

the West Brom

Condensed consolidated half-yearly financial information

30 September 2011



Chief Executive's Business Review

Jonathan Westhoff



Performance

The West Brom continued to make satisfactory progress despite the uncertain and volatile economic environment. Group pre tax losses from continuing operations were down to £5.0m for the half year to 30 September 2011 (30 September 2010: £5.5m) and there was a reduction in the underlying loss of circa 50% from the £11.3m posted in the previous half year.

A reconciliation of underlying profit is shown in the table below because we view a number of items as one-off and want to demonstrate our underlying operating performance.

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	12 months ended 31 Mar 11 audited £m
Reported loss before tax on continuing operations	(5.0)	(5.5)	(13.1)
Reported loss from discontinued operations	-	(0.1)	(0.7)
Total Group loss before tax	(5.0)	(5.6)	(13.8)
Net fair value movements	1.9	6.6	9.1
Gains from sale of financial instruments	(4.9)	(13.9)	(15.6)
FSCS levy charge	1.3	1.3	2.2
Restructuring costs	-	0.2	1.8
Other one-off costs	1.0	-	-
Discontinued operations	-	0.1	0.7
Underlying loss before tax on continuing operations	(5.7)	(11.3)	(15.6)

The turbulence in the Eurozone continues to be uneven and uncertainty over the outlook for sovereign debt presents risks for the recovery of the UK economy. Competition for retail funding has intensified with many financial institutions reducing their reliance on the volatile wholesale markets and looking to raise funds to repay Government backed funding. This, combined with the current low Bank Rate, has maintained persistent pressure on interest margins. Nevertheless, the Society has sustained the progress made in the year to increase net interest income to £19.2m (30 September 2010: £13.6m).

Slow economic growth, no movement in the Bank Rate, limited market activity and the planned contraction of the balance sheet to conserve capital for the benefit of the security of members' funds have limited the opportunities for the Society to return to profit. However, throughout the period the Society has upheld the income of its savings members by maintaining highly competitive interest rates, whilst the majority of its mortgage customers have benefited from the continued low Bank Rate.

Total administrative expenses increased year on year by 11.6% reflecting the Society's investment in people and systems required to facilitate the controlled run-off of all legacy issues identified as part of our Back to Basics strategy. The annualised management expenses ratio has increased from 0.52% for the year to 31 March 2011 to 0.63% for the period to 30 September 2011, primarily as a result of the measured reduction in the balance sheet and certain one-off costs. Further investment in systems and resources is likely to enhance the West Brom's process automation and re-establish the Society's position in the residential mortgage market.

Residential mortgage arrears were maintained at a low level, especially when considering the increasing trend in unemployment and the slow recovery of the economy. This has been driven by focused credit risk management and collections activity. The number of core residential mortgages (excluding the closed second charge mortgage book) where the arrears balance was greater than 2.5% of total outstanding balances represented just 1.10% of the total book (31 March 2011: 1.04%), well below the industry average. As part of the Back to Basics strategy, the Society ceased lending through its second charge business and is continuing to manage down its remaining limited exposure.

For those borrowers who are experiencing a period of financial difficulty, we continue to offer support to ensure that, wherever it is viable, they can remain in their homes. This continues to be evidenced by the number of properties in possession, which has reduced in the last six months by 15% (from 74 to 63), representing just 0.13% of residential loans.

We manage both the residential and commercial property portfolios within a very tight risk framework, constantly looking to enhance our collection capabilities and credit risk management practices and we have continued to make prudent provisions where we have identified any emerging difficulties. The commercial property sector has struggled in the current challenging operating environment and, until the economy experiences sustained recovery, it looks likely to continue that way. However, the combination of our commercial lending "work-out" teams and risk division has delivered a further reduction in the charge for potential bad debts which reduced to £7.3m (30 September 2010: £8.6m).

Liquidity

The Group has maintained high quality liquid assets throughout the economic downturn and, as at 30 September 2011, the Group's liquidity ratio stood at 21.0% (30 September 2010: 20.5%). The prime focus during the last 12 months has been on enhancing the quality of the liquid assets held to ensure they are realisable in times of market-wide stress. The Group has no sovereign debt exposure in its liquidity portfolio to any of Greece, Ireland, Italy, Portugal or Spain. No impairment charges were required against any treasury investment assets in the period. An analysis of the Group's liquidity position is shown below.

	30 Sep 11		30 Sep 10		31 Mar 11	
	£m	%	£m	%	£m	%
Buffer liquidity						
Bank of England Reserve	468.4	35.3	287.5	20.5	377.6	26.5
Treasury Bills	1.7	0.1	71.2	5.1	149.6	10.5
Gilts	113.6	8.6	109.9	7.8	142.5	10.0
Total buffer liquidity	583.7	44.0	468.6	33.4	669.7	47.0
Other securities - rated single A or better	663.5	50.1	780.4	55.6	598.1	41.8
Other securities - rated less than single A	5.0	0.4	10.0	0.7	58.2	4.0
Subsidiary/other liquidity	73.3	5.5	144.8	10.3	102.7	7.2
Total liquidity	1,325.5	100.0	1,403.8	100.0	1,428.7	100.0

Capital

Capital is held as the ultimate protection for depositors. The Board sets its risk appetite such that the Society's capital will exceed those minimum regulatory requirements set out by the rules and guidance issued by the Financial Services Authority (FSA).

	30 Sep 11 Basel II Standardised £m	30 Sep 10 Basel II Standardised £m	31 Mar 11 Basel II Standardised £m
Tier 1			
General reserve	248.5	255.5	251.3
Permanent interest bearing shares (Note 1)	74.9	74.9	74.9
Profit participating deferred shares	176.4	178.9	177.3
Intangible assets (Note 2)	(8.0)	(7.2)	(9.0)
Deductions from Tier 1 capital (Note 3)	(4.8)	(4.9)	(4.3)
	487.0	497.2	490.2
Tier 2			
Revaluation reserve	3.7	3.8	3.7
Collective impairment allowance	20.3	18.4	18.9
Contingency against collective provision add back (Note 4)	(5.8)	-	(4.4)
Deductions from Tier 2 capital (Note 3)	(4.2)	(4.9)	(4.3)
	14.0	17.3	13.9
Total capital	501.0	514.5	504.1
Risk weighted assets - Pillar 1			
Retail mortgages	1,747.1	1,861.8	1,817.4
Commercial loans	1,021.3	1,157.9	1,037.1
Treasury	111.3	143.2	106.1
Other	157.3	161.7	155.8
Market risk	2.1	26.2	3.6
Operational risk	94.8	120.6	120.6
	3,133.9	3,471.4	3,240.6
Key capital ratios			
Total capital	501.0	514.5	504.1
Core Tier 1 (%) (Note 5)	13.1	12.2	12.8
Tier 1 ratio (%) (Note 5)	15.5	14.3	15.1
Total capital (%) (Note 5)	16.0	14.8	15.6

Notes

1. Permanent interest bearing shares include any fair value adjustments and adjustments for unamortised premiums and discounts.
2. Intangible assets do not qualify as capital for regulatory purposes.
3. Certain deductions from capital are required to be allocated 50% to Tier 1 and 50% to Tier 2 capital. Other deductions are Tier specific.
4. Deduction from the collective provision add back reflecting the proportion of the provision that is disallowable for capital purposes.
5. Calculated as relevant capital divided by risk weighted assets. Core Tier 1 represents Tier 1 capital excluding Permanent interest bearing shares.

The Society's Core Tier 1 ratio remained strong at 13.1% (31 March 2011: 12.8%), one of the highest ratios in the UK bank and building society sector, and the Tier 1 ratio was 15.5% (31 March 2011: 15.1%). Our Core Tier 1 ratio has now almost doubled over the last three years (6.8% in 2008). This strengthening in the capital ratio has been achieved as a result of our ongoing strategy to deliver a managed reduction in risk weighted assets, down 10% in the last 12 months to £3.1bn.

Principal Risks and Uncertainties

Across the Group, strategic, operational and financial risks are identified and, where necessary, actions are taken to mitigate those risks. The Group Risk Committee, which meets at least quarterly, is responsible for reviewing these risks. The principal risks and uncertainties which could have an impact on the Group's long-term performance remain those outlined on pages 14 to 17 of the 2011 Annual Report and Accounts.

For the remainder of the current financial year, the principal risks and uncertainties faced by the Group are associated with the current condition of the financial markets, both in the UK and internationally, and the outlook for the economy as a whole. The key risks are the continuing difficulties in the commercial property sector, the potential impact on impairment charges of a sudden further downturn in this sector driven by increasing unemployment, and the impact on the net interest margin of rates offered to attract and retain retail savers at a time when a large element of our residential loans are linked to the historically low level of the Bank Rate.

Given the difficult wholesale market conditions and the increasing uncertainty in the Eurozone the risk of competition for retail savings balances is likely to intensify in 2012. The Society has focused on close management of its liquidity requirements during the last six months as demonstrated by its ability to repay certain Government supported funding early while maintaining both the quality and level of its liquidity. This funding was introduced by the Bank of England as a temporary support to many banks and building societies.

In respect of residential housing, evidence appears to suggest that the initial recovery in the housing market may have stalled. In its planning, the Board has remained cautious as to the sustainability of the earlier signs of improvement and the recent upward trend in unemployment.

The original terms of the Financial Services Compensation Scheme (FSCS) funding, in respect of the bailout of Bradford & Bingley plc, are due to mature in the near future. As yet, the details of the next phase of funding this loss are unknown. Should they be more costly than those put in place for the first three year term, there would be an impact on the contribution required from building societies, including the West Brom, to pay for this bailout.

Prospects

There is still a strong degree of uncertainty as the economy strives to recover from the deepest recession of modern times. Further rises in unemployment are to be expected, a resurgence of activity in the property market seems some way off and we do not expect an increase in interest rates in the near future. Whilst low interest rates offer some relief to residential mortgage borrowers, the adverse impact on the Society's interest margin will remain.

Jonathan Westhoff

Chief Executive

Certain statements in this half-year report are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

IAS34.21 is not of relevance to the Group activities, as these activities are not highly seasonal.

There were no material related party transactions during the reporting period covered by this document.

Condensed consolidated half-yearly income statement

For the six months ended 30 September 2011

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	Year ended 31 Mar 11 audited £m
Interest receivable and similar income	92.0	102.6	214.1
Interest expense and similar charges	(72.8)	(89.0)	(179.7)
Net interest receivable	19.2	13.6	34.4
Fees and commissions receivable	2.0	0.9	5.7
Other operating income	3.5	3.1	4.1
Total operating income	24.7	17.6	44.2
Fair value losses on financial instruments	(1.9)	(6.6)	(9.1)
Net realised profits	4.9	13.9	15.6
Total income	27.7	24.9	50.7
Administrative expenses - Ongoing	(20.8)	(18.3)	(36.1)
Administrative expenses - Restructuring	-	(0.2)	(0.3)
Depreciation and amortisation	(2.3)	(2.2)	(5.0)
Operating profit before impairments, provisions and revaluation gains or losses	4.6	4.2	9.3
Losses on investment properties	(1.0)	-	(1.9)
Impairment losses on loans and advances	(7.3)	(8.6)	(16.8)
Provisions for liabilities - FSCS Levy	(1.3)	(1.3)	(2.2)
Provisions for liabilities - Other	-	0.2	(1.5)
Loss before tax	(5.0)	(5.5)	(13.1)
Taxation	1.3	1.6	3.4
Loss for the period from continuing operations	(3.7)	(3.9)	(9.7)
Discontinued operations			
Loss from discontinued operations	-	(0.1)	(0.7)
Loss for the period	(3.7)	(4.0)	(10.4)

Condensed consolidated half-yearly statement of comprehensive income

For the six months ended 30 September 2011

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	Year ended 31 Mar 11 audited £m
Loss for the period	(3.7)	(4.0)	(10.4)
Other comprehensive income:			
Available for sale investments: valuation gain/(loss) taken to equity	1.6	5.4	(1.6)
Actuarial gain on retirement benefit obligations	-	-	0.7
Cash flow hedge gains/(losses) taken to equity	0.1	(0.2)	(0.3)
Tax on items taken directly to equity	(0.5)	(1.4)	1.1
Other comprehensive income/(expense) for the period, net of tax	1.2	3.8	(0.1)
Total comprehensive income for the period	(2.5)	(0.2)	(10.5)
As a percentage of mean total assets			
Loss for the period	(0.05%)	(0.05%)	(0.13%)
Management expenses (annualised)	0.63%	0.51%	0.52%

Condensed consolidated half-yearly statement of financial position

At 30 September 2011

	Notes	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
Assets				
Liquid assets		1,325.5	1,403.8	1,428.7
Derivative financial instruments		66.0	84.2	73.4
Loans and advances to customers	7	5,670.4	6,169.4	5,880.1
Intangible assets	9	6.2	7.2	7.2
Investment properties	10	112.7	115.7	113.7
Fixed assets	9	15.0	13.0	12.6
Other assets		31.5	37.0	31.5
Retirement benefit assets		1.8	-	1.8
Held for sale		-	1.0	-
Total assets		7,229.1	7,831.3	7,549.0
Liabilities				
Shares	8	5,392.2	6,098.5	5,711.9
Other borrowings		234.6	221.3	195.9
Derivative financial instruments		116.9	121.0	79.8
Debt securities in issue	11	955.0	846.9	1,025.3
Other liabilities		28.4	26.4	31.6
Retirement benefit obligations		-	2.0	-
Held for sale		-	0.4	-
Total liabilities		6,727.1	7,316.5	7,044.5
Equity				
Profit participating deferred shares	12	176.4	178.9	177.3
Subscribed capital	14	74.9	74.9	74.9
General reserves		248.5	255.5	251.3
Revaluation reserve		3.7	3.8	3.7
Available for sale reserve		(1.5)	1.6	(2.6)
Cashflow reserve		-	0.1	(0.1)
Total equity attributable to members		502.0	514.8	504.5
Total liabilities and equity		7,229.1	7,831.3	7,549.0
As a percentage of shares and borrowings				
Gross capital		8.0%	7.5%	7.6%
Free capital		6.2%	5.9%	5.9%
Total liquidity		21.0%	20.5%	21.5%

Condensed consolidated statement of changes in members' interests for the six months ended 30 September 2011

6 months ended 30 September 2011 (un-audited)

	Profit participating deferred shares	Subscribed capital	General reserve	Available for sale reserve	Cash flow hedging reserve	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2011	177.3	74.9	251.3	(2.6)	(0.1)	3.7	504.5
Comprehensive (expense)/ income for the period	(0.9) ¹	-	(2.8)	1.1	0.1	-	(2.5)
Balance as at 30 September 2011	176.4	74.9	248.5	(1.5)	-	3.7	502.0

6 months ended 30 September 2010 (un-audited)

	Profit participating deferred shares	Subscribed capital	General reserve	Available for sale reserve	Cash flow hedging reserve	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2010	179.9	74.9	258.5	(2.3)	0.2	3.8	515.0
Comprehensive (expense)/ income for the period	(1.0) ¹	-	(3.0)	3.9	(0.1)	-	(0.2)
Balance as at 30 September 2010	178.9	74.9	255.5	1.6	0.1	3.8	514.8

12 months ended 31 March 2011 (audited)

	Profit participating deferred shares	Subscribed capital	General reserve	Available for sale reserve	Cash flow hedging reserve	Revaluation reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2010	179.9	74.9	258.5	(2.3)	0.2	3.8	515.0
Comprehensive expense for the period	(2.6) ¹	-	(7.2)	(0.3)	(0.3)	(0.1)	(10.5)
Balance as at 31 March 2011	177.3	74.9	251.3	(2.6)	(0.1)	3.7	504.5

Note 1: Under the terms of the Profit participating deferred shares (PPDS), 25% of the annual post tax profits or (losses) will be allocated against the PPDS reserve.

Condensed consolidated half-yearly statement of cash flow

For the six months ended 30 September 2011

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	Year ended 31 Mar 11 audited £m
Cash flows from operating activities			
Operating loss before tax	(5.0)	(5.5)	(13.1)
Adjustments for:			
Depreciation and amortisation	2.3	2.2	5.0
Movement in other assets	-	(8.8)	0.2
Movement in other liabilities	(3.2)	(2.3)	5.7
Net decrease in loans and advances made to customers	209.7	267.6	534.8
Net decrease in shares	(319.7)	(445.6)	(831.8)
Net movement in other borrowings	38.7	(15.6)	(70.4)
Net movement in derivative financial instruments	44.5	18.5	(11.9)
Other movements	(2.1)	(5.8)	12.7
Net cash flows from operating activities	(34.8)	195.3	(368.8)
Taxation	0.2	-	-
Net cash flows from investing activities	281.1	(26.1)	22.9
Net cash flows from financing activities	(72.3)	(53.5)	152.9
Net movement in cash	174.2	(274.9)	(193.0)
Cash and cash equivalents at the beginning of the period	575.2	768.2	768.2
Cash and cash equivalents at the end of the period	749.4	493.3	575.2

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days original maturity:

	30 Sep 11 £m	30 Sep 10 £m	31 Mar 11 £m
Cash and cash equivalents			
Cash in hand including Bank of England reserve account	470.4	2.0	379.6
Loans and advances to credit institutions	97.7	372.9	124.7
Investment securities	181.3	118.4	70.9
Total	749.4	493.3	575.2

The Group is required to maintain balances with the Bank of England which, at 30 September 2011, amounted to £5.6m (30 September 2010: £6.0m and 31 March 2011: £5.8m). The movement in this balance is included within loans and advances to credit institutions.

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

1. General information

These interim financial results do not constitute statutory accounts as defined in section 81A of the Building Societies Act 1986. A copy of the statutory accounts for the year to 31 March 2011 has been delivered to the Registrar of Companies and the information in this report has been extracted from these statutory accounts. Those accounts have been reported on by the Group's auditors and the report of the auditors was (i) unqualified, and (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

The consolidated interim financial information for the six months to 30 September 2011 and 30 September 2010 is unaudited and has not been reviewed by the Group's auditors.

2. Basis of preparation

This condensed consolidated half-yearly financial report for the half-year ended 30 September 2011 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The half-yearly condensed consolidated financial report should be read in conjunction with the Annual Report and Accounts for the year ended 31 March 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

3. Accounting policies

The accounting policies adopted by the Group in the preparation of its 2011 half-yearly financial report and those which the Group currently expects to adopt in its Annual Report and Accounts for the year ending 31 March 2012 are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 March 2011.

During the period to 30 September 2011, the Group has not adopted any new or amended accounting standards which have had a material impact on these interim condensed consolidated financial statements.

4. Business segments

Operating segments are reported in accordance with the internal reporting provided to the Group Board (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has three main business segments:

- Retail - incorporating residential lending, savings, investment and protection;
- Commercial - primarily representing loans for commercial property investment; and
- Property - a portfolio of residential properties for rent

Central Group operations have been included in Retail and comprise risk management, funding, treasury services, human resources and providing computer services, none of which constitute a separately reportable segment and business activity from head office.

As the Group's segment operations are all financial with a majority of revenues deriving from interest, and the Group Board relies primarily on net interest revenue to assess the performance of the segment, the total interest income and expense for all reportable segments is presented on a net basis. There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the Group Board is measured in a manner consistent with that in the consolidated Income Statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in intra-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. Central administrative costs are also allocated between segments and are disclosed in intra-segment admin expenses. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income, depreciation and administrative expenses. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

As the Group Board reviews operating profit, the results of discontinued operations are not included in the measure of operating profit.

The information provided about each segment is based on the internal reports about segment income or expense, assets, liabilities and other information, which are regularly reviewed by the Group Board. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the Statement of Financial Position, but exclude items such as taxation.

No segment information is presented on geographical lines, because substantially all of the Group's activities are in the United Kingdom.

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

4. Business segments (continued)

6 months ended 30 September 2011 (un-audited)							
	Retail	Commercial	Property	Eliminations	Continuing operations	Discontinued operations (Mortgage Broking)	Total Group
	£m	£m	£m	£m	£m	£m	£m
Income							
Interest receivable and similar income	115.7	29.6	-	(53.3)	92.0	-	92.0
Interest payable and similar charges	(95.0)	(29.5)	(1.6)	53.3	(72.8)	-	(72.8)
Fees and commissions receivable	2.0	-	-	-	2.0	-	2.0
Fair value losses on financial instruments	(1.9)	-	-	-	(1.9)	-	(1.9)
Net realised profits	4.9	-	-	-	4.9	-	4.9
Other operating income/(expense)	0.8	1.0	1.9	(0.2)	3.5	-	3.5
Total operating income/(expense)	26.5	1.1	0.3	(0.2)	27.7	-	27.7
Administrative expenses	(20.3)	(0.7)	-	0.2	(20.8)	-	(20.8)
Depreciation and amortisation	(2.3)	-	-	-	(2.3)	-	(2.3)
Operating profit before provisions	3.9	0.4	0.3	-	4.6	-	4.6
Losses on investment properties	-	-	(1.0)	-	(1.0)	-	(1.0)
Impairment losses on loans and advances	(2.1)	(5.2)	-	-	(7.3)	-	(7.3)
Provisions for contingent liabilities and commitments	(1.3)	-	-	-	(1.3)	-	(1.3)
Profit/(Loss) before tax	0.5	(4.8)	(0.7)	-	(5.0)	-	(5.0)
Total assets	9,347.7	1,241.3	112.9	(3,472.8)	7,229.1	-	7,229.1
Total liabilities	8,824.6	1,283.2	92.7	(3,473.4)	6,727.1	-	6,727.1
Capital expenditure	3.7	-	-	-	3.7	-	3.7

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

4. Business segments (continued)

6 months ended 30 September 2010 (un-audited)							
	Retail	Commercial	Property	Eliminations	Continuing operations	Discontinued operations (Mortgage Broking)	Total Group
	£m	£m	£m	£m	£m	£m	£m
Income							
Interest receivable and similar income	132.9	32.7	-	(63.0)	102.6	-	102.6
Interest payable and similar charges	(116.7)	(33.5)	(1.8)	63.0	(89.0)	-	(89.0)
Fees and commissions receivable	0.9	-	-	-	0.9	0.5	1.4
Fees and commissions payable	-	-	-	-	-	(0.4)	(0.4)
Fair value losses on financial instruments	(6.6)	-	-	-	(6.6)	-	(6.6)
Net realised profits	13.9	-	-	-	13.9	-	13.9
Other operating income/(expense)	0.8	0.6	1.9	(0.2)	3.1	-	3.1
Total operating income/(expense)	25.2	(0.2)	0.1	(0.2)	24.9	0.1	25.0
Administrative expenses	(17.9)	(0.7)	(0.1)	0.2	(18.5)	(0.2)	(18.7)
Depreciation and amortisation	(2.2)	-	-	-	(2.2)	-	(2.2)
Impairment of investments	-	-	-	-	-	-	-
Operating profit/(loss) before provisions	5.1	(0.9)	-	-	4.2	(0.1)	4.1
Impairment losses on loans and advances	(3.8)	(4.8)	-	-	(8.6)	-	(8.6)
Provisions for contingent liabilities and commitments	(1.1)	-	-	-	(1.1)	-	(1.1)
Profit/(Loss) before tax	0.2	(5.7)	-	-	(5.5)	(0.1)	(5.6)
Total assets	9,954.6	1,459.3	120.5	(3,704.1)	7,830.3	1.0	7,831.3
Total liabilities	9,436.4	1,486.1	98.8	(3,706.7)	7,314.6	1.9	7,316.5
Capital expenditure	0.8	-	-	-	0.8	-	0.8

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

4. Business segments (continued)

Year ended 31 March 2011 (audited)							
	Retail	Commercial	Property	Eliminations	Continuing operations	Discontinued operations (Mortgage Broking)	Total Group
	£m	£m	£m	£m	£m	£m	£m
Income							
Interest receivable and similar income	218.6	57.7	-	(62.2)	214.1	-	214.1
Interest payable and similar charges	(174.8)	(63.5)	(3.4)	62.0	(179.7)	-	(179.7)
Fees and commissions receivable	5.0	0.7	-	-	5.7	0.5	6.2
Fees and commissions payable	-	-	-	-	-	(0.4)	(0.4)
Fair value losses on financial instruments	(9.5)	0.4	-	-	(9.1)	-	(9.1)
Net realised profits	15.6	-	-	-	15.6	-	15.6
Other operating income/(expense)	1.2	0.7	3.7	(1.5)	4.1	0.8	4.9
Total operating income/(expense)	56.1	(4.0)	0.3	(1.7)	50.7	0.9	51.6
Administrative expenses	(34.8)	(3.0)	(0.1)	1.5	(36.4)	(0.2)	(36.6)
Depreciation and amortisation	(5.0)	-	-	-	(5.0)	-	(5.0)
Impairment of investments	-	-	-	-	-	(1.4)	(1.4)
Operating profit/(loss) before provisions	16.3	(7.0)	0.2	(0.2)	9.3	(0.7)	8.6
Losses on investment properties	-	-	(1.9)	-	(1.9)	-	(1.9)
Impairment losses on loans and advances	(8.1)	(8.7)	-	-	(16.8)	-	(16.8)
Provisions for contingent liabilities and commitments	(3.7)	-	-	-	(3.7)	-	(3.7)
Profit/(Loss) before tax	4.5	(15.7)	(1.7)	(0.2)	(13.1)	(0.7)	(13.8)
Total Assets	8,264.5	1,295.5	117.1	(2,128.1)	7,549.0	-	7,549.0
Total Liabilities	7,741.4	1,344.2	94.2	(2,135.3)	7,044.5	-	7,044.5
Capital expenditure	4.4	-	0.3	-	4.7	-	4.7

5. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	Year ended 31 Mar 11 audited £m
Impairment charge for the period	7.3	8.6	16.8
Impairment provision at the end of the period			
Loans fully secured on residential property	40.4	38.9	38.9
Other loans	50.8	49.1	52.3
Total	91.2	88.0	91.2

These provisions are deducted from the appropriate asset values in the Statement of financial position.

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

6. Provisions for liabilities

	6 months ended 30 Sep 11 un-audited			6 months ended 30 Sep 10 un-audited			Year ended 31 Mar 11 audited		
	FSCS	Onerous contracts	Total	FSCS	Onerous contracts	Total	FSCS	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 1 April	4.6	2.2	6.8	4.7	1.3	6.0	4.7	1.3	6.0
Utilised in the period	(2.2)	(0.2)	(2.4)	(2.3)	-	(2.3)	(2.3)	(0.6)	(2.9)
Charge/(release) for the period	1.3	-	1.3	1.3	(0.2)	1.1	2.2	1.5	3.7
At period end	3.7	2.0	5.7	3.7	1.1	4.8	4.6	2.2	6.8

Financial Services Compensation Scheme (FSCS)

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

The Society FSCS provision reflects market participation up to the reporting date. The £3.7m provision relates to the estimated management expense levy for the scheme year 2011/12 and half of the scheme year 2012/13. This amount was calculated on the basis of the Society's current share of protected deposits taking into account the FSA's estimate of total management expense levies for the scheme years 2011/12 and assuming that levies for subsequent years are at similar levels. The provision does not include any estimate for management expense levies for future scheme years or for compensation levies which may arise.

Onerous contracts

The provision for onerous contracts covers the loss anticipated in connection with future lease expenses from non-cancellable lease commitments in branches that the Society has, as part of its branch restructure, decided are no longer required.

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

7. Loans and advances to customers

	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
Loans and receivables			
Loans fully secured on residential property	4,499.5	4,852.0	4,692.5
Other loans			
Loans fully secured on land	1,169.4	1,298.6	1,193.7
Other loans	0.2	0.2	0.2
	5,669.1	6,150.8	5,886.4
At fair value through profit and loss			
Other loans			
Loans fully secured on land	92.5	106.6	84.9
	5,761.6	6,257.4	5,971.3
Less: impairment provisions	(91.2)	(88.0)	(91.2)
	5,670.4	6,169.4	5,880.1

Included within loans and advances to customers are £278.3m (30 September 2010: £340.0m) of commercial mortgage balances that the Group has sold to bankruptcy remote special purpose entities (SPEs). The purchase price paid for these commercial mortgages is dependent upon their future performance within the SPEs. The SPEs have been funded by issuing Commercial Mortgage Backed Securities (CMBS).

The Group has made subordinated loans to these SPEs to provide some level of credit enhancement to the MBS. In future periods the Group will earn interest income on the subordinated loans, fees for managing the loans and will earn deferred consideration once the cash flows generated by the SPEs have been used to pay interest and capital to the holders of the CMBS. Since the Group maintains substantially all of the risks and rewards emanating from the commercial mortgages, they have been retained on the Group's Statement of Financial Position in accordance with IAS 39.

8. Shares

	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
Held by individuals	5,391.0	6,097.2	5,710.7
Other shares	1.2	1.3	1.2
Total	5,392.2	6,098.5	5,711.9

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

9. Property, plant, equipment and intangible assets

6 months ended 30 September 2011 (un-audited)

	Tangible and intangible assets £m
Opening net book amount 1 April 2011	19.8
Additions	3.7
Disposals	-
Depreciation, amortisation, impairment and other movements	(2.3)
Closing net book amount 30 September 2011	21.2

6 months ended 30 September 2010 (un-audited)

	Tangible and intangible assets £m
Opening net book amount 1 April 2010	21.8
Additions	0.8
Disposals	(0.1)
Depreciation, amortisation, impairment and other movements	(2.3)
Closing net book amount 30 September 2010	20.2

Year ended 31 March 2011 (audited)

	Tangible and intangible assets £m
Opening net book amount 1 April 2010	21.8
Additions	4.4
Disposals	(1.4)
Depreciation, amortisation, impairment and other movements	(5.0)
Closing net book amount 31 March 2011	19.8

Capital commitments

The Group had placed contracts amounting to a total of £1.7m (30 September 2010: £nil) for future expenditure that was not provided in the financial statements.

10. Investment properties

	6 months ended 30 Sep 11 un-audited £m	6 months ended 30 Sep 10 un-audited £m	Year ended 31 Mar 11 audited £m
Cost or valuation			
At 1 April	113.7	116.0	116.0
Additions - acquisitions	-	-	0.3
Disposals	-	(0.3)	(0.7)
Net losses from fair value adjustments	(1.0)	-	(1.9)
At period end	112.7	115.7	113.7

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

11. Debt securities in issue

	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
EURO medium term notes	-	12.9	13.2
GBP medium term notes	3.0	3.0	3.0
Certificates of deposit	1.5	6.0	9.0
Other debt securities	679.2	497.2	722.6
Non-recourse finance on securitised advances	271.3	327.8	277.5
Total	955.0	846.9	1,025.3

The non-recourse finance comprises mortgage backed floating rate notes ('the Notes') secured over a portfolio of mortgage loans secured by first charges over residential and commercial properties in the United Kingdom. Prior to redemption of the Notes on the final interest payment date, the Notes will be subject to mandatory and/or optional redemption in certain circumstances, on each interest payment date.

12. Profit participating deferred shares

	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
Book value			
Nominal value	182.5	182.5	182.5
Cumulative fair value adjustments at date of transition	3.8	3.8	3.8
Capitalised issue costs	(2.2)	(2.2)	(2.2)
	184.1	184.1	184.1
Cumulative reserve deficit			
Brought forward	(6.8)	(4.2)	(4.2)
Share of loss for the period	(0.9)	(1.0)	(2.6)
Carried forward	(7.7)	(5.2)	(6.8)
Total Profit participating deferred shares	176.4	178.9	177.3

The Profit participating deferred shares (PPDS) are entitled to receive a distribution, at the discretion of the Society, of up to 25% of the Society's post-tax profits in the future (calculated prior to payment of the PPDS dividend). No such distribution may be made if the cumulative reserves are in deficit.

Notes to condensed consolidated half-yearly financial information

For the six months ended 30 September 2011

13. Related party transactions

There had been no changes to the nature of related party transactions entered into since the last annual report. There were no material related party transactions in the half-year to 30 September 2011.

14. Subscribed capital

	30 Sep 11 un-audited £m	30 Sep 10 un-audited £m	31 Mar 11 audited £m
Permanent interest bearing shares	74.9	74.9	74.9
	74.9	74.9	74.9

In a winding up or dissolution of the Society the claims of the holders of Permanent interest bearing shares (PIBS) would rank behind all other creditors of the Society, other than the holders of PPDS with which the PIBS rate pari-passu, and the claims of members holding shares as to principal and interest. The holders of PIBS are not entitled to any share in any final surplus upon winding up or final dissolution of the Society.

With respect to future interest payments, as a condition of the PPDS, the Society has undertaken to pay an amount which, when annualised, represents the lower of: 6.15% of the outstanding principal amount of the PIBS and the dividend yield attributable to the PPDS with respect to the prior financial year ending 31 March whose payment is at the discretion of the Society.

15. Statement of directors' responsibilities

The directors confirm that, to the best of their knowledge, this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The directors of West Bromwich Building Society are listed in the West Bromwich Building Society Annual Report for the year ended 31 March 2011.

By order of the Board

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance Director

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Please contact us on 0845 33 00 622.**

**To find out more, visit your local branch,
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Registered Number: 651B

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