Condensed consolidated half-yearly financial information

30 September 2016

the West Brom

Chief Executive's Business Review

Performance

The Society has increased its new lending by nearly 50% in the first half of 2016/17 and, before one-off costs, has improved its underlying profitability. These costs relate to the well-publicised overturning in June, by the Court of Appeal, of an earlier decision of the High Court in respect of the Group's ability to vary the interest charged on certain loans to property investor landlords with multi-property portfolios. The result of this is that the Group can no longer levy this additional interest and must reimburse what has been charged thus far. This refund has been made. The cost of this, £27.5m, which is charged as a one-off item under the heading "Provisions for liabilities", has resulted in the Society reporting a loss before tax of £23.7m for the six months to 30 September 2016 (30 September 2015: Profit £6.0m).

The table below is a comparison of the underlying performance excluding the impact of the buy to let case, which shows that the underlying net interest income and pre-tax profit have improved against the comparative period.

	Half 1 2016/17			Half 1 2015/16		
	As reported £m	**Buy to let case impact* £m**	**Underlying £m**	As reported £m	Buy to let case impact* £m	Underlying £m
Net interest income	**26.8**	**(1.2)**	**25.6**	29.9	(4.7)	25.2
(Loss)/profit before tax	**(23.7)**	**27.5**	**3.8**	6.0	(4.7)	1.3

* Half 1 2016/17 included 2 months (Half 1 2015/16: 6 months) of additional interest receivable which has been returned to borrowers following the overturning of the buy to let case, as such this has been deducted from net interest income in order to give a like-for-like comparison.

Income Statement

The underlying net interest income at £25.6m for the half year is up from £25.2m for the previous half year.

The result for the six months includes a revaluation gain of £3.3m (30 September 2015: £2.5m) on the Group's portfolio of residential investment properties, as a result of house price increases in the period.

In the last six months management expenses have increased to £25.0m compared with £22.7m (first half of 2015/16) primarily as a result of the Society's continuing programme of investment. This is reflected in an increase in the management expenses ratio to 0.87% (30 September 2015: 0.82%).

Residential mortgages in arrears by more than three months, as a percentage of balances outstanding, have reduced since 31 March 2016, from 1.07% to just 0.88%. This reflects both the high quality of our residential lending book and stable economic conditions. All lending undertaken since the Society re-entered the mortgage market over three years ago has been subject to strict credit criteria and, as a result, there are no loans originated in this period which are three months or more in arrears at 30 September 2016. This quality is reflected in a residential provision release of £3.0m for the half year to 30 September 2016 (30 September 2015: release £0.4m).

The total impairment charge of £0.8m for the half year (30 September 2015: £4.1m) includes a charge of £3.8m (30 September 2015: £4.5m) relating to the Commercial loan book, which is a market we have exited and where we are continuing to manage down our remaining exposure. Outstanding balances have reduced by £46m (6.8%) since the year-end to £634m. Provisions set aside for potential losses in this book equated to 6.7% of total loan balances outstanding (31 March 2016: 6.5%).

In addition to the £27.5m one-off cost of refunding interest to buy to let landlords following the Court of Appeal ruling, the provisions for liabilities charge includes the Financial Services Compensation Scheme (FSCS) levy of £1.3m. This is a considerable reduction on the charge to 30 September 2015 of £2.5m as FSCS has confirmed that no capital levy is anticipated. A further £0.5m has been set aside for potential Payment Protection Insurance (PPI) claims (30 September 2015: £0.9m) to allow for potential costs through to a deadline of June 2019 which is anticipated to be introduced.

The buy to let legal case has affected the tax charge because it has pushed out the expected time to recover the existing deferred tax asset. Consequently no tax credit is recognised against the loss for the half year and a charge of £6.8m has been recorded to write down the value of the brought forward deferred tax asset to a level we anticipate will be recovered in the next 5 years.

Balance Sheet

Growth in prime residential lending continued with advances of £441m almost a 50% increase on the comparable period (30 September 2015: £295m). Nearly 20% of this was lending to first time buyers (30 September 2015: 20.5%).

As a traditional building society, the West Brom continues to be funded predominantly by retail savings with balances of £4.4bn, unchanged from the year end. At 30 September 2016, 85.2% (31 March 2016: 84.8%) of total shares and borrowings were in the form of members' retail deposits.

Throughout the period the Society has maintained its liquid assets at an appropriate level and quality to ensure that it can meet its financial obligations under both normal and severe, but plausible, stressed scenarios. At 30 September 2016 the liquidity ratio was 14.9% (31 March 2016: 17.3%).

All of the Society's treasury investments were rated single A or better or held with a Global Systemically Important Counterparty. The Group has no exposure to those markets where concerns have been expressed, including non-UK sovereign debt or to any mortgage market outside the UK. There were no impairment charges against liquid assets during the current or comparative periods.

The table below shows an analysis of the Group's liquidity portfolio:

	30 Sep 16		30 Sep 15		31 Mar 16	
	£m	%	£m	%	£m	%
Extremely High Quality Liquidity Assets						
Cash and balances with the Bank of England	**138.4**	**19.1**	96.8	15.8	208.7	25.2
Treasury Bills	**26.9**	**3.7**	20.0	3.3	-	-
Supranationals	**71.7**	**9.9**	55.4	9.0	53.5	6.4
Covered Bonds	**123.9**	**17.1**	81.1	13.2	124.0	14.9
Mortgage Backed Securities	**120.3**	**16.6**	79.0	12.9	109.4	13.2
Total Extremely High Quality Liquidity Assets	**481.2**	**66.4**	332.3	54.2	495.6	59.7
Other securities - rated single A or better	**38.0**	**5.2**	86.8	14.1	123.2	14.9
Subsidiary/other liquidity	**205.7**	**28.4**	194.6	31.7	210.7	25.4
Total liquidity	**724.9**	**100.0**	613.7	100.0	829.5	100.0

Capital

Capital is held to provide protection for depositors at levels which exceed internal and minimum regulatory requirements at all times.

The following table details the Group's capital ratios at 30 September 2016 and 31 March 2016:

	Transitional CRD IV rules 30 Sep 16 %	**Full implementation of CRD IV 30 Sep 16 %**	Transitional CRD IV rules 31 Mar 16 %	Full implementation of CRD IV 31 Mar 16 %
Common Equity Tier 1 (as a percentage of RWA)	**13.8**	**13.8**	14.6	14.6
Tier 1 (as a percentage of RWA)	**15.5**	**13.8**	16.2	14.6
Total capital (as a percentage of RWA)	**16.1**	**14.5**	16.9	15.3
Leverage ratio	**7.2**	**6.5**	7.6	6.9

The two key measures of capital, under the legislative reforms introduced in 2014 to strengthen regulatory standards on capital adequacy, are the Common Equity Tier 1 (CET1) and the leverage ratio, both currently calculated under CRD IV transitional rules but with the impact of full implementation also shown. The leverage ratio is based on total assets (including all structured entities) and a number of regulatory adjustments.

The Group's Common Equity Tier 1 capital ratio remains strong at 13.8% (31 March 2016: 14.6%) but has reduced as a result of the buy to let interest refund. The leverage ratio at 7.2% (31 March 2016: 7.6%) remains significantly above the current regulatory minimum of 3.0%.

Member value

The low interest rate environment is creating opportunities for homeowners to borrow at increasingly competitive rates. We offer considerable choice for mortgage customers, with our fixed rates now extending to terms of up to ten years for those who appreciate the certainty of knowing what their repayments will be.

Many of our mortgage products also incorporate incentives that help bring down the overall cost of borrowing, such as the removal of completion fees and valuation charges, as well as paying cashback upon completion. Such an approach is particularly welcomed by first time buyers, who can then focus their efforts purely on saving money for a suitable deposit on their home.

While beneficial to borrowers, we appreciate that current market conditions are very challenging for our saving members. This situation has not been helped by a further reduction in Bank Base Rate which has resulted in many providers, including ourselves, having to review the returns they can realistically offer.

We are doing what we can to minimise the impact on savers and still have options for members to earn a little more by investing in fixed rate bonds or accounts with a limited number of withdrawals. Our regular savings accounts are also an excellent way to build up a savings pot over the course of a year through monthly deposits.

Savings and mortgages continue to be our core proposition to members, but during the period we have been proactive in other areas too. We relaunched our later life proposition by bringing in new partners so that members can access important services such as funeral planning and will writing.

Financial advice is available in our branches through independent advisers from Wren Sterling and selected sites have hosted free open days so that members can find out more in an informal environment without any obligation to invest.

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 Board's agreed risk appetite.

The Directors have agreed a set of statements which describe the Board's risk appetite in terms of a number of key risk categories: business, credit, capital, liquidity, market, basis, operational, retail conduct and pension liability (the Society's Risk Appetite Statements).

These Risk Appetite Statements drive corporate planning activity, including capital and liquidity planning, as well as providing the basis for key risk measures.

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 2016, with the exception of what was previously referred to as the risk of the buy to let judgement being overturned; this event has now occurred. There have been no significant changes in the Society's approach to risk management during the six months ended 30 September 2016.

Outlook

The Society will continue to build on its prime residential lending, helping our borrowing members to purchase their own homes, funded by our savings members who can rest assured that their savings are safe.

Following the vote to leave the EU we have experienced some market volatility and the economic environment has become more uncertain, particularly in the commercial real estate sector where the Society still has an exposure albeit significantly less so than in previous years. The residential lending market does, however, remain robust.

The further reduction in the Bank Base Rate to 0.25% has had an adverse impact on savers and is likely to increase competition in the mortgage market which may put pressure on the net interest margin.

Despite the disappointment of the buy to let judgement, I am pleased with the underlying progress that the Society has made in the first six months of this financial year. We expect to see further growth in our residential lending and ongoing investment in our mortgage and savings systems to support sustainable growth and continue to improve the customer experience for our members.

Jonathan Westhoff
Chief Executive

Forward looking statements

Certain statements in this half-year report are forward looking. Although the West Brom believes that the expectations reflected in these forward looking statements are reasonable, we can give no assurance that these expectations will prove to be an accurate reflection of actual results. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of the West Brom. As a result, the West Brom's actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Due to such risks and uncertainties the West Brom cautions readers not to place undue reliance on such forward looking statements. We undertake no obligation to update any forward looking statements whether as a result of new information, future events or otherwise.

Condensed consolidated half-yearly Income Statement

for the six months ended 30 September 2016

	Notes	**6 months ended 30 Sep 16 unaudited £m**	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
Interest receivable and similar income		**57.5**	63.4	126.7
Interest expense and similar charges		**(30.7)**	(33.5)	(66.7)
Net interest receivable		**26.8**	29.9	60.0
Fees and commissions receivable		**1.2**	1.5	3.7
Other operating income		**2.1**	1.9	3.9
Total operating income		**30.1**	33.3	67.6
Fair value (losses)/gains on financial instruments		**(2.3)**	0.1	(1.0)
Net realised profits		**0.3**	0.3	0.6
Total income		**28.1**	33.7	67.2
Administrative expenses		**(22.0)**	(20.6)	(42.0)
Depreciation and amortisation	10	**(3.0)**	(2.1)	(5.1)
Operating profit before revaluation gains, impairment and provisions		**3.1**	11.0	20.1
Gains on investment properties		**3.3**	2.5	5.5
Impairment on loans and advances	6	**(0.8)**	(4.1)	(8.1)
Provisions for liabilities	7	**(29.3)**	(3.4)	(4.0)
(Loss)/Profit before tax		**(23.7)**	6.0	13.5
Taxation	17	**(6.8)**	(1.3)	(4.1)
(Loss)/Profit for the period		**(30.5)**	4.7	9.4

Condensed consolidated half-yearly Statement of Comprehensive Income

for the six months ended 30 September 2016

	6 months ended 30 Sep 16 unaudited £m	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
(Loss)/Profit for the period	**(30.5)**	4.7	9.4
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Available for sale investments			
Valuation gain/(loss) taken to equity	**0.6**	(1.6)	(2.2)
Amounts transferred to Income Statement	**(0.3)**	(0.3)	(0.6)
Cash flow hedge losses taken to equity	**(0.6)**	(0.3)	(0.2)
Taxation	**-**	0.4	0.2
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	**-**	-	(0.9)
Taxation	**-**	-	0.1
Other comprehensive loss for the period, net of tax	**(0.3)**	(1.8)	(3.6)
Total comprehensive (loss)/income for the period	**(30.8)**	2.9	5.8
As a percentage of mean total assets	**%**	**%**	**%**
(Loss)/Profit for the period	**(0.53)**	0.08	0.17
Management expenses (annualised)	**0.87**	0.82	0.83

Condensed consolidated half-yearly Statement of Financial Position

at 30 September 2016

	Notes	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 audited £m
Assets				
Cash and balances with the Bank of England		**145.5**	103.8	215.4
Loans and advances to credit institutions		**198.6**	187.6	204.0
Investment securities		**380.8**	322.3	410.1
Derivative financial instruments		**8.2**	10.3	8.9
Loans and advances to customers	8	**4,816.2**	4,692.3	4,739.0
Deferred tax assets		**14.4**	23.1	20.4
Trade and other receivables		**3.9**	3.0	2.7
Intangible assets	10	**9.6**	7.1	8.2
Investment properties	11	**126.9**	120.7	123.7
Property, plant and equipment	10	**31.9**	33.0	33.9
Retirement benefit assets		**0.7**	-	0.8
Total assets		**5,736.7**	5,503.2	5,767.1
Liabilities				
Shares	9	**4,398.9**	4,048.1	4,385.1
Amounts due to credit institutions		**279.0**	282.0	259.0
Amounts due to other customers		**179.0**	149.5	157.0
Derivative financial instruments		**89.8**	68.9	77.1
Debt securities in issue	12	**306.3**	438.1	368.6
Deferred tax liabilities		**5.4**	4.5	4.7
Trade and other payables		**8.5**	10.0	15.2
Provisions for liabilities	7	**2.9**	2.5	2.7
Retirement benefit obligations		**-**	4.8	-
Total liabilities		**5,269.8**	5,008.4	5,269.4
Equity				
Profit participating deferred shares	13	**171.9**	178.3	179.5
Subscribed capital	15	**74.9**	74.9	74.9
General reserves		**216.4**	236.6	239.3
Revaluation reserve		**3.4**	3.4	3.4
Available for sale reserve		**1.2**	2.0	0.9
Cash flow hedging reserve		**(0.9)**	(0.4)	(0.3)
Total equity attributable to members		**466.9**	494.8	497.7
Total liabilities and equity		**5,736.7**	5,503.2	5,767.1
As a percentage of shares and borrowings		**%**	%	%
Gross capital		**9.6**	11.0	10.4
Free capital		**6.6**	7.9	7.3
Total liquidity		**14.9**	13.7	17.3

Condensed consolidated Statement of Changes in Members' Interest

for the six months ended 30 September 2016

6 months ended 30 September 2016 (unaudited)

	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 2016	**179.5**	**74.9**	**239.3**	**3.4**	**0.9**	**(0.3)**	**497.7**
Loss for the period	(7.6)	-	(22.9)	-	-	-	**(30.5)**
Other comprehensive income/(loss) for the period							
Available for sale investments: current period movement net of tax	-	-	-	-	0.3	-	**0.3**
Cash flow hedge losses	-	-	-	-	-	(0.6)	**(0.6)**
Total other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**0.3**	**(0.6)**	**(0.3)**
Total comprehensive (loss)/income for the period	**(7.6)**	**-**	**(22.9)**	**-**	**0.3**	**(0.6)**	**(30.8)**
At 30 September 2016	**171.9**	**74.9**	**216.4**	**3.4**	**1.2**	**(0.9)**	**466.9**

6 months ended 30 September 2015 (unaudited)

	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 2015	177.1	74.9	233.1	3.4	3.5	(0.1)	491.9
Profit for the period	1.2	-	3.5	-	-	-	4.7
Other comprehensive loss for the period							
Available for sale investments: current period movement net of tax	-	-	-	-	(1.5)	-	(1.5)
Cash flow hedge losses	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive loss	-	-	-	-	(1.5)	(0.3)	(1.8)
Total comprehensive income/(loss) for the period	1.2	-	3.5	-	(1.5)	(0.3)	2.9
At 30 September 2015	178.3	74.9	236.6	3.4	2.0	(0.4)	494.8

Year ended 31 March 2016 (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 2015	177.1	74.9	233.1	3.4	3.5	(0.1)	491.9
Profit for the period	2.4	-	7.0	-	-	-	9.4
Other comprehensive loss for the period							
Available for sale investments: current period movement net of tax	-	-	-	-	(2.6)	-	(2.6)
Actuarial losses on defined benefit obligations	-	-	(0.8)	-	-	-	(0.8)
Cash flow hedge losses	-	-	-	-	-	(0.2)	(0.2)
Total other comprehensive loss	-	-	(0.8)	-	(2.6)	(0.2)	(3.6)
Total comprehensive income/(loss) for the period	2.4	-	6.2	-	(2.6)	(0.2)	5.8
At 31 March 2016	179.5	74.9	239.3	3.4	0.9	(0.3)	497.7

Under the terms of the profit participating deferred shares (PPDS), 25% of the annual post-tax profits or losses are allocated against the PPDS reserve.

Condensed consolidated half-yearly Statement of Cash Flows

for the six months ended 30 September 2016

	6 months ended 30 Sep 16 unaudited £m	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
Net cash (outflow)/inflow from operating activities (below)	**(40.0)**	(69.1)	220.3
Cash flows from investing activities			
Purchase of investment securities	**(115.5)**	(114.4)	(386.7)
Proceeds from disposal of investment securities	**118.0**	122.0	298.0
Proceeds from disposal of investment properties	**0.1**	0.4	0.4
Purchase of property, plant and equipment and intangible assets	**(2.9)**	(5.0)	(8.8)
Proceeds from disposal of property, plant and equipment	**0.5**	-	-
Net cash flows from investing activities	**0.2**	3.0	(97.1)
Cash flows from financing activities			
Repayment of mortgage backed loan notes	**(62.7)**	(29.0)	(98.5)
Net cash flows from financing activities	**(62.7)**	(29.0)	(98.5)
Net (decrease)/increase in cash and cash equivalents	**(102.5)**	(95.1)	24.7
Cash and cash equivalents at beginning of period	**468.8**	444.1	444.1
Cash and cash equivalents at end of period	**366.3**	349.0	468.8

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

	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 audited £m
Cash and cash equivalents			
Cash in hand (including Bank of England Reserve account)	**138.4**	96.8	208.7
Loans and advances to credit institutions	**198.6**	187.6	204.0
Investment securities	**29.3**	64.6	56.1
	366.3	349.0	468.8

The Group is required to maintain certain mandatory balances with the Bank of England which, at 30 September 2016, amounted to £7.1m (30 September 2015: £7.0m and 31 March 2016: £6.7m). The movement in these balances is included within cash flows from operating activities.

Condensed consolidated half-yearly Statement of Cash Flows (continued)

for the six months ended 30 September 2016

	6 months ended 30 Sep 16 unaudited £m	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
Cash flows from operating activities			
(Loss)/Profit on ordinary activities before tax from continuing activities	**(23.7)**	6.0	13.5
Movement in prepayments and accrued income	**(1.2)**	(0.5)	(0.2)
Movement in accruals and deferred income	**(4.9)**	(3.5)	(0.4)
Impairment on loans and advances	**0.8**	4.1	8.1
Depreciation and amortisation	**3.0**	2.1	5.1
Revaluation of investment properties	**(3.3)**	(2.5)	(5.5)
Movement in provisions for liabilities	**0.2**	0.3	0.5
Movement in derivative financial instruments	**13.4**	(3.2)	6.4
Movement in fair value adjustments	**(13.3)**	12.5	(2.3)
Change in retirement benefit obligations	**0.1**	(2.7)	(9.2)
Cash flows from operating activities before changes in operating assets and liabilities	**(28.9)**	12.6	16.0
Movement in loans and advances to customers	**(64.6)**	(35.9)	(72.4)
Movements in loans and advances to credit institutions	**(0.4)**	0.3	0.6
Movement in shares	**13.7**	67.6	407.1
Movement in deposits and other borrowings	**42.0**	(114.2)	(129.7)
Movement in trade and other receivables	**-**	0.2	2.4
Movement in trade and other payables	**(1.8)**	0.7	(3.7)
Tax paid	**-**	(0.4)	-
Net cash (outflow)/inflow from operating activities	**(40.0)**	(69.1)	220.3

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

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 2016 has been delivered to the Financial Conduct Authority and the relevant information in this report has been extracted from these statutory accounts. These accounts have been reported on by the Group's auditor and the report of the auditor was (i) unqualified, and (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report.

The consolidated half-yearly financial information for the six months to 30 September 2016 and 30 September 2015 is unaudited and has not been reviewed by the Group's auditor.

2. Basis of preparation
This condensed consolidated half-yearly financial report for the six months ended 30 September 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct 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 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

3. Going concern
Details of the Group's objectives, policies and processes for managing its exposure to risk are contained in the Risk Management Report of the 2016 Annual Report and Accounts. The Directors also include a statement in the Directors' Report in respect of going concern on page 24 of the 2016 Annual Report and Accounts.

The Directors have reviewed the plans and forecasts for the Group giving consideration to liquidity and capital adequacy, together with the outlook for the UK economy following the vote to leave the European Union. Following on from the loss of the buy to let legal case, the Group had sufficient capital set aside to cover for such eventuality and remains in a strong capital position, at a level significantly in excess of regulatory requirements. In this context the Directors consider the Group has adequate liquidity to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these half-yearly financial results.

4. Accounting policies
The accounting policies adopted by the Group in the preparation of its 2016 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 March 2016. A number of minor amendments were made to some accounting standards that have no material impact on the preparation of the 2016 Interim Accounts.

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

5. 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 assessing their performance.

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 computer services, none of which constitute a separately reportable segment.

There were no changes to reportable segments during the period.

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 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 does not consider its operations to be cyclical or seasonal in nature.

6 months ended 30 September 2016 (unaudited)

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Income					
Interest receivable and similar income	57.5	8.3	-	(8.3)	**57.5**
Interest expense and similar charges	(30.0)	(7.5)	(1.6)	8.4	**(30.7)**
Net interest receivable/(expense)	**27.5**	**0.8**	**(1.6)**	**0.1**	**26.8**
Fees and commissions receivable	1.2	-	-	-	**1.2**
Other operating (expense)/income	(0.1)	-	2.2	-	**2.1**
Total operating income	**28.6**	**0.8**	**0.6**	**0.1**	**30.1**
Fair value (losses)/gains on financial instruments	(3.1)	0.1	-	0.7	**(2.3)**
Net realised profits	0.3	-	-	-	**0.3**
Total income	**25.8**	**0.9**	**0.6**	**0.8**	**28.1**
Administrative expenses	(21.1)	(0.8)	(0.1)	-	**(22.0)**
Depreciation and amortisation	(3.0)	-	-	-	**(3.0)**
Operating profit before revaluation gains, impairment and provisions	**1.7**	**0.1**	**0.5**	**0.8**	**3.1**
Gains on investment properties	-	-	3.3	-	**3.3**
Impairment on loans and advances	3.0	(3.8)	-	-	**(0.8)**
Provisions for liabilities	(29.3)	-	-	-	**(29.3)**
(Loss)/Profit before tax	**(24.6)**	**(3.7)**	**3.8**	**0.8**	**(23.7)**
Total assets	**5,927.0**	**520.9**	**131.2**	**(842.4)**	**5,736.7**
Total liabilities	**5,447.1**	**619.5**	**89.4**	**(886.2)**	**5,269.8**
Capital expenditure	**2.9**	**-**	**-**	**-**	**2.9**

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

5. Business segments (continued)

6 months ended 30 September 2015 (unaudited)

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Income					
Interest receivable and similar income	62.2	9.6	-	(8.4)	63.4
Interest expense and similar charges	(32.5)	(7.7)	(1.6)	8.3	(33.5)
Net interest receivable/(expense)	29.7	1.9	(1.6)	(0.1)	29.9
Fees and commissions receivable	1.5	-	-	-	1.5
Other operating (expense)/income	(0.2)	-	2.1	-	1.9
Total operating income	31.0	1.9	0.5	(0.1)	33.3
Fair value (losses)/gains on financial instruments	(0.8)	0.4	-	0.5	0.1
Net realised profits	0.3	-	-	-	0.3
Total income	30.5	2.3	0.5	0.4	33.7
Administrative expenses	(19.6)	(0.9)	(0.1)	-	(20.6)
Depreciation and amortisation	(2.1)	-	-	-	(2.1)
Operating profit before revaluation gains, impairment and provisions	8.8	1.4	0.4	0.4	11.0
Gains on investment properties	-	-	2.5	-	2.5
Impairment on loans and advances	0.4	(4.5)	-	-	(4.1)
Provisions for liabilities	(3.4)	-	-	-	(3.4)
Profit/(Loss) before tax	5.8	(3.1)	2.9	0.4	6.0
Total assets	5,664.7	620.4	126.0	(907.9)	5,503.2
Total liabilities	5,126.6	712.5	91.6	(922.3)	5,008.4
Capital expenditure	5.0	-	-	-	5.0

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

5. Business segments (continued)

Year ended 31 March 2016 (audited)

	Retail £m	Commercial £m	Property £m	Consolidation adjustments £m	Total Group £m
Income					
Interest receivable and similar income	123.2	19.4	-	(15.9)	126.7
Interest expense and similar charges	(65.0)	(14.7)	(2.9)	15.9	(66.7)
Net interest receivable/(expense)	58.2	4.7	(2.9)	-	60.0
Fees and commissions receivable	3.7	-	-	-	3.7
Other operating income	30.5	-	4.1	(30.7)	3.9
Total operating income	92.4	4.7	1.2	(30.7)	67.6
Fair value (losses)/gains on financial instruments	(1.2)	0.6	-	(0.4)	(1.0)
Net realised profits	0.6	-	-	-	0.6
Total income	91.8	5.3	1.2	(31.1)	67.2
Administrative expenses	(40.1)	(1.7)	(0.2)	-	(42.0)
Depreciation and amortisation	(5.1)	-	-	-	(5.1)
Operating profit before revaluation gains, impairment and provisions	46.6	3.6	1.0	(31.1)	20.1
Gains on investment properties	-	-	5.5	-	5.5
Impairment on loans and advances	(0.2)	(7.9)	-	-	(8.1)
Provisions for liabilities	(34.8)	-	-	30.8	(4.0)
Profit/(Loss) before tax	11.6	(4.3)	6.5	(0.3)	13.5
Total assets	5,944.9	542.7	128.1	(848.6)	5,767.1
Total liabilities	5,434.6	637.5	90.3	(893.0)	5,269.4
Capital expenditure	10.0	-	-	-	10.0

6. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 16 unaudited £m	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
Impairment charge for the period	**0.8**	4.1	8.1
Impairment provision at end of period			
Loans fully secured on residential property	**17.4**	22.3	20.8
Other loans	**42.6**	43.8	43.9
Total	**60.0**	66.1	64.7

7. Provisions for liabilities

6 months ended 30 September 2016 (unaudited)

	Buy to let £m	FSCS £m	Other £m	Total £m
At beginning of period	-	1.4	1.3	**2.7**
Utilised in the period	(27.5)	(1.4)	(0.2)	**(29.1)**
Charge for the period	27.5	1.3	0.5	**29.3**
At end of period	**-**	**1.3**	**1.6**	**2.9**

6 months ended 30 September 2015 (unaudited)

	Buy to let £m	FSCS £m	Other £m	Total £m
At beginning of period	-	1.8	0.4	2.2
Utilised in the period	-	(3.0)	(0.1)	(3.1)
Charge for the period	-	2.5	0.9	3.4
At end of period	-	1.3	1.2	2.5

Year ended 31 March 2016 (audited)

	Buy to let £m	FSCS £m	Other £m	Total £m
At beginning of period	-	1.8	0.4	2.2
Utilised in the period	-	(3.0)	(0.5)	(3.5)
Charge for the period	-	2.6	1.4	4.0
At end of period	-	1.4	1.3	2.7

7. Provisions for liabilities (continued)

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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford & Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS met these claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years, and the FSCS recovers the interest cost, together with ongoing management expenses, by way of annual management levies on members.

The Society FSCS provision reflects market participation up to the reporting date.

Buy to let provision
In December 2013, West Bromwich Mortgage Company Limited (the Company) chose to vary the interest rate margin charged for certain multi-property landlords in line with the terms and conditions of their buy to let mortgages. Certain impacted parties initiated legal proceedings against the Company to challenge this increase. To 31 March 2016, the rate uplift contributed £25.1m to Group interest receivable. Following our successful defence of this challenge in the High Court a final judgement was made in the Court of Appeal in June 2016 which ruled against the Company. Subsequently, refunds have been issued to affected customers along with interest.

Other provisions
Other provisions include an allowance for customer claims relating to Payment Protection Insurance (PPI) redress. The charge to September 2016 represents the amounts expected to be settled based on an anticipated introduction of a deadline for PPI claims.

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

8. Loans and advances to customers

	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 audited £m
Loans and receivables			
Loans fully secured on residential property	**4,242.1**	4,025.5	4,131.2
Other loans			
Loans fully secured on land	**542.8**	640.4	584.4
Other loans	**0.1**	0.1	0.1
	4,785.0	4,666.0	4,715.7
At fair value through profit or loss			
Other loans			
Loans fully secured on land	**18.8**	36.0	26.0
	4,803.8	4,702.0	4,741.7
Fair value adjustment for hedged risk	**72.4**	56.4	62.0
Less: impairment provisions	**(60.0)**	(66.1)	(64.7)
	4,816.2	4,692.3	4,739.0

Included within loans and advances to customers are £633.5m (31 March 2016: £679.6m) of Commercial lending balances of which £76.4m (31 March 2016: £92.1m) have been sold by the Group to bankruptcy remote structured entities. A further £1,081.5m (31 March 2016: £1,165.8m) of residential mortgage balances, included within loans and advances to customers, have also been sold by the Group to structured entities. The structured entities have been funded by issuing mortgage backed securities (MBSs) of which £845.3m (31 March 2016: £889.9m) are held by the Group.

The Group has made subordinated loans to the structured entities 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 structured entities 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.

9. Shares

	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 audited £m
Held by individuals	**4,391.2**	4,038.0	4,377.4
Other shares	**1.1**	1.1	1.1
Fair value adjustment for hedged risk	**6.6**	9.0	6.6
	4,398.9	4,048.1	4,385.1

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

10. Property, plant, equipment and intangible assets

6 months ended 30 September 2016 (unaudited)

	Intangible assets £m	Tangible assets £m
Net book value at 1 April 2016	**8.2**	**33.9**
Additions	**2.8**	**0.1**
Disposals	**-**	**(0.5)**
Depreciation, amortisation, impairment and other movements	**(1.4)**	**(1.6)**
Net book value at 30 September 2016	**9.6**	**31.9**

6 months ended 30 September 2015 (unaudited)

	Intangible assets £m	Tangible assets £m
Net book value at 1 April 2015	7.0	30.2
Additions	1.3	3.7
Depreciation, amortisation, impairment and other movements	(1.2)	(0.9)
Net book value at 30 September 2015	7.1	33.0

Year ended 31 March 2016 (audited)

	Intangible assets £m	Tangible assets £m
Net book value at 1 April 2015	7.0	30.2
Additions	4.0	6.0
Depreciation, amortisation, impairment and other movements	(2.8)	(2.3)
Net book value at 31 March 2016	8.2	33.9

Capital commitments

The Group has placed contracts amounting to a total of £1.6m (31 March 2016: £4.2m) for future expenditure that was not provided in the financial statements.

11. Investment properties

	6 months ended 30 Sep 16 unaudited £m	6 months ended 30 Sep 15 unaudited £m	Year ended 31 Mar 16 audited £m
Valuation			
At beginning of period	**123.7**	118.6	118.6
Disposals	**(0.1)**	(0.4)	(0.4)
Revaluation gains	**3.3**	2.5	5.5
At end of period	**126.9**	120.7	123.7

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

12. Debt securities in issue

	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 audited £m
Non-recourse finance on securitised advances	**306.3**	438.1	368.6

The non-recourse finance comprises mortgage backed floating rate notes (the Notes) secured over portfolios 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.

13. Profit participating deferred shares

	30 Sep 16 unaudited £m	30 Sep 15 unaudited £m	31 Mar 16 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	**(4.6)**	(7.0)	(7.0)
Share of (loss)/profit for the period	**(7.6)**	1.2	2.4
	(12.2)	(5.8)	(4.6)
Net value at end of period	**171.9**	178.3	179.5

The profit participating deferred shares (PPDS) are entitled to receive a distribution, at the discretion of the Society, of up to 25% of the Group'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 2016

14. Related party transactions

Related party transactions for the six months to 30 September 2016 are within the normal course of business and of a similar nature to those for the last financial year, full details of which are disclosed in the Annual Report and Accounts for the year ended 31 March 2016.

15. Subscribed capital

	30 Sep 16 unaudited	30 Sep 15 unaudited	31 Mar 16 audited
	£m	£m	£m
Permanent interest bearing shares	**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.

16. Financial instruments

Fair values of financial assets and financial liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group determines fair values by the following three tier valuation hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques where all inputs are taken from observable market data, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Valuation techniques where significant inputs are not based on observable market data.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. Assumptions and market observable inputs used in valuation techniques include risk-free and benchmark interest rates, equity index prices and expected price volatilities. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Observable prices are those that have been seen either from counterparties or from market pricing sources including Bloomberg. The use of these depends upon the liquidity of the relevant market.

Financial assets and financial liabilities held at amortised cost

The tables below show the fair values of the Group's financial assets and liabilities held at amortised cost in the Statement of Financial Position, analysed according to the fair value hierarchy described above.

6 months ended 30 September 2016 (unaudited)

	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3	Fair value Total
	£m	£m	£m	£m	£m
Financial assets					
Cash and balances with the Bank of England	145.5	145.5	-	-	**145.5**
Loans and advances to credit institutions	198.6	-	198.6	-	**198.6**
Loans and advances to customers	4,797.7	-	-	4,755.5	**4,755.5**
	5,141.8	**145.5**	**198.6**	**4,755.5**	**5,099.6**
Financial liabilities					
Shares	4,398.9	-	-	4,390.4	**4,390.4**
Amounts due to credit institutions	279.0	-	279.0	-	**279.0**
Amounts due to other customers	179.0	-	179.0	-	**179.0**
Debt securities in issue	288.5	272.7	8.1	-	**280.8**
	5,145.4	**272.7**	**466.1**	**4,390.4**	**5,129.2**

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

16. Financial instruments (continued)

6 months ended 30 September 2015 (unaudited)	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	103.8	103.8	-	-	103.8
Loans and advances to credit institutions	187.6	-	187.6	-	187.6
Loans and advances to customers	4,658.2	-	-	4,649.7	4,649.7
	4,949.6	103.8	187.6	4,649.7	4,941.1
Financial liabilities					
Shares	4,048.1	-	-	4,026.5	4,026.5
Amounts due to credit institutions	282.0	-	282.0	-	282.0
Amounts due to other customers	149.5	-	149.5	-	149.5
Debt securities in issue	407.7	393.9	8.2	-	402.1
	4,887.3	393.9	439.7	4,026.5	4,860.1

Year ended 31 March 2016 (audited)	Carrying value £m	Fair value Level 1 £m	Fair value Level 2 £m	Fair value Level 3 £m	Fair value Total £m
Financial assets					
Cash and balances with the Bank of England	215.4	215.4	-	-	215.4
Loans and advances to credit institutions	204.0	-	204.0	-	204.0
Loans and advances to customers	4,715.4	-	-	4,684.7	4,684.7
	5,134.8	215.4	204.0	4,684.7	5,104.1
Financial liabilities					
Shares	4,385.1	-	-	4,371.6	4,371.6
Amounts due to credit institutions	259.0	-	259.0	-	259.0
Amounts due to other customers	157.0	-	157.0	-	157.0
Debt securities in issue	346.8	329.9	8.1	-	338.0
	5,147.9	329.9	424.1	4,371.6	5,125.6

a) Loans and advances to customers

The fair value of loans and advances to customers has been calculated on an individual loan basis, taking into account factors such as impairment and interest rates. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 30 September 2016.

b) Shares and borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new deposits with similar remaining maturity. The fair values have been calculated on a product basis and as such do not necessarily represent the value that could have been obtained for a portfolio if it were sold at 30 September 2016.

c) Debt securities in issue

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

Notes to condensed consolidated half-yearly financial information

for the six months ended 30 September 2016

16. Financial instruments (continued)

Financial assets and financial liabilities held at fair value through profit or loss

The tables below show the fair values of the Group's financial assets and liabilities held at fair value in the Statement of Financial Position, analysed according to the fair value hierarchy described previously.

6 months ended 30 September 2016 (unaudited)

	Level 1 £m	Level 2 £m	Total £m
Financial assets			
Investment securities	378.8	2.0	**380.8**
Derivative financial instruments	-	8.2	**8.2**
Loans and advances to customers	-	18.5	**18.5**
	378.8	**28.7**	**407.5**
Financial liabilities			
Derivative financial instruments	-	89.8	**89.8**
Debt securities in issue	-	17.8	**17.8**
	-	**107.6**	**107.6**

6 months ended 30 September 2015 (unaudited)

	Level 1 £m	Level 2 £m	Total £m
Financial assets			
Investment securities	322.3	-	322.3
Derivative financial instruments	-	10.3	10.3
Loans and advances to customers	-	34.1	34.1
	322.3	44.4	366.7
Financial liabilities			
Derivative financial instruments	-	68.9	68.9
Debt securities in issue	-	30.4	30.4
	-	99.3	99.3

Year ended 31 March 2016 (audited)

	Level 1 £m	Level 2 £m	Total £m
Financial assets			
Investment securities	359.0	51.1	410.1
Derivative financial instruments	-	8.9	8.9
Loans and advances to customers	-	23.6	23.6
	359.0	83.6	442.6
Financial liabilities			
Derivative financial instruments	-	77.1	77.1
Debt securities in issue	-	21.8	21.8
	-	98.9	98.9

Notes to condensed consolidated half-yearly financial information
for the six months ended 30 September 2016

17. Deferred tax assets
Deferred tax assets are recognised only to the extent that realisation of the related tax benefit against future taxable profits is probable over the foreseeable future. The deferred tax asset balances attributable to carried forward losses are expected to be substantially recovered against future taxable profits (as projected in the latest Strategic Plan) within five years.

The buy to let judgement has resulted in a loss for the half year to 30 September 2016 and impacted on the recurring margin for the affected mortgages. This has reduced the level of past losses expected to be substantially recovered against future taxable profits. The deferred tax asset arising on past losses is written down to reflect this and no tax credit is recognised against the loss for the half year. This has resulted in a tax charge of £6.8m for the period.

18. Statement of Directors' responsibilities
The Directors confirm that this condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' 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 2016.

By order of the Board

Jonathan Westhoff
Chief Executive

Mark Gibbard
Group Finance & Operations Director

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the West Brom

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