

the West Brom

# Business Review

Including Summary Financial Statement

Year ended 31 March 2015



# Business Review

Year ended 31 March 2015

## Contents

Chief Executive's Business Review	Pg 3
Summary Financial Statement	Pg 8
Independent Auditor's Statement to the Members and Depositors of West Bromwich Building Society	Pg 10

# Chief Executive's Business Review

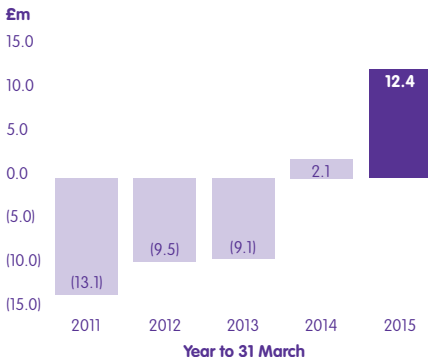
Jonathan Westhoff



I am very pleased to report we have built on the improved performance seen in the previous year, with a significant increase in pre-tax profit. We have continued to deliver on the objectives set in our strategy of realigning the business to return to the traditional building society model. The UK's strengthening economy has inspired consumer confidence and resulted in increased demand in the housing market. We are delighted that we have been able to support our members' home ownership aspirations and can report a significant increase in our gross lending on residential mortgages.

## An overview of performance

### Profit before tax



Profit before tax improved from £2.1m to £12.4m.

The Society's return to the residential lending market gained momentum with gross lending more than doubling to £446m (2013/14: £214m). Within this, 21% supported first time buyers.

Exposure to non-core commercial lending has continued to reduce under the measured and carefully managed exit strategy being applied to withdraw from this sector. The focus is on minimising losses but capital requirements and exposure to future volatility is also assessed. Since the Society exited the market in 2008/9, total exposure has reduced from £1.7bn to £0.8bn, of which £0.13bn is securitised.

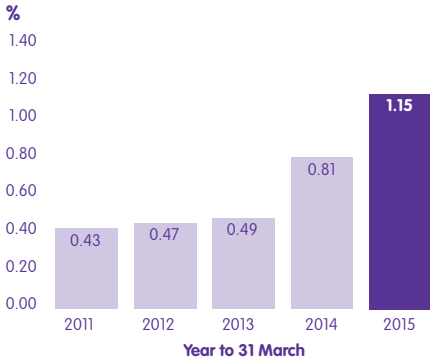
The level of accounts in arrears by three months or more in our core residential mortgage book has remained low at 1.34%, in line with the sector average.

The return to profit, and the substitution of prime residential lending for the higher risk legacy assets, has resulted in the continued strengthening of the Society's capital position. The Common Equity Tier 1 capital ratio which increased to 14.4% (2013/14: 13.4%) has also benefitted from the inclusion of revaluation gains from our holding of residential investment properties in West Bromwich Homes. Under the transitional rules, which are part of the Capital Requirements Regulations which applied from 1 January 2014, the revaluation gains which are part of our reserves, were not included within regulatory capital for 2014, but were once again included from 1 January 2015.

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

## Net interest margin

Net interest margin



During 2014/15 the net interest margin increased to 1.15% (2013/14: 0.81%) demonstrating an upward trend in core performance, with the key drivers being:

- The rate adjustment applied to non-consumer buy to let mortgages held in the West Bromwich Mortgage Company; and
- Previously suspended interest on a number of impaired commercial loans becoming recoverable due to improving market conditions; and
- Competition for savings balances has reduced over the past year, leading to a reduction in interest costs.

As a result of the improvement in the margin, we have been able to:

- Reduce the mortgage Standard Variable Rate (SVR) to 3.99%, one of the lowest in the sector (2013/14: 5.84%); and
- Increase the rates on c.180,000 of our lowest earning savings accounts.

## Gains on investment properties

The upward trend in UK property prices resulted in a revaluation gain of £5.5m (2013/14: £5.1m) on the West Bromwich Homes residential property investment portfolio which

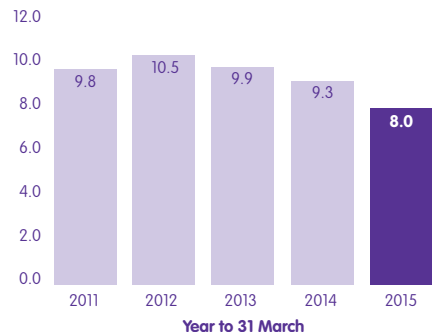
is valued at £118.6m at 31 March 2015 (2013/14: £115.2m). A total of 11 properties with a value of £2.1m were sold during the year at their book value.

To maintain the quality of the portfolio a relatively small number of underperforming properties may be sold each year. It is not our strategy to seek to sell large numbers in one block where this would result in discounting from the current market value of individual properties.

## Other income and charges

Other income

£m

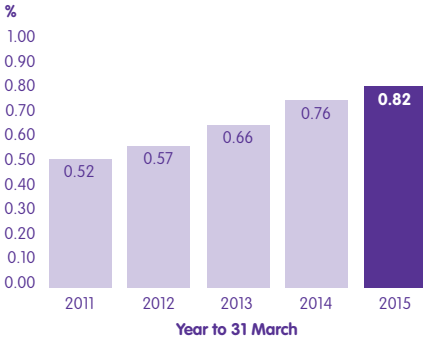


Other income decreased to £8.0m, compared with £9.3m in 2013/14 which is the third consecutive annual reduction. The reduction in 2014/2015 reflects the change in the way the Society provides financial planning services for its customers through its partnership with Wren Sterling (who took over from Towergate Financial Services in the year). The Society recognises a net income contribution rather than including gross income and the costs of the financial services team which now sit with Wren Sterling.

Rental income, attributable to the residential letting business, accounts for over half of other income.

## Administrative expenses

### Administrative expenses ratio



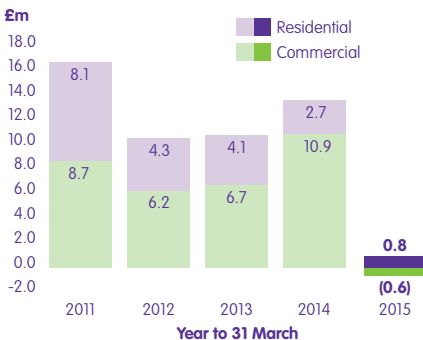
The Society operates a continuous improvement culture, targeting cost, process and service efficiencies. In a year where we have doubled gross lending and seen an increase in the costs of regulatory compliance, total administrative expenses have risen only modestly, to £46.0m (2013/14: £45.0m), and excluding depreciation and amortisation have in fact remained flat.

The increase in total administrative expenses is entirely attributable to the Society's strategic investment in the infrastructure of the business including the modernisation of the branch network and updated lending systems. This has resulted in an increase in the depreciation charge from £4.4m in 2013/14 to £5.4m.

The administrative expenses ratio of 0.82% (2013/14: 0.76%) has increased year on year, largely as a result of the reduction in the average assets, which are the denominator in this ratio.

## Impairment provisions on loans and advances

### Charge for impairment losses on loans and advances



The preceding chart indicates (in purple) a year on year reduction in the residential impairment charge. The commercial charge is more volatile and indicates a small credit for the current year. However, the impairment charge as reported in the Income Statement is not the only element of cost relating to non-performing commercial loans. For 2015 in particular, there have been adverse fair value movements affecting the derivatives used to hedge the non-performing commercial mortgages. These costs are included in "fair value losses" in the Income Statement. Loan performance also affects the level of interest charged or suspended on non-performing loans. Although the reported 'impairment' charge is very low this year, the underlying cost for commercial non-performing loans has been relatively similar to that for the last 3 years at around £10m per annum.

At the end of the period, the Group had £46.0m (2013/14: £58.3m) set aside for losses from exposures to the commercial lending portfolio, equivalent to 5.7% of the current loan book (2013/14: 6.2%). 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.

A key strategy in mitigating the losses incurred on commercial loans is identifying circumstances where the Society taking control of the underlying security results in a better outcome from a recovery perspective. In accordance with this approach, £332.1m of commercial mortgage assets were managed through a Law of Property Act Receiver at the end of the year (2013/14: £360.5m).

The Society has a clear strategy for its exit from the commercial lending market. This is a measured process, holding loans for long term value rather than seeking early redemptions which would increase short term losses. Capital requirements and exposure to future volatility are also assessed. We believe this to be a value maximising strategy for our members. The level of exposure to commercial mortgages has reduced continually, from £1.7bn in 2007/8 to £0.8bn at the end of 2014/15, of which £0.13bn (2013/14: £0.18bn) is securitised.

## Strategic investment

In 2015 the Society's Head Office will relocate to Providence Place in West Bromwich. This modern, environmentally friendly and functional workplace, together with our continued investment in our core infrastructure and mortgage system, will ensure the business can grow and is equipped with all the facilities needed to provide the efficient, friendly and professional service our members expect.

## Members and mutuality

The Board remains committed to the core building society principles. 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.

In 2014 I reported that the rates on certain buy to let loans were increased, within the original terms and conditions of the mortgages. The increase was made to reflect changing market conditions and the need for the Society to carry out our business prudently, efficiently, competitively and in the best interests of all of our members. A number of borrowers formed an action group and challenged this in a legal case. I am pleased to say that the Court upheld the Society's position. Whilst the trial judge did not feel that there was any merit in an appeal, the action group wish to pursue one, and we await to hear when that might be.

As a demonstration of the Society's desire to support our borrowing members, during the course of the year, the Standard Variable Rate was reduced to 3.99%.

However, it has been another challenging year for savers with retail market rates falling. We continue to strive to balance the needs of our savings and mortgage members, and have tried to contain the reduction in rates, but we do have to respond to market pricing otherwise we generate retail savings inflows which we are unable to use given the level of demand for mortgages, which is still at less than 60% of

its 2007 peak. We did rationalise our savings product range in 2014/15 to offer a simple, clear range and this did involve reducing the rates on some of our leading products, as we managed retail flows to meet our needs, but as part of this change, more customers saw their rates increase than decrease.

Throughout 2014/15, we offered our savings members a range of straightforward and easy to understand products and have undertaken a simplification of our legacy savings products, to improve access and flexibility and reduce complexity. Our products have been offered through a variety of channels – branch, post, direct and online – to suit customer convenience and choice. The 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 interest on savings, increasing flexibility and access to ISAs. The West Brom is fully committed to the new "Help to Buy" ISA arrangements that will help first time buyers save towards a deposit.

We continue to offer members a breadth of service through our partnership with Wren Sterling (who took over from Towergate Financial Services in the year) – 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.

## Valuing members' views

Mutuality means that the Society is owned by and run for the benefit of its members, which is why finding out their views and opinions is of paramount importance.

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.

During 2014/15 we have continued to measure customer satisfaction. On average 9.4 out of 10

customers were satisfied with their experience when contacting the West Brom. When asked if they would recommend the West Brom to their family and friends an impressive three quarters of customers confirmed that they would.

During the year we launched our Customer Panel where members are canvassed for their views on our products and services and give feedback on how we can improve the way we operate. This is done via short online surveys, and is open to any West Brom mortgage or savings customer aged 16 or over. Some 2,000 customers have now joined this panel.

At the Society's Annual General Meeting (AGM), members can also voice their views, ask questions on key issues and vote on the election of the West Brom's Board of Directors and other resolutions.

## Playing our part

The West Brom is immensely proud of the links we have with the communities we serve. As a mutual we remain steadfast to our principles of supporting local people and playing an active role in helping those who are disadvantaged or facing difficulties.

Examples include our nominated charity, which is chosen by West Brom staff. Fundraising has been in support of Alzheimer's Society during the year and thanks to the generosity of colleagues and customers we have donated more than £20,000 to assist the charity's vital work throughout the West Midlands region.

We operate affinity savings accounts which reward good causes in proportion to the amount of money customers save. Beneficiaries include Birmingham Children's Hospital, which has received £200,000 in the last three years via the Red Balloon Appeal Account to help fund the renovation of its cancer unit, making the West Brom one of the hospital's largest corporate supporters.

Similarly our Community Account is run in partnership with the Diocese of Lichfield and this helps provide contributions to the Mercian Community Trust, a grant-giving scheme for charities and community groups in Birmingham and the Black Country.

At the West Brom we also recognise that giving to charities isn't just about financial investment. Our volunteering policy enables staff to pledge two working days to a community project of their choice, plus we organise regular sessions for teams from both branches and head office to participate in.

We spent time at Sandwell General Hospital to transform a disused play area outside the paediatric unit and returned later in the year to decorate the wards ready for Christmas. Volunteers visited Beacon Centre for the Blind near Wolverhampton and carried out extensive ground works at its allotments ready for residents to start planting in the spring.

Over the course of the year around 70 colleagues have completed volunteering days in the community and more activities are planned for the coming months.

## Conclusion and Outlook

I am pleased with the progress that the Society has made in 2014/15 and believe that the future continues to look optimistic, with sustained profitability further strengthening our capital position giving us a sound base for future growth.

We expect to see further growth in our residential mortgage activity in 2015/16 as the Society supports yet more members with their home ownership aspirations, all within a framework of responsible lending.

Going forward, the West Brom will continue its programme of investment. Further upgrades to our mortgage systems are planned to enhance efficiency and we will develop our internet offering to provide a platform for the future.

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  
27 May 2015

# Summary Financial Statement

## Year ended 31 March 2015

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 13 July 2015.

## Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 3 to 7 of this document addresses the requirements of the Summary Directors' Report.

<b>Group results for the year</b>	<b>2015</b>	2014
	<b>£m</b>	£m
Net interest receivable	<b>64.7</b>	48.2
Other income and charges	<b>8.0</b>	9.3
Fair value (losses)/gains	<b>(16.3)</b>	4.6
Net realised profits/(losses)	<b>0.1</b>	(0.2)
Administrative expenses	<b>(46.0)</b>	(45.0)
<b>Operating profit before revaluation gains, impairments and provisions</b>	<b>10.5</b>	16.9
Gains on investment properties	<b>5.5</b>	5.1
Impairment losses	<b>(0.2)</b>	(13.6)
Provisions for liabilities	<b>(3.4)</b>	(6.3)
<b>Profit for the year before taxation</b>	<b>12.4</b>	2.1
Taxation	<b>(3.2)</b>	(1.1)
<b>Profit for the year</b>	<b>9.2</b>	1.0
<b>Group financial position at end of year</b>	<b>2015</b>	2014
	<b>£m</b>	£m
<b>Assets</b>		
Liquid assets	<b>721.6</b>	767.3
Mortgages	<b>4,677.4</b>	4,680.5
Derivative financial instruments	<b>19.0</b>	33.8
Fixed and other assets	<b>182.4</b>	168.9
<b>Total assets</b>	<b>5,600.4</b>	5,650.5
<b>Liabilities</b>		
Shares	<b>3,988.0</b>	4,235.6
Borrowings	<b>1,012.8</b>	836.7
Derivative financial instruments	<b>80.8</b>	62.0
Other liabilities	<b>26.9</b>	23.7
Profit participating deferred shares	<b>177.1</b>	174.7
Subscribed capital	<b>74.9</b>	74.9
Reserves	<b>236.5</b>	239.5
Revaluation reserve	<b>3.4</b>	3.4
<b>Total liabilities</b>	<b>5,600.4</b>	5,650.5



# Summary Financial Statement (continued)

Year ended 31 March 2015

## Summary of key financial ratios

	2015	2014
	%	%
<b>Gross capital</b> As a percentage of shares and borrowings	<b>10.85</b>	11.01
<b>Liquid assets</b> As a percentage of shares and borrowings	<b>15.92</b>	17.15
<b>Profit for the year</b> As a percentage of mean total assets	<b>0.16</b>	0.02
<b>Management expenses</b> As a percentage of mean total assets	<b>0.82</b>	0.76

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

'Management expenses' represent administrative expenses.

This Summary Financial Statement was approved by the Board of Directors on 27 May 2015.

**Mark Nicholls**  
Chairman

**Jonathan Westhoff**  
Chief Executive

**Mark Gibbard**  
Group Finance &  
Operations 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 2015 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 2015, 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 2015.

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.

## 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 2015 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

## Jonathan Holt for and on behalf of KPMG LLP, Statutory Auditor

*Chartered Accountants*  
One Snowhill, Snow Hill Queensway,  
Birmingham B4 6GH  
27 May 2015

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

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

Head Office: 2 Providence Place, West Bromwich B70 8AF  
[www.westbrom.co.uk](http://www.westbrom.co.uk)

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