

the West Brom

Business Review

Year ended 31 March 2014



Business Review

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Chief Executive's Business Review



The UK economic recovery has followed a steady upward path during the past financial year – reflected in renewed market confidence. Against this backdrop, I am pleased to report that the West Brom has returned to profit, a landmark achievement and direct result of the 'Back to Basics' strategy implemented in 2009. Since then, the Society has remained resolute in its commitment to the traditional building society model and the delivery of long-term value for its membership.

An overview of performance

Profit before tax on continuing operations



2013/14 was a very encouraging year in which the Society returned to profit, following a five year period of loss-making, and strengthened its capital position thereby creating the right conditions for a period of sustainable growth. However, a return to profit is not the only measure of a strong performance in 2013/14.

Underpinned by a new mortgage processing platform and a comprehensive suite of products, the Society's return to the residential lending market gathered pace with gross lending of £213.6m (2012/13: £19.3m).

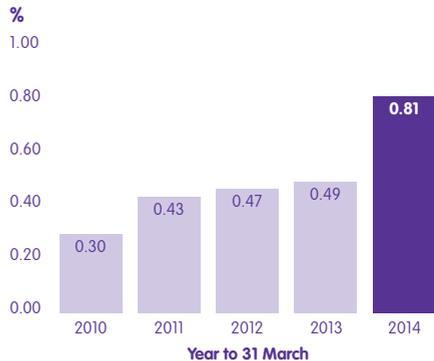
The Society has long been clear in its aim for a controlled withdrawal from commercial lending activities. To this end, commercial mortgage balances fell by 14.6% in the year, reducing the total exposure from £1.7bn (when the Society exited from this business in 2008/9) to £0.9bn, of which £177.9m is securitised (2012/13: £216.6m).

Aligned to the principles of a traditional building society and fundamental to the Society's return to profit, the replacement of legacy higher risk assets with lower risk prime residential mortgages has resulted in the continued strengthening of the Society's capital position. This progress has delivered an improvement in the Common Equity Tier 1 capital ratio (the key measure of financial resilience) to 13.4% (2012/13: 12.8%).

The main factors underlying the improvements in performance are described below.

Net interest margin

Net interest margin



During 2013/14 the net interest margin – primarily the difference between the interest received from borrowers and the interest payable to savers – increased to 0.81% (2012/13: 0.49%), albeit this remains considerably below the levels experienced in the six years leading up to the financial markets crisis of 2009, which peaked at 1.22%.

The improvement in 2013/14 was in part due to the impact of government initiatives to stimulate economic activity, which resulted in the cost of funding starting to reduce in the second half of the financial year. Whilst this was very encouraging, funding costs, relative to Bank Rate, remain elevated compared with the period before the financial crisis in 2009.

To offset, in part, the impact of this, rates on certain buy to let loans were increased. An action group has challenged this decision. The Society, however, is satisfied that its actions are legally permitted, appropriate and in the best interests of the membership as a whole.

Gains/(Losses) on investment properties

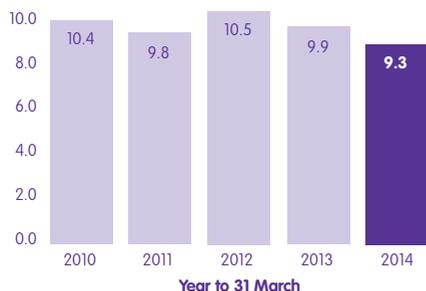
The result for the year includes a £5.1m gain (2012/13: loss of £0.2m) on the revaluation of the investment property portfolio, evidencing the improving economic landscape and the upward trend in UK property prices.

Other income

Other income

£m

12.0



Other income was £9.3m, compared with £9.9m in 2012/13, partly due to a reduction in pension scheme income following a revision to accounting standards. Rental income, attributable to the residential letting business, was broadly neutral despite the Group pursuing its withdrawal from non-core business lines by disposing of 17 investment properties during the year.

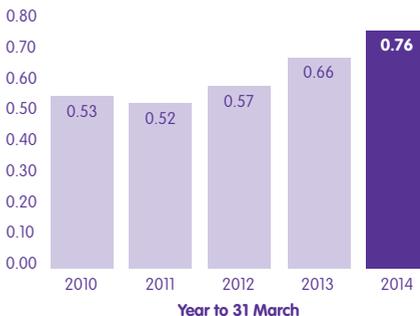
In looking to maintain the provision of financial services, in the wake of significant regulatory change, the West Brom partnered with Towergate Financial to give members market-wide access to investments, pensions and protection products. Under the new partnership structure, the costs of the operation are incurred

by Towergate Financial, with the Society receiving a share of fee income generated. The resultant decrease in fee income for the year was offset by other one-off commission and profit share items.

Management expenses

Management expenses ratio (statutory)

%



The Society operates a continuous improvement culture, in which cost and process efficiencies are viewed as essential in generating capital for future growth and stability. Cost savings will not, however, be effected to the detriment of the Society's strategic goals and principles of service excellence.

Since 2009, the Society has invested in reshaping the business and positioning itself for a period of sustainable growth. The branch network and lending systems have been fully updated. A new modern and environmentally friendly Head Office building is well underway for completion in Spring 2015. These investments, combined with a contracted asset base and the significant costs of regulation, have resulted in a temporarily elevated management expenses ratio of 0.76% (2012/13: 0.66%).

Impairment provisions on loans and advances

Underlying charge for impairment losses on loans and advances

£m

25.0



The Board continues to take a prudent view when determining the appropriate level of provisions and the underlying charge for impairment losses on loans and advances, net of recoveries, was £10.6m (2012/13: £10.8m).

The charge for residential provisions has reduced for the third consecutive year to £2.7m (2012/13: £4.1m), due to the underlying quality of the residential loan books combined with the effects of a nationwide uplift in house prices.

Impairment charges against commercial loans were £10.9m (2012/13: £6.7m). Of this expense, £7.9m is considered attributable to underlying performance and £3.0m is offset by fair value gains on hedging instruments, recognised on a separate line in the Summary Financial Statement.

At the end of the period, the Group had £58.3m (2012/13: £62.8m) set aside for potential losses from exposures to the commercial lending portfolio, equivalent to 6.2% of the current loan book (2012/13: 5.7%). The commercial property sector is considered particularly vulnerable to any unforeseen setbacks in the UK economic recovery. As such, the Board is committed to maintaining an appropriate level of cover against these non-core commercial assets.

Putting members first

The Board's commitment to core building society principles remains unaltered. As a mutual organisation the delivery and preservation of member value underpins all decisions.

Being guided by this model of a traditional building society, the West Brom looks after the interests of its members by offering prime residential mortgages, retail savings and investments which meet their specific needs.

Mortgages – value and choice

Throughout a period of significant economic turbulence, building societies have emerged strongly and are trusted mortgage and savings providers. Supporting members in purchasing their own homes, the West Brom has expanded its mortgage market presence in 2013/14 by consistently offering a range of competitive deals available via branch, direct and intermediary channels.

We have responded to the difficulty many prospective homeowners have in raising large deposits by opening up accessibility to higher loan to value (LTV) products. With 14% of our lending in 2013/14 to first time buyers (up to 90% LTV), the extent of this support is clearly seen.

A significant proportion of borrowers continued to benefit from mortgages linked to the low Bank Rate and, accordingly, the level of accounts in arrears by three months or more, in our core residential mortgage book, remained below the sector average at 1.49%.

Savings – flexibility and ease

The extended low interest rate environment has inevitably impacted savers. Rates fell further during the year, partly as government initiatives contributed to a lessening of the previously intense competition for retail deposits. The Society sought to moderate the effect on its savers by keeping rates competitive.

Throughout 2013/14, the West Brom offered savers a choice of straightforward and easy to understand products – operated via branch, telephone, post or internet – to match their individual preferences. The Society's Fixed Rate Regular Saver Accounts promote the benefits of regular saving and have featured frequently in the Best Buy tables.

The Society is supportive of the recent budget announcements in relation to tax-free savings. From 1 July 2014, the ISA limit increases and allowable transfers between equity and cash ISAs give savers more flexibility. The West Brom is fully committed to the new ISA arrangements. When the limit increases in July, members with fixed rate ISAs opened in 2014/15 will be allowed to make additional deposits for a three month period, ensuring they do not miss the chance to save even more tax-free.

Financial planning – diversity and reassurance

In the wake of the Financial Conduct Authority's Retail Distribution Review, many financial institutions took the decision to cease provision of financial planning services. The West Brom, however, recognises the importance of supporting members in achieving a secure financial future and the need they have for quality advice to support that aim.

In December 2013, the Society partnered with Towergate Financial – a leading national financial advisor – to give members independent financial advice and access to the full spectrum of investment, pensions and protection products available in the marketplace. The first four months of the partnership have demonstrated that it is a service highly valued by our members.

Mutuality – valuing members’ views

Being a building society means that the Society is owned by and run for the benefit of its members, which is why finding out your views and opinions is of paramount importance.

At the Society’s Annual General Meeting (AGM), members can voice their views, ask questions on key issues and vote on the election of the West Brom’s Board of Directors. This year, as explained in the Directors’ Remuneration Report, we have also introduced, voluntarily, an advisory vote for members on the Society’s Remuneration Policy for Directors. This is in addition to the existing vote on actual remuneration paid.

I host Members’ ViewPoint events in a variety of the Society’s core locations, offering the opportunity for members to provide feedback on a range of subjects. These events offer valuable insight from our members and are used to help refine our products and services. In the financial year three events were held.

2013/14 saw the launch of a survey measuring the satisfaction of customers who have completed a mortgage with us. Customers were asked questions relating to their experience, from application through to completion, and an average score of 4, out of a possible 5, was achieved. Whilst a strong score, we are targeting improvement for 2014/15.

Improvements were made to our customer literature during the course of the year, with an emphasis on providing consumer-friendly, transparent information. Research workshops were carried out with both existing members and non-customers and their feedback was used to shape the final literature.

The quality and variety of customer research undertaken ensure that we constantly focus on

improving products and services for those who matter most – our members.

Outlook

Reflecting on the return to profit, strengthened capital position, our strong investment in infrastructure and improving economic environment, the West Brom can face the future with considerable optimism. Whilst there remain some legacy issues to resolve, which might result in some volatility in financial performance, the trend remains very positive.

Residential mortgage activities are expected to increase in 2014/15 as the Society supports yet more members with their home ownership aspirations, all within a framework of responsible lending. The West Brom has implemented fully the new Mortgage Market Review (MMR) requirements, which came into force in April 2014 and prescribe a mortgage market that works better for consumers. The Society welcomes any such changes that deliver benefit to members and reduce the risks of individuals over-extending themselves financially.

Going forward, the West Brom will continue its programme of investment. Having completely renewed our branch network and lending capabilities, we look forward to unveiling the new Head Office in Spring 2015. This modern and functional workplace will ensure the business can grow, equipped with all the facilities needed to provide the efficient, friendly and professional service our members expect.

The progress made to date could not have been accomplished without the hard work and dedication of all my colleagues throughout the Society. I would like to take this opportunity to thank them all for their dedication and the care they demonstrate on a daily basis in looking after our members.

Jonathan Westhoff

Chief Executive
28 May 2014

Summary Financial Statement

Year ended 31 March 2014

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 14 July 2014.

Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 4 to 7 of this document addresses the requirements of the Summary Directors' Report.

Group results for the year	2014	2013*
	£m	£m
Net interest receivable	48.2	33.7
Other income and charges	9.3	9.9
Fair value gains/(losses)	4.6	(1.7)
Net realised (losses)/profits	(0.2)	7.3
Administrative expenses	(45.0)	(44.9)
Operating profit before impairments, provisions and revaluation gains/(losses)	16.9	4.3
Gains/(Losses) on investment properties	5.1	(0.2)
Impairment losses	(13.6)	(10.8)
Provisions for liabilities	(6.3)	(2.4)
Profit/(Loss) for the year before taxation	2.1	(9.1)
Taxation	(1.1)	4.4
Profit/(Loss) for the year	1.0	(4.7)
Group financial position at end of year	2014	2013*
	£m	£m
Assets		
Liquid assets	767.3	1,038.9
Mortgages	4,680.5	4,971.1
Derivative financial instruments	33.8	29.5
Fixed and other assets	168.9	163.3
Total assets	5,650.5	6,202.8
Liabilities		
Shares	4,235.6	4,652.2
Borrowings	836.7	930.6
Derivative financial instruments	62.0	99.4
Other liabilities	23.7	20.0
Profit participating deferred shares	174.7	174.4
Subscribed capital	74.9	74.9
Reserves	239.5	247.6
Revaluation reserve	3.4	3.7
Total liabilities	5,650.5	6,202.8

Summary Financial Statement (continued)

Year ended 31 March 2014

Summary of key financial ratios

	2014	2013*
	%	%
Gross capital As a percentage of shares and borrowings	11.01	9.53
Liquid assets As a percentage of shares and borrowings	17.15	19.77
Profit/(Loss) for the year As a percentage of mean total assets	0.02	(0.07)
Management expenses As a percentage of mean total assets	0.76	0.66

*Restated due to a change in accounting policy, following the guidance set out in International Financial Reporting Interpretations Committee (IFRIC) 21, 'Levies'.

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

This Summary Financial Statement was approved by the Board of Directors on 28 May 2014.

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance Director

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

We have examined the Summary Financial Statement of West Bromwich Building Society (the Society) for the year ended 31 March 2014 set out on pages 8 to 9.

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.

Respective Responsibilities of Directors and Auditor

The Directors are responsible for preparing the Summary Financial Statement within the Business Review in accordance with applicable United Kingdom law.

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.

Basis of 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 2014, 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 2014.

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.

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.

Opinion on Summary Financial Statement

On the basis of the work performed, in our opinion the Summary Financial Statement is consistent with the full Annual Accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2014 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Richard Gabbertas
for and on behalf of **KPMG Audit Plc,**
Statutory Auditor

Chartered Accountants
One Snowhill, Snow Hill Queensway,
Birmingham B4 6GH
28 May 2014

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of this leaflet are available upon request.
Please contact us on 0845 33 00 622.**

**To find out more, visit your local branch
or call us on the number above.**

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www.westbrom.co.uk

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