings	**1,244.7**	1,089.1
Derivative financial instruments	**54.2**	39.3
Other liabilities	**25.2**	25.1
Subordinated liabilities	**22.8**	22.8
Core capital deferred shares	**127.0**	127.0
Subscribed capital	**8.9**	8.9
Reserves	**244.6**	245.9
Revaluation reserve	**3.3**	3.3
Total liabilities	**5,576.8**	5,552.6

*2019 mortgages, other assets and reserves have been restated as described on page 12.

Summary of key financial ratios

	2020 %	2019 Restated* %
Gross capital As a percentage of shares and borrowings	**7.99**	8.03
Liquid assets As a percentage of shares and borrowings	**13.21**	11.78
Profit for the year As a percentage of mean total assets	**0.03**	0.14
Management expenses As a percentage of mean total assets	**0.83**	0.87

*2019 ratios have been restated.

'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 2 June 2020.

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 2020 set out on pages 12 to 13.

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 2020 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 2020, 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 2020.

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
2 June 2020

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

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

A13521-05-20-01

the West Brom