Business Review

Including Summary Financial Statement

Year ended 31 March 2017

the West Brom

Key highlights of the 2016/17 financial year

£712m

Gross residential mortgage lending of **£712m** (2015/16: £673m) and a **15%** (2015/16: 25%) growth in the prime owner occupied book

£4.4bn

Members' savings balances maintained at **£4.4bn** (2015/16: £4.4bn), with residential mortgages covered 1.04 times (2015/16: 1.06 times) by retail deposits

underlying profit up 60%

Underlying profit before tax **up 60%** to £7.7m (2015/16: £4.8m)

£19.8m Statutory loss

Statutory loss before tax of **£19.8m** (2015/16: profit of £13.5m), including costs of £27.5m relating to a one-off reimbursement of interest charged on certain buy to let mortgages

£5.8bn

Total assets stable at **£5.8bn** (2015/16: £5.8bn), with the increase in the residential mortgage book offsetting a 14% reduction in non-core commercial balances

13.8%

Robust capital position, with a Common Equity Tier 1 capital ratio of **13.8%** (2015/16: 14.6%) and a particularly strong leverage ratio of **6.8%** (2015/16: 7.6%)

Financial Adviser Service Awards

Midlands and Yorkshire Contact Centre Awards

Mortgage Finance Gazette Awards

Chief Executive's Business Review

Dear fellow members,

I am proud to report a year of strong underlying performance and unwavering focus on our simple mutual philosophy – to provide members with a secure home for, and a good return on, their savings and the ability to realise their home ownership ambitions.

Performance overview

New prime residential mortgage lending totalled £712m (2015/16: £673m) and, overall, prime owner occupied loans grew by a further 15%, as new and existing customers were supported throughout the year with a competitive mortgage offering. Whilst our focus has been on growing the prime residential book, alongside this we have continued to reduce our exposure to commercial lending.

After adjustment for the one-off items explained below, underlying profitability improved markedly, up 60% from £4.8m to £7.7m.

60% increase
in underlying profit before tax
£4.8m 2015/16, up 60% to £7.7m

The statutory loss before tax of £19.8m (2015/16: profit of £13.5m) included the one-off costs of refunding additional interest charged since December 2013 on certain loans to landlord investors with multi-property portfolios. This followed the well-publicised overturning in June 2016, by the Court of Appeal, of an earlier decision of the High Court in respect of the Group's ability to vary the interest rate applicable to these loans. It is regrettable that our attempts to introduce fairness, for the benefit of our membership as a whole, were ultimately blocked. We have, nonetheless, duly met our obligations to cease charging the additional interest and to reimburse affected borrowers for what had previously been levied. The underlying profitability of £7.7m, referred to above, excludes the one-off costs of £27.5m. Of this amount, £8.7m related to additional interest charged on the affected loans during 2015/16 and has been adjusted for in the comparative figure.

£19.8m
Statutory loss before tax
2015/16 profit of £13.5m

The retail franchise remained strong, with retail deposits of £4.4bn (2015/16: £4.4bn) providing a healthy 104% (2015/16: 106%) cover for residential mortgage balances.

£4.4bn
Savings balances maintained
2015/16 £4.4bn

As capital is pivotal to the protection of members' interests it is pleasing that, despite reporting a loss and making significant investment in future growth, the Group's Common Equity Tier 1 (CET1) capital ratio remained robust at 13.8% (2015/16: 14.6%). At 6.8% (2015/16: 7.6%), our leverage ratio was one of the best in the bank and building society sector. In January 2017, a third party alleged that the profit participating deferred shares (PPDS) of the Society do not comply with one aspect of the Capital Requirements Regulation criteria for eligibility as CET1. The Society's Board believes that the PPDS are eligible as CET1 and that the PPDS meet the CET1 criteria in all respects. The Board has sought external legal advice on this matter which has confirmed the Board's position. We have also sought clarification on the matter from the European Banking Authority (EBA) and now await a response. Should the EBA not agree our position, it is possible that we would have to reduce the degree to which the PPDS would count towards our CET1 by 50% immediately and thereafter by 10% per annum on each 1 January. Under this scenario, the immediate impact on our CET1 ratio would be a reduction from 13.8% at 31 March 2017 to 10.6%. The PPDS not included as CET1 would instead be included as Tier 2 capital so there would be no change to the total capital, or solvency, ratio of 16.0% as at that date and there would be no breach of any regulatory capital requirements.

13.8%

Common Equity Tier 1 Capital Ratio
14.6% 2015/16, down 0.8%

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

Net interest margin

The net interest margin for the year ended 31 March 2017 was 0.95% (2015/16: 1.06%). Excluding the element of buy to let interest that has been refunded to customers, the underlying net interest margin increased slightly from 0.90% to 0.93%, partly attributable to the lower cost of funding following the introduction of the Bank of England's Term Funding Scheme (TFS) to promote UK lending growth.

Notwithstanding the availability of low cost funding, the decrease in interest rates during the year has put some pressure on margins. As a mutual, it is not the West Brom's intention to maximise net interest margin but to maintain it at a level that delivers long-term value for members whilst continuing to provide them with a competitive product range.

0.93%

Underlying margin maintained; 0.90% in 2015/16. We do not seek to maximise margin but deliver long-term value to members

Other income

Other income was £6.8m (2015/16: £7.6m), including £4.1m (2015/16: £4.1m) of investment property rental income generated by subsidiary West Bromwich Homes Limited.

The remaining income stream is primarily derived from the Society's insurance, investment and protection product offering.

Management expenses

Management expenses were elevated in the year as the Society continued to invest in its infrastructure. The Head Office move was completed in April 2016, from which point the new building, fixtures and fittings became subject to depreciation charges which consequently increased from £5.1m to £5.7m for 2016/17.

During the year, the Society made further investment in core systems to enable growth and assure the ongoing provision of excellent customer service. Efficiency savings of circa £1m have been offset by the costs of resourcing a number of regulatory and technical projects, which require large teams with expertise in the relevant areas.

With inflation at 2.3%, the increase in administrative expenses from £42.0m to £44.4m was, in real terms, a 3.4% rise and the result of necessary investment, combined with the costs of regulatory compliance. The management expenses ratio for 2016/17 was 0.86% (2015/16: 0.83%).

0.86%

Management expense ratio (2015/16: 0.83%) reflecting investment in infrastructure and Head Office

Gains on investment properties

A revaluation gain of £5.4m has been reported for the West Bromwich Homes Limited residential property portfolio (2015/16: £5.5m), as a result of house price inflation during the year. The carrying value of the portfolio at 31 March 2017 was £128.9m (2015/16: £123.7m).

Impairment provisions on loans and advances

Since returning to the mortgage market in 2012/13, the Society has originated only prime residential loans. Historic balances are now well-seasoned. The high credit quality of the residential portfolios, together with the impact of house price inflation, has led to a £3.5m reversal of residential provision charges (2015/16: £0.2m increase).

At the year end date, the Group had £16.3m set aside for losses on residential mortgages (2015/16: £20.8m).

The Group has recognised commercial impairment charges of £11.1m in 2016/17 compared with £7.9m for the prior year. The increase reflected changes in circumstances for certain loans and is indicative of the vulnerability of the commercial property sector to fluctuating economic conditions.

The commercial book is highly sensitive to any worsening in the economic climate and the Board remains committed to maintaining an appropriate level of cover against these non-core assets. Provisions held for commercial impairment were £39.4m at 31 March 2017 (2015/16: £43.9m), equivalent to 6.7% of the current loan book (2015/16: 6.5%).

A key strategy in mitigating the losses incurred on commercial loans is identifying circumstances whereby the appointment of a Law of Property Act Receiver (LPAR), to manage future cash flows, results in improved prospects of debt recovery. At 31 March 2017, 56% of commercial mortgage assets were LPAR-managed (2015/16: 46%).

Asset quality

Residential mortgage arrears have fallen for the fourth consecutive year, evidencing the high credit quality of both new lending and the now well-seasoned back book. Since the Society's re-entry into the prime residential market, only one new customer has moved into a serious arrears position. At the year end, none remained in serious arrears.

The de-risking of the balance sheet has continued with a 14% decrease in our exposure to non-core commercial balances from £680m in 2015/16 to £588m. Some £73m of this exposure is in securitisation vehicles which have the effect of transferring the risk of loss out of the Society. Of the remaining £515m of exposure, £302m are non-performing loans being managed for recovery and £38m (7%) has been set aside as provisions in respect of these non-securitised commercial loans.

The Group's liquidity portfolio is efficiently managed and, at 31 March 2016 and 2017, all investment securities were rated single A or above or held with a Global Systemically Important Counterparty. The Society's Liquidity Coverage Ratio - a measure of whether there are sufficient high quality liquid assets to cover expected cash outflows under a 30-day liquidity stress scenario - was 127% (2015/16: 111%), comfortably in excess of the regulatory minimum.

Our members' needs

Help is always on hand in our branches to discuss borrowing and savings requirements.

As a traditional, regional building society we remain committed to the principles of mutuality and all our decision-making is centred around the delivery of long-term value to our circa 446,000 members.

The West Brom looks after the interests of its members by offering prime residential mortgages for homeowners, competitive retail savings and a range of ancillary products and services designed to meet individual financial needs. During the last financial year, we invested substantially in our mortgage application and customer management systems to make it easier for our members to do business with us and to provide operational efficiencies.

Throughout 2016/17 we offered borrowers a competitive range of fixed and discounted variable mortgages, including features such as fees assisted legal services, free valuations and cashbacks. These incentives were well received, in particular, by those borrowers looking to own their first home, with 23% of new mortgages advanced in the year attributable to first time buyers (2015/16: 21%).

23%

of new mortgages helping first time buyers
21% 2015/16, up 2%

Our mortgages were consistently featured in the Best Buy tables and, at the Consumer Moneyfacts Awards 2017, we were 'Highly Commended' in the category 'Remortgage Buyers' Choice'. During the year, the buildings and contents home insurance products, which complement our mortgage offering, each received the coveted Moneyfacts five star rating award.

Since 2012, the Society has worked with intermediaries to support its growth plans and enhance the accessibility of its mortgage products. Our high standards of service to mortgage brokers were recognised by the achievement of a top five star rating in the 2016 Financial Adviser Service Awards.

Savers faced further downward pressure on returns following the Monetary Policy Committee's decision to lower Bank Rate to 0.25% in August 2016 and of course the impact of the decision of the Court of Appeal I referred to earlier. Savings rates were also adversely impacted by the Bank of England's Term Funding Scheme, introduced to stimulate the mortgage markets by providing banks and building societies with low cost funding, which had the impact of lowering rates across the market. Despite this, the average interest margin paid to savers continues to remain above the average paid across the entire cash savings market.

Against this backdrop, the Society's net interest margin, which is broadly the difference between what is charged on mortgage lending and what is paid to savers, is not maximised but managed at a level which balances the current needs of savers and borrowers with the requirement to deliver business growth and member value over a longer horizon. Throughout the year, we maintained a consistent presence in the Best Buy tables, offering flexibility and choice through a range of savings products available via branch, post and online channels.

Acknowledging our members' aspirations to take control of their finances and plan for the future, the West Brom continues to partner with Wren Sterling, a leading national independent financial advisory business. Wren Sterling's expert advisers search the whole of the market for the right blend of products to meet members' needs and provide an ongoing relationship so that financial plans can be adapted to inevitable changes in personal circumstances.

We can facilitate independent financial advice for our members to help them plan for the future.

Our members' views

As a building society the West Brom operates first and foremost in the interests of its members.

Our expanding Customer Panel enables members to ultimately shape the way we do things. It provides a platform for us to engage with members and hear their views. During the year, we sought and responded to the Panel's feedback on topics such as our latest savings application form, communication preferences and what constitutes a great branch experience.

Members' ViewPoint events, hosted in the Head Office and in locations across the branch network, offer an opportunity for customers to make suggestions and convey their opinions about the Society to the Chief Executive and senior managers in a relaxed setting. This year, we discussed the future for interest rates, rewarding loyalty, mortgage fees and housing market growth with members who attended.

Real-time surveys within our Customer Services, Direct Mortgage and branch teams invite members to give immediate feedback on our service, an important tool for monitoring performance against members' expectations. During 2016/17, we were delighted to win 'Improvement Strategy of the Year' in the Midlands and Yorkshire Contact Centre Awards for improvements to our Customer Services department.

Our communities

We are proud of our mutual status and make a conscious effort to assist local communities, especially in the heartland area where our branches operate. This support can take a number of forms, starting with fundraising which we channel towards a different cause each year, as chosen by our colleagues.

During the year, we worked with Teenage Cancer Trust, collecting more than £30,000 through a series of fundraising events and sponsored activities. The charity has a strong presence in the West Midlands through the specialist cancer support units it runs in local hospitals. We are pleased that the money we have raised will be spent in these specific areas, helping affected teenagers and their families cope with this most testing of diseases.

This year also marks the 10th anniversary of our partnership with Birmingham Children's Hospital and the launch of the Red Balloon Appeal Account, a savings product that generates funds for hospital projects. Since 2007 our customers have helped to raise a staggering £683,000 by choosing to save through the account, money which has been invested in everything from vital x-ray equipment to the creation of a centre dedicated to the treatment of rare diseases.

Support for worthy causes does not always have to be financial. We encourage colleagues to spend time volunteering in the local community and arrange regular projects that also serve to strengthen relationships between different business areas, departments and branch teams.

This extends to outreach work with schools and colleges where branch managers will regularly deliver financial awareness workshops themed around the true value of money, the cost of living and the dangers of excessive debt.

Pupils at ACE Academy in Tipton enjoyed discussing money management with staff from their local West Brom branch.

In recognition of our important work in the community, the West Brom was Highly Commended in the 2017 Mortgage Finance Gazette Award for Community Services.

Our people

The West Brom's reputation as a leading regional building society owes so much to the calibre of our people. The Investors in People Gold accreditation denotes an employer committed to attracting and retaining, through support and development opportunities, the very best talent.

2017 will see the launch of our Diversity Strategy which reinforces our pledge to recruit capable individuals from all backgrounds and ensure there are no barriers preventing any of our colleagues from maximising their potential. We were proud to be an early signatory to HM Treasury's Women in Finance Charter, which aims to improve the representation of women in senior managerial roles in financial services.

Conclusion and outlook

Interest rates are predicted to remain low for the coming year, maybe longer. Together with the availability of low cost funding through the Bank of England's Term Funding Scheme, this will stimulate lending but may also serve to intensify competition in the mortgage markets.

The Government's recent housing white paper, 'Fixing our Broken Housing Market', states an intention to increase the supply of new housing stock and provide affordable options for people wishing to buy or rent their own homes. We will keep abreast of these developments and consider any opportunities and concerns they present for home finance providers.

We will continue to invest in systems to improve the customer experience, as well as moving forwards with the Internal Ratings Based (IRB) approach to credit risk capital requirements - a regulatory project which we expect, due to the low risk nature of our core mortgage books, will ultimately improve our already robust capital position.

As the UK negotiates its departure from the EU, there is considerable uncertainty over its future relationships within and beyond Europe. Against this backdrop, we are starting to see a slowdown in house price inflation and real household income growth. While our prime residential mortgages are of a high credit quality and able to withstand a deterioration in market conditions, the commercial loan book is much more sensitive to adverse movements and further loss provisions may be necessary.

Despite the uncertainty that may result from the events of 2016, the Society has achieved lending growth and maintained a solid capital base. Furthermore, the upward trend in underlying profitability is testimony to the strength of the Society's business model. We are therefore well equipped to face the challenges which may lie ahead and remain confident in our ability to continue doing what we do best - fulfilling the needs of our membership.

It is, as always, my duty and privilege to thank our members for their enduring loyalty and also our people who work so tirelessly to earn it.

Jonathan Westhoff
Chief Executive
30 May 2017

Summary Financial Statement

Year ended 31 March 2017

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 6 June 2017.

Summary Directors' Report

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

Summary Financial Statement

Group results for the year	2017 £m	2016 £m
Net interest receivable	**55.3**	60.0
Other income and charges	**6.8**	7.6
Fair value losses	**(0.2)**	(1.0)
Net realised profits	**0.5**	0.6
Administrative expenses	**(50.1)**	(47.1)
Operating profit before revaluation gains, impairment and provisions	**12.3**	20.1
Gains on investment properties	**5.4**	5.5
Impairment losses	**(7.6)**	(8.1)
Provisions for liabilities	**(29.9)**	(4.0)
(Loss)/Profit before tax	**(19.8)**	13.5
Taxation	**(6.0)**	(4.1)
(Loss)/Profit for the financial year	**(25.8)**	9.4

Group financial position at end of year	2017 £m	2016 £m
Assets		
Liquid assets	**853.8**	829.5
Mortgages	**4,776.5**	4,739.0
Derivative financial instruments	**6.3**	8.9
Fixed and other assets	**194.2**	189.7
Total assets	**5,830.8**	5,767.1
Liabilities		
Shares	**4,427.3**	4,385.1
Borrowings	**846.2**	784.6
Derivative financial instruments	**69.0**	77.1
Other liabilities	**24.8**	22.6
Profit participating deferred shares	**173.0**	179.5
Subscribed capital	**75.0**	74.9
Reserves	**212.0**	239.9
Revaluation reserve	**3.5**	3.4
Total liabilities	**5,830.8**	5,767.1

Summary Financial Statement (continued)

Year ended 31 March 2017

Summary of key financial ratios	2017 %	2016 %
Gross capital As a percentage of shares and borrowings	**9.25**	10.37
Liquid assets As a percentage of shares and borrowings	**17.04**	17.28
(Loss)/Profit for the year As a percentage of mean total assets	**(0.44)**	0.17
Management expenses As a percentage of mean total assets	**0.86**	0.83

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

'Shares and borrowings' represent the total of shares and borrowings excluding non-recourse finance.

'Management expenses' represent administrative expenses.

This Summary Financial Statement was approved by the Board of Directors on 30 May 2017.

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

We have examined the Summary Financial Statement of West Bromwich Building Society (the Society) for the year ended 31 March 2017 set out on pages 9 to 10.

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 2017, 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 2017.

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 2017 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Jonathan Holt (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham B4 6GH
30 May 2017

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

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A13521-05/17-01