Condensed consolidated half-yearly financial information

30 September 2012

the West Brom

Chief Executive's Business Review

Jonathan Westhoff

Performance

The West Brom continues to make solid progress with its Back to Basics strategy, maintaining focus on the core building society activities of retail savings, investments and prime residential lending. This approach resulted in further improvements in key capital ratios and, aligned with the maintenance of a healthy liquidity position, continues to safeguard the stability of the Society during this prolonged period of economic volatility.

The effects of a double-dip recession and an unprecedented low interest rate environment, together with the planned de-risking of the balance sheet, continue to delay the Society's return to profitability. Reflecting continued pressure on margin, pre-tax losses were £6.7m for the half year to 30 September 2012 (30 September 2011: £5.0m), including a £1.7m charge in respect of Financial Services Compensation Scheme (FSCS) levy costs (30 September 2011: £1.3m).

The Society continues to operate against a backdrop of economic uncertainty. While the UK economy may be starting to show signs of recovery, the full impact of events in the Eurozone is not yet known. The outcome of various initiatives to address the debt crisis in the Euro area inevitably poses a risk to domestic economic growth and, until these issues are resolved, the recovery of the UK economy will remain uncertain.

Intense competition for retail funds persisted throughout the period, with financial services providers seeking to maintain a low reliance on a restricted and unpredictable wholesale market. Notwithstanding the detrimental impact on interest margins and overall profitability, the Society has consistently offered attractive interest rates to savers, while the majority of its mortgage customers have continued to benefit from the prevailing low Bank Rate. These factors, combined with the cost of holding high quality liquid assets, exerted significant pressure on interest margins. As a result, the Society's net interest margin for the period was 0.42%, down from 0.47% for the year ended 31 March 2012.

While the wholesale markets are considered to be a secondary source of funding compared with retail deposits, balanced and diverse funding is beneficial. In April 2012, reflecting this and demonstrating market confidence in the Society, the West Brom successfully raised £250m via a residential mortgage backed securitisation transaction. Following the repayment of £500m funding raised in 2009 under the Government's Credit Guarantee Scheme, the non-retail funding ratio reduced to 7.1% (31 March 2012: 13.4%).

In response to the unprecedented challenges facing the UK economy and financial services sector, the Bank of England has initiated the Funding for Lending Scheme (FLS). The scheme aims to support the recovery of the UK economy by offering funding to those banks and building societies actively lending to UK households and small/medium sized businesses. The West Brom has received confirmation of its eligibility to participate in the scheme.

During the period, the Society launched a range of market leading mortgage products, available through branches and direct channels. These products are part of the Society's strategy to support borrowers in their aspirations for home ownership, whilst maintaining the principles of responsible lending.

Total administrative expenses for the period to 30 September 2012 decreased by 3.0% compared with the prior year, reflecting tight cost control and efficiency improvements. The Society will continue to invest in systems and resources as required for its renewed mortgage market activities and planned move to a new head office.

Residential mortgage arrears remained at a satisfactory level given the challenging economic climate, rising levels of unemployment, an appropriate forbearance strategy and a contracting mortgage book. This robust performance 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 1.24% of the total book (31 March 2012: 1.12%), comfortably below the sector 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, which now stands at just £37.4m (31 March 2012: £39.6m).

The Society actively seeks to support those borrowers who are experiencing genuine financial hardship, so enabling them to remain in their homes so long as this is believed to be in their best interests (i.e. where the loss to the customer is not expected to increase over time).

The charge for impairment losses on loans and advances has fallen significantly again, down 37% to £4.6m (30 September 2011: £7.3m). Despite a fragile commercial property market, the commercial work-out teams have strived to minimise potential losses incurred, resulting in a marked reduction in net new provisions. The underlying quality of the prime residential and buy-to-let books remains strong. All portfolios are managed within a tight risk framework and a prudent view is taken when determining provision requirements.

Liquidity

Throughout the economic downturn, the West Brom has taken a cautious approach to liquidity management. The liquidity ratio reduced to 23.4% (31 March 2012: 27.6%), due to the Society holding substantial additional liquidity at the financial year end in preparation for the repayment, in April 2012, of £500m of Government guaranteed funding. The quality of liquid assets is strong, with 100% of treasury investment assets rated single A or better. The Society has no direct exposure to the markets about which the European governments have expressed concern, most notably Greece, Ireland, Italy, Portugal and Spain or to any mortgage market outside the UK. There have been no impairment charges against any treasury investment assets during the period.

An analysis of the Group's liquidity position is shown below:

	30 Sep 12		30 Sep 11		31 Mar 12	
	£m	**%**	£m	%	£m	%
Buffer liquidity						
Bank of England Reserve	**309.9**	**23.3**	468.4	35.3	760.9	42.0
Supranationals	**384.9**	**28.9**	-	-	350.3	19.3
Treasury bills	**-**	**-**	1.7	0.1	-	-
Gilts	**-**	**-**	113.6	8.6	20.5	1.1
Total buffer liquidity	**694.8**	**52.2**	583.7	44.0	1,131.7	62.4
Other securities - rated single A or better	**434.8**	**32.6**	663.5	50.1	553.4	30.6
Other securities - rated less than single A	**-**	**-**	5.0	0.4	-	-
Subsidiary / other liquidity	**201.9**	**15.2**	73.3	5.5	126.1	7.0
Total liquidity	**1,331.5**	**100.0**	1,325.5	100.0	1,811.2	100.0

Capital

Capital is held as the ultimate protection for depositors. The Board sets the internal level of capital required in order to exceed minimum regulatory requirements.

The following table shows the composition of regulatory capital and the capital ratios at 30 September 2012, 30 September 2011 and 31 March 2012 respectively:

	30 Sep 12 Basel II Standardised £m	30 Sep 11 Basel II Standardised £m	31 Mar 12 Basel II Standardised £m
Tier 1			
General reserves	**237.3**	248.5	241.1
Permanent interest bearing shares (note 1)	**74.9**	74.9	74.9
Profit participating deferred shares	**173.7**	176.4	175.0
Intangible assets (note 2)	**(6.9)**	(8.0)	(7.5)
Deductions from Tier 1 capital (note 3)	**(4.5)**	(4.8)	(3.5)
	474.5	487.0	480.0
Tier 2			
Revaluation reserve	**3.7**	3.7	3.7
Collective impairment allowance	**18.9**	20.3	24.1
Contingency against collective provision add-back (note 4)	**(7.5)**	(5.8)	(10.2)
Deductions from Tier 2 capital (note 3)	**(1.8)**	(4.2)	(3.5)
	13.3	14.0	14.1
Total capital	**487.8**	501.0	494.1
Risk weighted assets - Pillar 1			
Retail mortgages	**1,614.0**	1,747.1	1,676.3
Commercial loans	**925.4**	1,021.3	957.6
Treasury	**136.9**	111.3	151.1
Other	**160.5**	157.3	157.4
Market risk	**10.4**	2.1	12.9
Operational risk	**70.0**	94.8	94.8
	2,917.2	3,133.9	3,050.1
Key capital ratios (note 5)	**%**	%	%
Core Tier 1 ratio	**13.7**	13.1	13.3
Tier 1 ratio	**16.3**	15.5	15.7
Solvency ratio	**16.7**	16.0	16.2

Notes

1. Permanent interest bearing shares include any 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 Core Tier 1 ratio increased further to 13.7% (31 March 2012: 13.3%), remaining one of the highest in the UK bank and building society sector, and has more than doubled over the last four years (6.8% in 2008). This capital ratio improvement has been achieved by a managed reduction in risk weighted assets, down 7% in the last 12 months to £2.9bn.

Principal risks and uncertainties

Effective management of risks and opportunities is essential to achieving the Society's strategic objectives. The Society aims to manage effectively all of the risks that arise from its activities and believes that its approach to risk management reflects an understanding of actual and potential risk exposures, the quantification of the impact of such exposures and the development and implementation of appropriate controls to manage these exposures within the Society's agreed risk appetite.

The principal risks and uncertainties which could impact the Society's long-term performance remain those outlined on pages 17 to 20 of the Annual Report and Accounts for the year ended 31 March 2012.

Outlook

Whilst the UK economy recently emerged from its second recession in three years, the full impact of events in the Eurozone is not yet known. This leaves a high degree of uncertainty with respect to current and future market conditions. The low interest rate environment in the UK looks set to continue, maintaining pressure on interest margins and thereby constraining the Society's future financial performance.

Mortgage markets are expected to be subdued for the remainder of the financial year, although the Funding for Lending Scheme (FLS) launched by the Bank of England will seek to stimulate lending to the real economy by providing qualifying banks and building societies with cost-effective funding. The West Brom will determine its level of participation in the scheme, as part of the overall funding strategy, with the overarching goal of delivering true benefit to members.

Whilst the credit quality of the Society's residential mortgages remains sound, and able to withstand a level of reversal in the UK's economic recovery, the commercial portfolio is more susceptible to shocks and further provisioning for potential losses is likely.

The Society has a direct exposure to house price movements through its subsidiary West Bromwich Homes Limited, a residential investment company. Whilst house prices have remained relatively stable over the past year, the Society would incur a reduction in the value of its housing stock of circa £1.1m for every 1% fall in house prices. There is a range of views among market commentators, reflecting uncertainty in the outlook.

The industry faces a period of substantial regulatory change. The Government recently outlined its proposals on the regulation of building societies in a consultation paper, 'The future of building societies'. In 2013, the Financial Services Authority (FSA) will be replaced by two new bodies: the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) and the Basel III legislative framework on capital requirements comes into effect. The Society is constantly monitoring developments and is, therefore, in a position to respond positively to anticipated regulatory change.

The Society remains committed to the principles of mutuality, providing a secure home for members' savings and supporting their home ownership aspirations. This commitment is integral to the Back to Basics strategy against which the Society continues to make steady progress.

Jonathan Westhoff
Chief Executive

Certain statements in this half-year report are forward-looking. Although the Board 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 Board 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 2012

	6 months ended 30 Sep 12 un-audited £m	6 months ended 30 Sep 11 un-audited £m	Year ended 31 Mar 12 audited £m
Interest receivable and similar income	**84.9**	92.0	180.8
Interest expense and similar charges	**(70.1)**	(72.8)	(145.9)
Net interest receivable	**14.8**	19.2	34.9
Fees and commissions receivable	**2.1**	2.0	6.1
Other operating income	**3.2**	3.5	4.4
Total operating income	**20.1**	24.7	45.4
Fair value losses on financial instruments	**(1.0)**	(1.9)	(3.0)
Net realised profits	**2.8**	4.9	5.2
Total income	**21.9**	27.7	47.6
Administrative expenses - ongoing	**(20.1)**	(20.8)	(38.2)
Administrative expenses - restructuring	**-**	-	(0.1)
Depreciation and amortisation	**(2.3)**	(2.3)	(4.7)
Losses on investment properties	**-**	(1.0)	(1.0)
Impairment losses on loans and advances	**(4.6)**	(7.3)	(10.5)
Provisions for liabilities - FSCS Levy	**(1.7)**	(1.3)	(2.9)
Provisions for liabilities - other	**0.1**	-	0.3
Loss before tax	**(6.7)**	(5.0)	(9.5)
Taxation	**1.6**	1.3	0.3
Loss for the period	**(5.1)**	(3.7)	(9.2)

Condensed consolidated half-yearly statement of comprehensive income

for the six months ended 30 September 2012

	6 months ended 30 Sep 12 un-audited £m	6 months ended 30 Sep 11 un-audited £m	Year ended 31 Mar 12 audited £m
Loss for the period	**(5.1)**	(3.7)	(9.2)
Other comprehensive income			
Available for sale investments:			
Valuation gain taken to equity	**12.8**	6.5	10.5
Amounts transferred to income statement	**(2.0)**	(4.9)	(5.2)
Actuarial loss on retirement benefit obligations	**-**	-	(4.3)
Cash flow hedge gains taken to equity	**-**	0.1	0.1
Tax on items taken directly to equity	**(2.6)**	(0.5)	(0.5)
Other comprehensive income for the period, net of tax	**8.2**	1.2	0.6
Total comprehensive income for the period	**3.1**	(2.5)	(8.6)
As a percentage of mean total assets			
Loss for the period	**(0.07%)**	(0.05%)	(0.12%)
Management expenses (annualised)	**0.63%**	0.63%	0.57%

Condensed consolidated half-yearly statement of financial position

at 30 September 2012

	Notes	30 Sep 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 audited £m
Assets				
Liquid assets		**1,331.5**	1,325.5	1,811.2
Derivative financial instruments		**50.8**	66.0	64.5
Loans and advances to customers	7	**5,165.4**	5,670.4	5,373.6
Intangible assets	9	**6.9**	6.2	7.5
Investment properties	10	**112.7**	112.7	112.7
Fixed assets	9	**17.4**	15.0	17.6
Other assets		**33.0**	31.5	30.0
Retirement benefit assets		**0.4**	1.8	-
Total assets		**6,718.1**	7,229.1	7,417.1
Liabilities				
Shares	8	**5,283.0**	5,392.2	5,672.8
Other borrowings		**199.4**	234.6	178.3
Derivative financial instruments		**120.7**	116.9	107.8
Debt securities in issue	11	**583.5**	955.0	927.4
Other liabilities		**32.5**	28.4	34.5
Retirement benefit obligations		**-**	-	0.4
Total liabilities		**6,219.1**	6,727.1	6,921.2
Equity				
Profit participating deferred shares	12	**173.7**	176.4	175.0
Subscribed capital	14	**74.9**	74.9	74.9
General reserves		**237.3**	248.5	241.1
Revaluation reserve		**3.7**	3.7	3.7
Available for sale reserve		**9.4**	(1.5)	1.2
Total equity attributable to members		**499.0**	502.0	495.9
Total liabilities and equity		**6,718.1**	7,229.1	7,417.1
As a percentage of shares and borrowings				
Gross capital		**8.8%**	8.0%	7.6%
Free capital		**6.7%**	6.2%	5.8%
Total liquidity		**23.4%**	21.0%	27.6%

Condensed consolidated statement of changes in members' interests

6 months ended 30 September 2012 (un-audited)

	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2012	**175.0**	**74.9**	**241.1**	**3.7**	**1.2**	**-**	**495.9**
Comprehensive income for the period	**(1.3)**	**-**	**(3.8)**	**-**	**8.2**	**-**	**3.1**
At 30 September 2012	**173.7**	**74.9**	**237.3**	**3.7**	**9.4**	**-**	**499.0**

6 months ended 30 September 2011 (un-audited)

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

Year ended 31 March 2012 (audited)

	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2011	177.3	74.9	251.3	3.7	(2.6)	(0.1)	504.5
Comprehensive income for the period	(2.3)	-	(10.2)	-	3.8	0.1	(8.6)
At 31 March 2012	175.0	74.9	241.1	3.7	1.2	-	495.9

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 flows

for the six months ended 30 September 2012

	6 months ended 30 Sep 12 un-audited £m	6 months ended 30 Sep 11 un-audited £m	Year ended 31 Mar 12 audited £m
Cash flows from operating activities			
Operating loss before tax	**(6.7)**	(5.0)	(9.5)
Depreciation and amortisation	**2.3**	2.3	4.7
Movement in other assets	**(3.0)**	-	1.5
Movement in other liabilities	**(2.0)**	(3.2)	0.6
Movement in loans and advances to customers	**208.2**	209.7	527.6
Movement in shares	**(389.8)**	(319.7)	(38.1)
Movement in deposits and other borrowings	**21.1**	38.7	(42.8)
Movement in derivative financial instruments	**26.6**	44.5	36.9
Tax received	**-**	0.2	2.1
Other movements	**30.2**	(2.1)	(17.2)
Net cash flows from operating activities	**(113.1)**	(34.6)	465.8
Net cash flows from investing activities	**14.2**	281.1	172.5
Net cash flows from financing activities	**(364.9)**	(72.3)	(79.7)
Net movement in cash	**(463.8)**	174.2	558.6
Cash and cash equivalents at beginning of period	**1,133.8**	575.2	575.2
Cash and cash equivalents at end of period	**670.0**	749.4	1,133.8

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 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 audited £m
Cash and cash equivalents			
Cash in hand (including Bank of England reserve account)	**318.5**	470.4	763.7
Loans and advances to credit institutions	**193.2**	97.7	116.1
Investment securities	**158.3**	181.3	254.0
Total	**670.0**	749.4	1,133.8

The Group is required to maintain certain mandatory balances with the Bank of England which, at 30 September 2012, amounted to £5.7m (30 September 2011: £5.6m and 31 March 2012: £5.5m). The movement in these balances is included within cash flows from operating activities.

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2012

1 General information

These half-yearly 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 2012 has been delivered to the Financial Services Authority and the relevant 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 half-yearly financial information for the six months to 30 September 2012 and 30 September 2011 is un-audited 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 2012 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 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

3 Accounting policies

The accounting policies adopted by the Group in the preparation of its 2012 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 2013 are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 March 2012.

During the period to 30 September 2012, the Group has not adopted any new or amended accounting standards which have had a material impact on these half-yearly condensed consolidated financial statements.

4 Business segments

Following the management approach of IFRS 8, 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 their 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, investments 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.

Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to the 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 inter-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 inter-segment administrative 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 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.

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2012

4. Business segments (continued)

6 months ended 30 September 2012 (un-audited)

	Retail £m	Commercial £m	Property £m	Eliminations £m	Total Group £m
Income					
Interest receivable and similar income	**83.1**	**25.3**	**-**	**(23.5)**	**84.9**
Interest expense and similar charges	**(67.7)**	**(24.3)**	**(1.6)**	**23.5**	**(70.1)**
Fees and commissions receivable	**2.1**	**-**	**-**	**-**	**2.1**
Other operating income	**0.5**	**0.9**	**2.0**	**(0.2)**	**3.2**
Fair value losses on financial instruments	**(1.0)**	**-**	**-**	**-**	**(1.0)**
Net realised profits	**2.8**	**-**	**-**	**-**	**2.8**
Total income	**19.8**	**1.9**	**0.4**	**(0.2)**	**21.9**
Administrative expenses	**(18.5)**	**(1.8)**	**-**	**0.2**	**(20.1)**
Depreciation and amortisation	**(2.3)**	**-**	**-**	**-**	**(2.3)**
Impairment losses on loans and advances	**(1.8)**	**(2.8)**	**-**	**-**	**(4.6)**
Provisions for contingent liabilities and commitments	**(1.6)**	**-**	**-**	**-**	**(1.6)**
(Loss)/Profit before tax	**(4.4)**	**(2.7)**	**0.4**	**-**	**(6.7)**
Total assets	**6,431.8**	**1,069.7**	**113.7**	**(897.1)**	**6,718.1**
Total liabilities	**5,912.4**	**1,112.9**	**92.7**	**(898.9)**	**6,219.1**
Capital expenditure	**1.7**	**-**	**-**	**-**	**1.7**

6 months ended 30 September 2011 (un-audited)

	Retail £m	Commercial £m	Property £m	Eliminations £m	Total Group £m
Income					
Interest receivable and similar income	91.0	29.3	-	(28.3)	92.0
Interest expense and similar charges	(70.3)	(29.2)	(1.6)	28.3	(72.8)
Fees and commissions receivable	2.0	-	-	-	2.0
Other operating income	0.8	1.0	1.9	(0.2)	3.5
Fair value losses on financial instruments	(1.9)	-	-	-	(1.9)
Net realised profits	4.9	-	-	-	4.9
Total income	26.5	1.1	0.3	(0.2)	27.7
Administrative expenses	(20.3)	(0.7)	-	0.2	(20.8)
Depreciation and amortisation	(2.3)	-	-	-	(2.3)
Losses on investment properties	-	-	(1.0)	-	(1.0)
Impairment losses on loans and advances	(2.1)	(5.2)	-	-	(7.3)
Provisions for contingent liabilities and commitments	(1.3)	-	-	-	(1.3)
Profit/(Loss) before tax	0.5	(4.8)	(0.7)	-	(5.0)
Total assets	6,926.4	1,232.1	112.9	(1,042.3)	7,229.1
Total liabilities	6,404.1	1,274.0	92.7	(1,043.7)	6,727.1
Capital expenditure	3.7	-	-	-	3.7

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2012

4. Business segments (continued)

Year ended 31 March 2012 (audited)	Retail	Commercial	Property	Eliminations	Total Group
	£m	£m	£m	£m	£m
Income					
Interest receivable and similar income	183.7	52.9	-	(55.8)	180.8
Interest expense and similar charges	(140.7)	(57.8)	(3.1)	55.7	(145.9)
Fees and commissions receivable	5.4	0.7	-	-	6.1
Other operating income	1.4	0.7	3.8	(1.5)	4.4
Fair value losses on financial instruments	(2.9)	(0.2)	-	0.1	(3.0)
Net realised profits	5.2	-	-	-	5.2
Total income/(expense)	52.1	(3.7)	0.7	(1.5)	47.6
Administrative expenses	(36.2)	(3.7)	(0.1)	1.7	(38.3)
Depreciation and amortisation	(4.7)	-	-	-	(4.7)
Losses on investment properties	-	-	(1.0)	-	(1.0)
Impairment losses on loans and advances	(4.3)	(6.2)	-	-	(10.5)
Provisions for contingent liabilities and commitments	(2.6)	-	-	-	(2.6)
Profit/(Loss) before tax	4.3	(13.6)	(0.4)	0.2	(9.5)
Total assets	8,187.7	1,116.4	111.3	(1,998.3)	7,417.1
Total liabilities	7,657.2	1,170.4	90.4	(1,996.8)	6,921.2
Capital expenditure	10.2	-	-	-	10.2

5. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 12 un-audited	6 months ended 30 Sep 11 un-audited	Year ended 31 Mar 12 audited
	£m	£m	£m
Impairment charge for the period	**4.6**	7.3	10.5
Impairment provision at end of period			
Loans fully secured on residential property	**40.7**	40.4	40.5
Other loans	**54.8**	50.8	58.2
	95.5	91.2	98.7

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 2012

6. Provisions for liabilities

	6 months ended 30 Sep 12 (un-audited)			6 months ended 30 Sep 11 (un-audited)			Year ended 31 Mar 12 (audited)		
	FSCS	Onerous contracts	Total	FSCS	Onerous contracts	Total	FSCS	Onerous contracts	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of period	5.2	1.2	6.4	4.6	2.2	6.8	4.6	2.2	6.8
Utilised in the period	(1.9)	(0.2)	(2.1)	(2.2)	(0.2)	(2.4)	(2.3)	(0.7)	(3.0)
Charge/(Release) for the period	1.7	-	1.7	1.3	-	1.3	2.9	(0.3)	2.6
At end of period	5.0	1.0	6.0	3.7	2.0	5.7	5.2	1.2	6.4

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 FSCS has met, or will meet, the claims by way of loans received from HM Treasury (HMT). The terms of these loans are interest only for the first three years, and the FSCS seeks to recover the interest cost, together with ongoing management expenses, through levies on member firms over this period. Subsequently, should there be insufficient funds from the realisation of the failed banks' assets to fully extinguish the FSCS' loans from HMT, this may result in the FSCS raising a compensation levy on member firms. The three year initial term expired in September 2011 and, in March 2012, the FSCS and HMT agreed terms for refinancing the loans.

The agreement by the FSCS not to charge Compensation Cost Levy for three years is at an end and there exists the possibility that compensation for losses suffered could be levied in the scheme year commencing 1 April 2013.

The Society's FSCS provision reflects market participation up to the reporting date. The £5.0m provision relates to the estimated levy for the scheme year 2012/13 and half the expected charge for the 2013/14 scheme year. These amounts were calculated on the basis of the Society's actual and expected share of protected deposits at the reference dates, taking into account the FSA's estimate of total management expense levies and probable compensation payments for each scheme year.

The provision does not include any estimate for levies for scheme years after 2013/14 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 2012

7. Loans and advances to customers

	30 Sep 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 audited £m
Loans and receivables			
Loans fully secured on residential property	**4,158.4**	4,499.5	4,319.9
Other loans			
Loans fully secured on land	**1,023.8**	1,169.4	1,062.8
Other loans	**0.1**	0.2	0.2
	5,182.3	5,669.1	5,382.9
At fair value through profit and loss			
Other loans			
Loans fully secured on land	**78.6**	92.5	89.4
	5,260.9	5,761.6	5,472.3
Less: impairment provisions	**(95.5)**	(91.2)	(98.7)
	5,165.4	5,670.4	5,373.6

Included within loans and advances to customers are £372.3m (30 September 2011: £453.9m) of commercial mortgage balances and £1,276.4m (30 September 2011: £981.5m) of residential mortgage balances that the Group has sold to bankruptcy remote special purpose entities (SPEs). The SPEs have been funded by issuing mortgage backed securities (MBSs) of which loan notes totalling £1,268.6m (30 September 2011: £1,169.3m) are held by the Group.

The Group has made subordinated loans to the SPEs to provide some level of credit enhancement to the MBSs. In future periods the Group will earn interest income on the subordinated loans and fees for managing the loans. The Group 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 MBSs. Since the Group maintains substantially all of the risks (key risk being an exposure to credit risk through the subordinated loan agreements) and rewards emanating from the mortgages, they have been retained on the Group's statement of financial position in accordance with IAS 39.

8. Shares

	30 Sep 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 audited £m
Held by individuals	**5,281.9**	5,391.0	5,671.7
Other shares	**1.1**	1.2	1.1
	5,283.0	5,392.2	5,672.8

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2012

9. Property, plant, equipment and intangible assets

6 months ended 30 September 2012 (un-audited)

	Tangible and intangible assets £m
Net book value at 1 April 2012	**25.1**
Additions	**1.7**
Disposals	**(0.2)**
Depreciation, amortisation, impairment and other movements	**(2.3)**
Net book value at 30 September 2012	**24.3**

6 months ended 30 September 2011 (un-audited)

	Tangible and intangible assets £m
Net book value at 1 April 2011	19.8
Additions	3.7
Disposals	-
Depreciation, amortisation, impairment and other movements	(2.3)
Net book value at 30 September 2011	21.2

Year ended 31 March 2012 (audited)

	Tangible and intangible assets £m
Net book value at 1 April 2011	19.8
Additions	10.2
Disposals	(0.2)
Depreciation, amortisation, impairment and other movements	(4.7)
Net book value at 31 March 2012	25.1

Capital commitments

The Group has placed contracts amounting to a total of £0.5m (30 September 2011: £1.7m) for future expenditure that was not provided in the financial statements.

10. Investment properties

	6 months ended 30 Sep 12 un-audited £m	6 months ended 30 Sep 11 un-audited £m	Year ended 31 Mar 12 audited £m
Valuation			
At beginning of period	**112.7**	113.7	113.7
Net losses from fair value adjustments	**-**	(1.0)	(1.0)
At end of period	**112.7**	112.7	112.7

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2012

11. Debt securities in issue

	30 Sep 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 audited £m
GBP medium term notes	**3.0**	3.0	3.0
Certificates of deposit	**2.0**	1.5	4.0
Other debt securities	**200.9**	679.2	695.0
Non-recourse finance on securitised advances	**377.6**	271.3	225.4
Total	**583.5**	955.0	927.4

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 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 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			
At beginning of period	**(9.1)**	(6.8)	(6.8)
Share of loss for the period	**(1.3)**	(0.9)	(2.3)
	(10.4)	(7.7)	(9.1)
Net value at end of period	**173.7**	176.4	175.0

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.

13. Related party transactions

There have 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 2012.

14. Subscribed capital

	30 Sep 12 un-audited £m	30 Sep 11 un-audited £m	31 Mar 12 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, with the exception of holders of profit participating deferred shares (PPDS) with which the PIBS rank 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 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 this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the half-yearly 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 2012.

By order of the Board

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance Director

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Head Office: 374 High Street, West Bromwich, West Midlands B70 8LR.
www.westbrom.co.uk

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