Condensed consolidated half-yearly financial information

30 September 2019

the West Brom

Key highlights for the six months to 30 September 2019

50%

The average weighted savings rate paid to members was **50% more than the market average**[1] (30 September 2018: 42% above), delivering a 31% increase in annualised mutual benefit to savers to £13.7m (30 September 2018: £10.5m)

+73

An already strong **Net Promoter Score®**[2] **increasing** marginally from +72 at 31 March 2019 to **+73**, with customer satisfaction up from 94% to 95%

43%

£251m of new mortgage lending (30 September 2018: £466m), reflecting a deliberate strategy to moderate lending volumes. **43% of new lending was to first-time buyers** (30 September 2018: 38%)

£6.4m

A 7% increase in **profit before tax to £6.4m** (30 September 2018: £6.0m)

1.04%

An uplift in the **net interest margin** to **1.04%** (30 September 2018: 1.02%)

0.83%

Delivery of cost efficiencies led to the improvement of the **management expense ratio** to **0.83%** (30 September 2018: 0.88%)

16.2%

The Society's **Common Equity Tier 1** (CET 1) capital ratio now stands at **16.2%** (31 March 2019: 16.0%)

[1] Average market rates sourced from Bank of England Bankstats table A6.1

[2] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Chief Executive's Business Review

A clear strategy to steer through uncertain times

The six months to 30 September have again witnessed the Society delivering on its purpose by balancing the needs of both its saving and borrowing members, and continuing to offer real value to savers and mortgage products that promote home ownership.

Our strategy has remained clear and uncomplicated: to complete sustainable levels of residential lending, offer a safe and rewarding home for savings and provide our members with the benefits of belonging to a secure and efficient building society.

Despite the uncertainty created by the ongoing challenges of Brexit and a forthcoming general election, the period has witnessed an intensification of competition in the mortgage market, driven in part by the ongoing availability of very low cost funding. Regrettably this has had the unfortunate outcome of reducing rates available for savers in general. Although the West Brom resisted the pressure to lower its savings rates in the 6 months, since the period end some rates have been reduced in response to this competitive pressure. Not to have done so would have meant the Society holding excess, and expensive, funding which ultimately impacts its members negatively.

A performance that delivers for both savers and borrowers

Financial strength

A 7% increase in profit before tax, to £6.4m (30 September 2018: £6.0m), has resulted in an increase in the key capital ratio, Common Equity Tier 1 (CET 1), to 16.2% (31 March 2019: 16.0%).

£6.4m
Profit before tax
(30 September 2018: £6.0m)

Despite the pressure on net interest margins experienced the Society's margin improved modestly year on year, to 1.04% (30 September 2018: 1.02%), and our focus on cost efficiency delivered an improvement in the key cost efficiency measure (the management expense ratio) in relation to the comparable period, to 0.83% (30 September 2018: 0.88%).

0.83%
Management expense ratio
(30 September 2018: 0.88%)

Capital resources

	Transitional CRD IV rules 30 Sep 19 £m	Full implementation of CRD IV 30 Sep 19 £m
Members' interests and equity (excluding Additional Tier 1)	382.7	382.7
Other adjustments[1]	(0.4)	(28.5)
Common Equity Tier 1 (CET 1) capital	382.3	354.2
Additional Tier 1 capital	8.9	-
Total Tier 1 capital	391.2	354.2
Tier 2 capital[2]	21.6	21.6
Total regulatory capital resources	412.8	375.8
Risk weighted assets (RWA)	2,359.6	2,302.1
Leverage ratio exposure	5,545.6	5,545.6
Capital ratios	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	16.2	15.4
Tier 1 ratio (as a percentage of RWA)	16.6	15.4
Total capital ratio (as a percentage of RWA)	17.5	16.3
Leverage ratio	7.1	6.4

[1] Other adjustments mainly relate to intangible assets, deferred tax and IFRS 9 transitional relief.
[2] Tier 2 capital excludes accrued interest.

	Transitional CRD IV rules 31 Mar 19 £m	Full implementation of CRD IV 31 Mar 19 £m
Members' interests and equity (excluding Additional Tier 1)	377.3	377.3
Other adjustments[1]	5.9	(25.5)
Common Equity Tier 1 (CET 1) capital	383.2	351.8
Additional Tier 1 capital	8.9	-
Total Tier 1 capital	392.1	351.8
Tier 2 capital[2]	21.6	21.6
Total regulatory capital resources	413.7	373.4
Risk weighted assets (RWA)	2,400.6	2,321.7
Leverage ratio exposure	5,586.3	5,586.3
Capital ratios		
	%	%
Common Equity Tier 1 ratio (as a percentage of RWA)	16.0	15.2
Tier 1 ratio (as a percentage of RWA)	16.3	15.2
Total capital ratio (as a percentage of RWA)	17.2	16.1
Leverage ratio	7.0	6.3

[1] Other adjustments mainly relate to intangible assets, deferred tax and IFRS 9 transitional relief.
[2] Tier 2 capital excludes accrued interest.

16.2%
Common Equity Tier 1 Capital Ratio (31 March 2019: 16.0%), up 0.2%

The statutory impairment charge reduced year on year from £3.7m to £0.5m. However, including the impact of positions taken to hedge the commercial lending exposure against the risk of interest rate increases, the cost of credit risk increased by £1.3m, from £2.9m to £4.2m, driven by the ongoing challenges facing the commercial real estate sector, primarily retailers. In addition, a provision of £0.7m was set aside, mainly to cover the potential cost of redress following the late surge in PPI claims as the August deadline for making a claim approached.

The movements in the cost of credit risk and PPI provisions were more than offset by the benefit of an 8% (£2.0m) reduction in administration costs including depreciation, and a £1.0m increase in the valuation gains relating to the Society's investment property portfolio. This portfolio consists of 870 rental properties, mainly based in the South West and South Wales, with tenants benefiting from our mutual values which drive the approach we take to delivering fair-priced, good quality residential housing. Occupancy levels are consistently near to 100%.

This financial performance has also allowed the Society to meet its forecast distribution policy as announced in the Liability Management Exercise of April 2018. A distribution of £0.50 per core capital deferred share (CCDS) will be made in February 2020.

Balancing members' interests

As referred to above, the mortgage market competition has continued to intensify. As an example, the average market fixed mortgage rate on new business offered at the start of the period was 2.11%[1]. By September a comparable product was 2.01%. The Society has responded to this margin pressure, whilst maintaining savers' rates significantly above the market average. Indeed savers received, on average, rates some 50%[2] above the market average during the 6 months to 30 September, an improvement on the premium offered in the comparable period in 2018 of 42%. On an annualised basis, this represents a very considerable £13.7m (30 September 2018: £10.5m) distributed to our savings members.

50%
more than the market average rate paid to savers[2] (30 September 2018: 42%)

However, a consequence of the competition in the mortgage market is a materially lower volume of lending for the period. In the six months, £251m of new mortgages were advanced, compared with £466m in the same period in 2018, albeit this was higher than the second six months of the financial year to 31 March 2019 of £225m. A key driver for this reduction was our belief that, at times, the pricing in the market for some lending types had reduced to an extent where the potential costs of the risks of bad debts were not sufficiently covered. It is in these circumstances where a mutual has a clear responsibility to its members not to lend and risk depleting capital.

We have maintained our focus on providing a broader mortgage proposition that reflects the changing needs of society. Our new range of shared ownership products has proved a popular addition, supporting borrowers looking for a modern route into homeownership. This extension, along with our wider product proposition, evidences our continued support to first-time buyers, who have accounted for 43% of all lending during the first six months.

43%
of new lending to first-time buyers (30 September 2018: 38%)

Responsible lending and managing legacy exposures

In the 6 months to 30 September, our exposure to the legacy loans to the commercial real estate sector, excluding those loans that are subject to securitisation, reduced only modestly to £406.7m (31 March 2019: £411.9m). The provisions coverage for potential losses against this exposure, however, increased to 16.1% (31 March 2019: 15.7%).

Our residential lending exposure remains very low risk. Cases in arrears by 3 months or more were just 0.31% on our core owner occupied loans (31 March 2019: 0.36%) and 0.15% on our buy to let loans (31 March 2019: 0.12%). These compare favourably with industry UK Finance averages, for arrears of greater than 3 months, of 0.81% and 0.37% respectively.

[1] Average market rates sourced from UK Finance table IR5M
[2] Average market rates sourced from Bank of England Bankstats table A6.1

A safe, stable funding base

The vast majority of the funding the Society uses to meet the requirements of borrowing members is provided by its savers, broadly unchanged over the period at 79%. Within this branch based balances increased marginally as a proportion of savings balances, to 71% (31 March 2019: 69%).

In order to provide security of access for savers to their savings, the Society ensures it maintains liquid resources to meet this need, even in the event of a stress event, for example should there be an unexpected reaction to a 'no deal' Brexit. Given the proximity of our last financial year end to such a risk, we held nearly double the regulatory requirement (referred to as the Liquidity Coverage Ratio, or LCR), at 195%. Given the cost to members of holding excess liquidity, we manage this carefully, and as at the half year we reduced the coverage to 158%, still very substantially above the assessed requirement.

Strong member advocacy and engagement

We pride ourselves on providing a consistent level of outstanding service irrespective of how people choose to interact with us. Our Net Promotor Score[3] (a key indicator of how likely our members are to recommend us to others) increased to +73, from +72 at the previous financial year end. This compares with a financial services industry average of +50[4].

+73

Net Promoter Score®[3]
(31 March 2019: +72)

As well as the outstanding level of service provided by our people, reflected in satisfaction survey results of 95% at 30 September 2019, we are becoming increasingly innovative in how we extend Society services to members through our online offering. Over the last six months we have upgraded our website and launched an online mortgage application tracker service that enables both new mortgage borrowers and intermediary partners to view the status and progression of mortgage applications online.

Future developments to extend our online offering to improve the experience of our members and deliver efficiency are in progress, supported by ongoing investment into a programme of work to improve and upgrade our technology.

Finally, further meetings were held with our Member and Employee Councils. Again, the outputs of these engagements proved to be valuable, informing management's understanding of a diversity of perspectives on a wide range of topics.

The Society's commitment to the community is a continuing source of pride to us. This is epitomised by the support provided to our current chosen charity of the year – the Midlands Air Ambulance Charity – where we have raised nearly £18,000 in the first six months of the year for this emergency response service. The charity completes some 2,000 missions each year, many lifesaving, which is why our fundraising makes an important contribution to this vital cause.

As well as our fundraising efforts, staff also give their time to community initiatives through our active volunteering programme. That comprised almost 400 hours of volunteering for various regional charities, as well as presentations on financial awareness to local schools.

Principal risks and uncertainties

The Society continues to recognise that effective risk management is essential to achieving the Society's objectives in an operating environment where the nature of the threats which prevail is continually evolving.

Where applicable, this report provides an update on the principal risks and uncertainties reported on pages 25 to 31 of the 2018/19 Annual Report and Accounts.

Principal risks

In the period, the Society's identified principal risk categories have remained unchanged. Against the backdrop of ongoing economic uncertainty, credit risk management has been a key focus to ensure new loan originations remain in line with Board approved risk appetite. To aid this further, a project to develop new credit application scorecards has commenced to support the underwriters in their decision making process.

The Society's IFRS 9 provisioning and stress testing models continue to provide informed outputs against a range of macroeconomic scenarios that supports the ongoing financial resiliency assessments.

Business conditions and the economic environment

Brexit related uncertainty remains and the potential impact of this on the economy is closely monitored. Whilst the regulatory authorities have commented that the UK Banking system could support the real economy should the UK leave the EU without a transitional deal in place, the potential range of outcomes for Brexit has widened. The Society's UK focus should allow it to be protected from the short-term adverse implications of a problematic Brexit, but it could be impacted by wider long-term economic changes affecting house prices, Bank Rate and employment levels. Our business plans continue to model the impact of a range of scenarios and stress tests are performed to provide comfort that the Society can tolerate the consequences of the spectrum of potential outcomes. In particular, financial projections are reviewed regularly to identify mitigation actions.

Margin compression

As already outlined, notwithstanding the net interest margin increasing modestly, the Society has moderated its lending in the period as the risk adjusted returns on capital thresholds were not being achieved and, in November, the rates on certain savings products were reduced. These management actions continue to be driven by the very low Bank Rate environment, which is now expected to continue at these levels for a prolonged period and the prospect of it dropping further continues to increase as evidenced by market expectations. Indeed, other well established economies, i.e. Japan and the European Union, already have negative interest rates set by their central banks. The reducing mortgage rates in the traditional market will impact the Society's growth opportunities but accepting this position is the responsible thing to do in this environment to protect member value.

Technology investment and operational resilience

The Society continues to invest in a programme of strategic change in its core technology platforms to allow greater digital capability in both savings and mortgage origination that is expected to retain significant management involvement through to 2021.

[3] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.
[4] NPS UK average for financial services www.customergauge.com/benchmarks/industry/financial-services

Building on the investment already made in cyber security infrastructure, the focus on operational resilience has been heightened in the period to ensure the Society's critical business services remain readily available to meet members' demands. The Society remains committed to developing an operational environment that is strong and resilient, meeting members' and regulatory expectations.

Strengthening risk management capabilities

Our capability to assess, manage and control risks has been illustrated by the progress we have made, over recent years, to de-risk the balance sheet. We are also continuing to develop our risk management capabilities through a project to progress the Society towards the Internal Ratings Based approach to credit risk. The project, which was anticipated to result in an application being submitted before the end of 2019, will be deferred to allow the Society's models to be developed to take account of the latest regulatory guidelines from the European Banking Authority and the Prudential Regulation Authority published in CP 21/19 in September 2019.

Outlook

A recurring theme of the recent years has been the uncertain outlook, driven primarily by the issues surrounding the UK's withdrawal from the European Union. This uncertainty remains, with a general election now also on the near term horizon. Forecasting the housing market over the medium term therefore remains very difficult. However, we expect to see a continuing pressure on margins, to the point where levels do not appropriately account for the associated risk.

As I stressed in my year-end report the West Brom, throughout its now 170 year history, has remained resolute in how it has delivered both continuity and change across generations. Our performance in the first six months of this year, delivering increased levels of profit, strengthened capital and sustained member value has been guided by our long-term traditional building society purpose of helping people to save and to have somewhere they can call home. Delivering against these principles continues to evidence the relevance and resilience of our mutual model.

Remaining true to, and delivering consistently against, this purpose will help ensure we are well positioned to respond to both the challenges and opportunities of the future.

Jonathan Westhoff
Chief Executive

Forward-looking statements

Certain statements in this half-yearly 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 2019

	Notes	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Interest receivable and similar income				
Calculated using the effective interest method		**58.5**	58.4	118.5
On instruments measured at fair value through profit or loss		**(2.0)**	(4.1)	(6.9)
Total interest receivable and similar income		**56.5**	54.3	111.6
Interest expense and similar charges		**(27.8)**	(25.3)	(53.1)
Net interest receivable		**28.7**	29.0	58.5
Fees and commissions receivable		**1.1**	1.6	2.6
Other operating income		**2.2**	2.0	4.0
Fair value (losses)/gains on financial instruments		**(4.3)**	0.2	(4.4)
Total income		**27.7**	32.8	60.7
Administrative expenses		**(19.4)**	(21.6)	(42.6)
Depreciation and amortisation	10	**(3.5)**	(3.3)	(6.9)
Operating profit before revaluation gains, impairment and provisions		**4.8**	7.9	11.2
Gains on investment properties	11	**2.8**	1.8	2.6
Impairment on loans and advances	6	**(0.5)**	(3.7)	(3.0)
Provisions for liabilities	7	**(0.7)**	-	(0.3)
Profit before tax		**6.4**	6.0	10.5
Taxation		**(1.2)**	(1.1)	(1.4)
Profit for the period		**5.2**	4.9	9.1

Condensed consolidated half-yearly Statement of Comprehensive Income

for the six months ended 30 September 2019

	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Profit for the period	**5.2**	4.9	9.1
Other comprehensive income			
Items that may subsequently be reclassified to profit or loss			
Fair value through other comprehensive income investments			
Valuation gains/(losses) taken to equity	**0.3**	(0.9)	(1.1)
Taxation	**(0.1)**	0.2	0.2
Items that will not subsequently be reclassified to profit or loss			
Actuarial losses on defined benefit obligations	**-**	-	(2.5)
Taxation	**-**	-	0.5
Other comprehensive income for the period, net of tax	**0.2**	(0.7)	(2.9)
Total comprehensive income for the period	**5.4**	4.2	6.2

Condensed consolidated half-yearly Statement of Financial Position

at 30 September 2019

	Notes	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Assets				
Cash and balances with the Bank of England		**197.7**	130.1	182.5
Loans and advances to credit institutions		**126.9**	106.0	106.7
Investment securities		**331.2**	259.4	309.3
Derivative financial instruments		**4.4**	17.9	6.5
Loans and advances to customers	8	**4,667.4**	4,843.6	4,746.7
Deferred tax assets		**17.7**	19.7	18.9
Trade and other receivables		**3.2**	3.6	3.7
Intangible assets	10	**17.2**	15.1	16.5
Investment properties	11	**137.5**	134.0	134.7
Property, plant and equipment	10	**29.8**	29.6	28.4
Total assets		**5,533.0**	5,559.0	5,553.9
Liabilities				
Shares	9	**3,982.3**	3,869.2	3,991.2
Amounts due to credit institutions		**631.9**	760.1	667.3
Amounts due to other customers		**105.2**	96.7	77.7
Derivative financial instruments		**52.7**	33.0	39.3
Debt securities in issue	12	**322.0**	369.7	344.1
Current tax liabilities		**-**	4.0	1.1
Deferred tax liabilities		**5.9**	4.2	5.8
Trade and other payables		**13.7**	9.7	12.1
Provisions for liabilities	7	**1.5**	1.5	1.4
Retirement benefit obligations		**3.4**	4.0	4.9
Subordinated liabilities	16	**22.8**	22.8	22.8
Total liabilities		**5,141.4**	5,174.9	5,167.7
Members' interests and equity				
Core capital deferred shares	13	**127.0**	127.0	127.0
Subscribed capital	15	**8.9**	8.9	8.9
General reserves		**252.3**	244.7	247.1
Revaluation reserve		**3.3**	3.4	3.3
Fair value reserve		**0.1**	0.1	(0.1)
Total members' interests and equity		**391.6**	384.1	386.2
Total members' interests, equity and liabilities		**5,533.0**	5,559.0	5,553.9

Condensed consolidated Statement of Changes in Members' Interests and Equity

for the six months ended 30 September 2019

6 months ended 30 September 2019 (unaudited)

	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Fair value reserve £m	Total £m
At 1 April 2019	127.0	8.9	247.1	3.3	(0.1)	**386.2**
Profit for the period	-	-	5.2	-	-	**5.2**
Other comprehensive income for the period (net of tax)						
Fair value through other comprehensive income investments	-	-	-	-	0.2	**0.2**
Total other comprehensive income	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Total comprehensive income for the period	**-**	**-**	**5.2**	**-**	**0.2**	**5.4**
At 30 September 2019	**127.0**	**8.9**	**252.3**	**3.3**	**0.1**	**391.6**

6 months ended 30 September 2018 (unaudited)

	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018	175.0	-	75.0	215.8	3.4	0.8	-	470.0
Changes on initial application of IFRS 9	-	-	-	(27.9)	-	(0.8)	0.8	(27.9)
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	187.9	3.4	-	0.8	442.1
Profit for the period	-	-	-	4.9	-	-	-	4.9
Other comprehensive income for the period (net of tax)								
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.7)	(0.7)
Total other comprehensive income	-	-	-	-	-	-	(0.7)	(0.7)
Total comprehensive income for the period	-	-	-	4.9	-	-	(0.7)	4.2
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	(62.2)
At 30 September 2018	-	127.0	8.9	244.7	3.4	-	0.1	384.1

Condensed consolidated Statement of Changes in Members' Interests and Equity (continued)

Year ended 31 March 2019 (audited)

	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018	175.0	-	75.0	215.8	3.4	0.8	-	470.0
Changes on initial application of IFRS 9	-	-	-	(27.8)	-	(0.8)	0.8	(27.8)
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	188.0	3.4	-	0.8	442.2
Profit for the financial year	-	-	-	9.1	-	-	-	9.1
Other comprehensive income for the year (net of tax)								
Retirement benefit obligations	-	-	-	(2.0)	-	-	-	(2.0)
Realisation of previous revaluation gains	-	-	-	0.1	(0.1)	-	-	-
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.9)	(0.9)
Total other comprehensive income	-	-	-	(1.9)	(0.1)	-	(0.9)	(2.9)
Total comprehensive income for the year	-	-	-	7.2	(0.1)	-	(0.9)	6.2
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	(62.2)
At 31 March 2019	-	127.0	8.9	247.1	3.3	-	(0.1)	386.2

Condensed consolidated half-yearly Statement of Cash Flows

for the six months ended 30 September 2019

	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Net cash inflow/(outflow) from operating activities (below)	**82.2**	(103.2)	30.7
Cash flows from investing activities			
Purchase of investment securities	**(57.5)**	(62.5)	(120.1)
Proceeds from disposal of investment securities	**47.9**	65.3	87.8
Proceeds from disposal of investment properties	**-**	-	0.1
Purchase of property, plant and equipment and intangible assets	**(3.0)**	(2.5)	(6.7)
Proceeds from disposal of property, plant and equipment	**0.6**	-	-
Net cash flows from investing activities	**(12.0)**	0.3	(38.9)
Cash flows from financing activities			
Issue of debt securities	**-**	1.0	1.0
Repayment of debt securities in issue	**(21.4)**	(124.0)	(149.2)
Capital restructuring	**-**	(36.2)	(36.2)
Interest paid on subordinated liabilities	**(1.2)**	-	(1.2)
Payment of lease liabilities	**(0.3)**	-	-
Net cash flows from financing activities	**(22.9)**	(159.2)	(185.6)
Net increase/(decrease) in cash	**47.3**	(262.1)	(193.8)
Cash and cash equivalents at beginning of period	**298.7**	492.5	492.5
Cash and cash equivalents at end of period	**346.0**	230.4	298.7

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with maturities of three months or less from the date of acquisition:

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Cash and cash equivalents			
Cash in hand (including Bank of England Reserve account)	**187.1**	119.4	172.0
Loans and advances to credit institutions	**126.9**	106.0	106.7
Investment securities	**32.0**	5.0	20.0
	346.0	230.4	298.7

The Group is required to maintain certain mandatory balances with the Bank of England which, at 30 September 2019, amounted to £10.6m (30 September 2018: £10.7m and 31 March 2019: £10.5m). 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 2019

	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Cash flows from operating activities			
Profit before tax	**6.4**	6.0	10.5
Adjustments for non-cash items included in profit before tax			
Impairment on loans and advances	**0.5**	3.7	3.0
Depreciation and amortisation	**3.5**	3.3	6.9
Disposal of property, plant and equipment	**(0.1)**	-	-
Revaluation of investment properties	**(2.8)**	(1.8)	(2.6)
Changes in provisions for liabilities	**0.1**	(0.6)	(0.7)
Interest on subordinated liabilities	**1.2**	1.2	2.4
Fair value losses on equity release portfolio	**0.1**	0.9	1.7
Other non-cash movements	**(14.3)**	1.3	(12.3)
	(5.4)	14.0	8.9
Changes in operating assets and liabilities			
Loans and advances to customers	**91.7**	(79.0)	30.0
Loans and advances to credit institutions	**(0.1)**	(4.1)	(3.9)
Derivative financial instruments	**15.5**	(4.1)	13.6
Shares	**(8.9)**	(182.1)	(59.9)
Deposits and other borrowings	**(7.3)**	153.0	42.0
Trade and other receivables	**0.5**	2.5	2.4
Trade and other payables	**(1.2)**	(2.3)	0.3
Retirement benefit obligations	**(1.5)**	(1.1)	(2.7)
Tax paid	**(1.1)**	-	-
Net cash inflow/(outflow) from operating activities	**82.2**	(103.2)	30.7

Notes to condensed consolidated half-yearly financial information for the six months ended 30 September 2019

1. General information

These half-yearly financial results do not constitute statutory accounts within the meaning of the Building Societies Act 1986. A copy of the statutory accounts for the year to 31 March 2019 has been delivered to the Financial Conduct Authority and the relevant information in this report has been extracted from these statutory accounts. The statutory accounts for the year ended 31 March 2019 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 2019 and 30 September 2018 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 2019 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 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

3. Going concern and business viability statement

Details of the Group's objectives, policies and processes for managing its exposure to risk are contained in the Risk Management Report of the 2018/19 Annual Report and Accounts. The Directors also include statements in the Directors' Report in respect of going concern and longer-term business viability on page 36 of the 2018/19 Annual Report and Accounts.

The Directors have reviewed the latest plans and forecasts for the Group giving consideration to liquidity and capital adequacy. They are satisfied that the Group has adequate resources to meet both the normal demands of the business and the requirements which might arise in stressed circumstances for the next 12 months and that the longer-term business viability statement in the 2018/19 Annual Report and Accounts remains appropriate. 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 2019 Interim Financial Report are consistent with those disclosed in the Annual Report and Accounts for the year ended 31 March 2019 with the exception of the adoption of IFRS 16 'Leases', the impacts of which are set out below.

IFRS 16 'Leases'

a) Introduction

IFRS 16 'Leases' was adopted by the Group from 1 April 2019 and replaces IAS 17 'Leases'. The standard amends the definition of a lease and sets out the principles for the recognition, measurement, presentation and disclosure of leases. As permitted by the new standard, the Group has implemented IFRS 16 using the 'modified retrospective' approach and recognised the cumulative impact of transition as an adjustment to 'general reserves' in the Statement of Financial Position at 1 April 2019. Therefore, the comparative information has not been restated and is presented, as previously reported, under IAS 17 and related interpretations.

Previously, under IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease', the Group had no finance leases but had operating lease arrangements for properties whereby lease rentals were expensed to the Income Statement and disclosed within administrative expenses. On adoption of IFRS 16 under the modified retrospective approach, these lease arrangements, where the Group is a lessee, have been brought onto the Statement of Financial Position. Lease liabilities, representing the obligation to make future lease payments, have been recognised within trade and other payables and initially measured at the present value of the remaining lease payments at 1 April 2019, discounted using the Group's incremental borrowing rate at that date. The incremental borrowing rate was determined with reference to pricing for securities with similar risk characteristics and terms to the leased assets. The leased assets, reported as right-of-use assets within property, plant and equipment, were initially measured at an amount equal to the corresponding lease liabilities, adjusted for any prepaid or accrued lease payments recognised at 31 March 2019.

Following transition, leases are identified in accordance with the definition set out in IFRS 16. Operating lease rental costs are replaced with depreciation charges on the right-of-use assets (presented within administrative expenses) and interest expense charged on lease liabilities (presented within interest expense and similar charges). In the six months ended 30 September 2019, the adoption of IFRS 16 resulted in a £0.3m reduction in administrative expenses, offset by a £0.3m increase in depreciation and interest payable.

The Group has elected to apply the following practical expedients which are allowed on transition to IFRS 16:

- Contracts existing at 1 April 2019 have, without reassessment, been identified as leases only if previously classified as such under IAS 17.
- No right-of-use assets or lease liabilities have been recognised for leases of plant and equipment which are of low value or end within 12 months of the date of IFRS 16 adoption. For these leases, payments continue to be recognised as administrative expenses, on a straight line basis over the lease term.
- Reliance has been placed on previous assessments of whether leases are onerous as an alternative to performing an impairment review. As no provisions for onerous leases were required at 31 March 2019, there were no adjustments to right-of use assets in this respect.

- Initial direct costs have been excluded from the measurement of right-of-use assets at 1 April 2019.
- Where contracts contain termination or extension options, hindsight has been used to determine the lease term.

IFRS 16 adoption has not impacted the reporting of lease arrangements where the Group acts as lessor, with lessor accounting being substantially unchanged from that prescribed by IAS 17.

The Society's first full set of financial statements prepared under IFRS 16 will be published in the Annual Report and Accounts for the year ended 31 March 2020.

b) Changes to accounting policies
The Group's new lease accounting policy is set out below.

Leases
When the Group enters into a contract which conveys the right to control the use of an identified asset for a period of time in excess of 12 months in exchange for consideration, it recognises a right-of-use asset within property, plant and equipment and a corresponding lease liability within trade and other payables in the Statement of Financial Position. The majority of the Group's leases relate to its branch property network.

The lease liability is measured at the present value of the remaining lease payments at the commencement date, discounted using the Group's incremental borrowing rate. The lease term incorporates lease extension or termination options where they are reasonably certain to be exercised. The incremental borrowing rate is determined with reference to the market pricing of securities with similar risk characteristics and terms to the leased assets at the commencement date. The carrying value of the lease liability is adjusted for interest charged and repayments. The lease liability is remeasured for changes in future lease payments, the lease term or the Group's assessment of whether it will exercise a lease extension or termination option. Any remeasurement results in a corresponding adjustment to the right-of-use asset. Interest is charged on the lease liability at the Group's incremental borrowing rate and recorded in interest expense and similar charges within the Income Statement.

The right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for remeasurement of the corresponding lease liability. The initial measurement of the right-of-use asset includes the lease liability, initial direct costs, lease payments made prior to the commencement date and lease incentives received. It is subsequently depreciated using the straight line method over the shorter of the asset's estimated useful life and the period to the end of the lease term. Right-of-use assets are subject to an annual impairment assessment.

The Group does not recognise a right-of-use asset or lease liability for leases of low value or with lease terms of less than 12 months. For these leases, payments are recognised on a straight line basis over the lease term and disclosed within administrative expenses in the Income Statement.

In the Statement of Cash Flows, payments of lease liabilities are categorised as cash flows from financing activities.

c) Financial impact of IFRS 16 adoption
The Group has a number of leased assets, primarily branch properties, which have been recognised as right-of-use assets under IFRS 16. The financial impact of adopting this standard is summarised in the table below

Impact of IFRS 16 adoption on equity	Statement of Financial Position category	Increase/(Decrease) in general reserves 1 Apr 19 unaudited £m
Recognition of right-of-use assets	Property, plant and equipment	2.6
Release of lease incentive accruals	Trade and other payables	0.2
Recognition of lease liabilities	Trade and other payables	(2.8)
Total	**General reserves**	-

A reconciliation between the operating lease commitments disclosed in the 2018/19 Annual Report and Accounts and the lease liability recognised at 1 April 2019 under IFRS 16 is set out in the table below.

	Notes	unaudited £m
Operating lease commitments disclosed at 31 March 2019		1.9
Operating leases commencing after 1 April 2019	(i)	(0.3)
Adjustments for future termination and extension options	(ii)	1.5
Impact of discounting	(iii)	(0.3)
Lease liability recognised at 1 April 2019		2.8

Notes
(i) Operating lease commitments disclosed at 31 March 2019 included lease agreements signed before the reporting date which did not commence until after 1 April 2019 and are therefore excluded from the lease liability recognised at 1 April 2019.

(ii) Operating lease commitments disclosed at 31 March 2019 represented the Group's minimum contractual commitments, assuming that termination options were exercised where this was possible at the discretion of the lessee. Under IFRS 16, the lease liability includes the Group's expected behaviour in respect of future termination and extension options.

(iii) The lease liability represents the value of future lease payments discounted at the Group's incremental borrowing rate (IBR) at 1 April 2019. The weighted average IBR on adoption of IFRS 16 was 2.6%, with the IBRs applied to individual leases ranging from 1.9% to 2.9% depending on the lease term.

Critical accounting estimates and judgements in applying accounting policies
In the process of applying accounting policies, the Group makes various judgements, estimates and assumptions which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Under IFRS 16, which was adopted in the period, the Group makes judgements in relation to the exercise of termination and extension options in order to calculate lease terms. Determining the incremental borrowing rate used to discount the future lease payments involves a degree of estimation uncertainty. However, these judgements and estimates are not deemed critical as they do not materially impact the financial statements.

For the half year accounts, tax has been charged on the statutory profit before tax at the UK standard rate of 19%. A full review of the tax position of the Society and its subsidiaries will be carried out at the year end date. Otherwise, the significant judgements in applying accounting policies and key sources of estimation uncertainty at 30 September 2019 are unchanged from those existing at 31 March 2019.

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 real estate - 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, finance, 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.

5. Business segments (continued)

6 months ended 30 September 2019 (unaudited)	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	60.9	5.3	-	(7.7)	**58.5**
On instruments measured at fair value through profit or loss	(2.0)	-	-	-	**(2.0)**
Total interest receivable and similar income	58.9	5.3	-	(7.7)	**56.5**
Interest expense and similar charges	(27.4)	(6.7)	(1.4)	7.7	**(27.8)**
Net interest receivable/(expense)	**31.5**	**(1.4)**	**(1.4)**	**-**	**28.7**
Fees and commissions receivable	1.1	-	-	-	**1.1**
Other operating income	0.1	-	2.1	-	**2.2**
Fair value losses on financial instruments	(0.4)	(3.7)	-	(0.2)	**(4.3)**
Total income	**32.3**	**(5.1)**	**0.7**	**(0.2)**	**27.7**
Administrative expenses	(18.8)	(0.5)	(0.1)	-	**(19.4)**
Depreciation and amortisation	(3.5)	-	-	-	**(3.5)**
Operating profit/(loss) before revaluation gains, impairment and provisions	**10.0**	**(5.6)**	**0.6**	**(0.2)**	**4.8**
Gains on investment properties	-	-	2.8	-	**2.8**
Impairment on loans and advances	0.4	(0.9)	-	-	**(0.5)**
Provisions for liabilities	(0.7)	-	-	-	**(0.7)**
Profit/(Loss) before tax	**9.7**	**(6.5)**	**3.4**	**(0.2)**	**6.4**
Total assets	**5,495.2**	**370.1**	**139.9**	**(472.2)**	**5,533.0**
Total liabilities	**5,132.0**	**462.4**	**122.6**	**(575.6)**	**5,141.4**

5. Business segments (continued)

6 months ended 30 September 2018 (unaudited)

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	57.9	8.8	-	(8.3)	58.4
On instruments measured at fair value through profit or loss	(3.7)	(0.4)	-	-	(4.1)
Total interest receivable and similar income	54.2	8.4	-	(8.3)	54.3
Interest expense and similar charges	(24.7)	(7.4)	(1.5)	8.3	(25.3)
Net interest receivable/(expense)	29.5	1.0	(1.5)	-	29.0
Fees and commissions receivable	1.6	-	-	-	1.6
Other operating (expense)/income	(0.1)	-	2.1	-	2.0
Fair value (losses)/gains on financial instruments	(0.6)	0.8	-	-	0.2
Total income	30.4	1.8	0.6	-	32.8
Administrative expenses	(20.9)	(0.6)	(0.1)	-	(21.6)
Depreciation and amortisation	(3.3)	-	-	-	(3.3)
Operating profit before revaluation gains, impairment and provisions	6.2	1.2	0.5	-	7.9
Gains on investment properties	-	-	1.8	-	1.8
Impairment on loans and advances	(0.3)	(3.4)	-	-	(3.7)
Profit/(Loss) before tax	5.9	(2.2)	2.3	-	6.0
Total assets	5,525.2	399.6	136.5	(502.3)	5,559.0
Total liabilities	5,133.7	490.7	123.2	(572.7)	5,174.9

5. Business segments (continued)

Year ended 31 March 2019 (audited)

	Retail £m	Commercial real estate £m	Property £m	Consolidation adjustments £m	Total Group £m
Interest receivable and similar income					
Calculated using the effective interest method	119.6	15.3	-	(16.4)	118.5
On instruments measured at fair value through profit or loss	(7.1)	0.2	-	-	(6.9)
Total interest receivable and similar income	112.5	15.5	-	(16.4)	111.6
Interest expense and similar charges	(52.0)	(14.6)	(2.9)	16.4	(53.1)
Net interest receivable/(expense)	60.5	0.9	(2.9)	-	58.5
Fees and commissions receivable	2.6	-	-	-	2.6
Other operating income	(0.1)	-	4.1	-	4.0
Fair value losses on financial instruments	(1.7)	(2.4)	-	(0.3)	(4.4)
Total income	61.3	(1.5)	1.2	(0.3)	60.7
Administrative expenses	(41.2)	(1.3)	(0.1)	-	(42.6)
Depreciation and amortisation	(6.9)	-	-	-	(6.9)
Operating profit/(loss) before revaluation gains, impairment and provisions	13.2	(2.8)	1.1	(0.3)	11.2
Gains on investment properties	-	-	2.6	-	2.6
Impairment on loans and advances	(1.2)	(1.8)	-	-	(3.0)
Provisions for liabilities	-	(0.3)	-	-	(0.3)
Profit/(Loss) before tax	12.0	(4.9)	3.7	(0.3)	10.5
Total assets	5,497.3	381.6	137.0	(462.0)	5,553.9
Total liabilities	5,139.9	472.5	123.1	(567.8)	5,167.7

6. Allowance for losses on loans and advances to customers

	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Impairment charge for the period	**0.5**	3.7	3.0
Impairment provision at end of period			
Loans fully secured on residential property	**4.3**	6.3	6.0
Loans fully secured on land	**70.4**	77.4	70.7
Total	**74.7**	83.7	76.7

In accordance with IFRS 9, 'Financial instruments', forecasts of future economic conditions are integral to the expected credit loss calculations. At 31 March 2019, the Group modelled four forward-looking macroeconomic scenarios: central, upside, downside and stress with respective probability weightings of 50%, 10%, 30% and 10%. Individual economic variables within the scenarios are regularly reviewed and updated to reflect the current economic outlook.

At 30 September 2019, the probability weightings were adjusted to skew towards the downside scenarios with uncertainties in the future economic environment, together with geopolitical risk (not least from Brexit), potentially weighing on any upside. The central scenario was still considered the most likely single scenario at 40%. The upside, downside and stress scenarios had probability weightings of 5%, 35% and 20% respectively. Due to the uncertainty of the path of interest rates in the event of a disruptive Brexit, the stress scenario was segmented into two, representing low and high Bank Rate trajectories.

6. Allowance for losses on loans and advances to customers (continued)

The tables below analyse the movement in residential impairment provisions by IFRS 9 stage.

6 months ended 30 September 2019 (unaudited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Residential expected credit loss allowance				
At 1 April 2019	0.6	1.1	4.3	6.0
Transfers due to increased credit risk:				
From stage 1 to stage 2	-	0.1	-	0.1
From stage 1 to stage 3	-	-	0.1	0.1
From stage 2 to stage 3	-	(0.1)	0.3	0.2
Transfers due to decreased credit risk:				
From stage 2 to stage 1	-	(0.1)	-	(0.1)
From stage 3 to stage 2	-	-	(0.2)	(0.2)
Remeasurement of expected credit losses with no stage transfer	(0.2)	(0.1)	0.2	(0.1)
Redemptions	-	-	(0.1)	(0.1)
Amounts written off	-	-	(1.5)	(1.5)
Other movements	-	-	(0.1)	(0.1)
At 30 September 2019	**0.4**	**0.9**	**3.0**	**4.3**

6 months ended 30 September 2018 (unaudited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Residential expected credit loss allowance				
At 1 April 2018	0.6	2.5	4.7	7.8
Transfers due to increased credit risk:				
From stage 1 to stage 2	-	0.1	-	0.1
From stage 2 to stage 3	-	(0.3)	0.2	(0.1)
Transfers due to decreased credit risk:				
From stage 2 to stage 1	-	(0.2)	-	(0.2)
From stage 3 to stage 2	-	0.1	(0.2)	(0.1)
Remeasurement of expected credit losses with no stage transfer	-	0.2	0.9	1.1
Redemptions	-	(0.1)	(0.1)	(0.2)
Amounts written off	-	-	(2.1)	(2.1)
At 30 September 2018	0.6	2.3	3.4	6.3

6. Allowance for losses on loans and advances to customers (continued)

Year ended 31 March 2019 (audited)	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Residential expected credit loss allowance				
At 1 April 2018	0.6	2.5	4.7	7.8
Transfers due to increased credit risk:				
From stage 1 to stage 2	-	0.4	-	0.4
From stage 1 to stage 3	(0.1)	-	0.5	0.4
From stage 2 to stage 3	-	(0.3)	1.0	0.7
Transfers due to decreased credit risk:				
From stage 2 to stage 1	0.1	(0.7)	-	(0.6)
From stage 3 to stage 2	-	0.1	(0.5)	(0.4)
Remeasurement of expected credit losses with no stage transfer	0.2	(0.6)	2.6	2.2
Redemptions	(0.1)	(0.3)	(0.2)	(0.6)
Amounts written off	(0.1)	-	(3.7)	(3.8)
Other movements	-	-	(0.1)	(0.1)
At 31 March 2019	0.6	1.1	4.3	6.0

The tables below analyse the movement in commercial impairment provisions by IFRS 9 stage.

6 months ended 30 September 2019 (unaudited)	**Stage 1 £m**	**Stage 2 £m**	**Stage 3 £m**	**Total £m**
Commercial expected credit loss allowance				
At 1 April 2019	0.3	8.8	61.6	70.7
Transfers due to increased credit risk:				
From stage 2 to stage 3	-	(2.7)	2.8	0.1
Remeasurement of expected credit losses with no stage transfer	0.1	(0.4)	3.0	2.7
Redemptions	-	-	(0.7)	(0.7)
Amounts written off	-	-	(2.4)	(2.4)
At 30 September 2019	**0.4**	**5.7**	**64.3**	**70.4**

6. Allowance for losses on loans and advances to customers (continued)

6 months ended 30 September 2018 (unaudited)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial expected credit loss allowance				
At 1 April 2018	0.1	11.8	62.5	74.4
Transfers due to increased credit risk:				
From stage 2 to stage 3	-	(2.1)	0.2	(1.9)
Transfers due to decreased credit risk:				
From stage 3 to stage 2	-	0.1	(0.1)	-
Remeasurement of expected credit losses with no stage transfer	-	1.3	4.7	6.0
Redemptions	-	-	(0.2)	(0.2)
Amounts written off	-	-	(0.9)	(0.9)
At 30 September 2018	0.1	11.1	66.2	77.4

Year ended 31 March 2019 (audited)

	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Commercial expected credit loss allowance				
At 1 April 2018	0.1	11.8	62.5	74.4
Transfers due to increased credit risk:				
From stage 1 to stage 2	(0.1)	0.1	-	-
Transfers due to decreased credit risk:				
From stage 2 to stage 1	0.3	(0.2)	-	0.1
From stage 3 to stage 2	-	2.3	(2.6)	(0.3)
Remeasurement of expected credit losses with no stage transfer	-	(4.7)	8.7	4.0
Redemptions	-	-	(0.2)	(0.2)
Amounts written off	-	(0.5)	(6.8)	(7.3)
At 31 March 2019	0.3	8.8	61.6	70.7

7. Provisions for liabilities

6 months ended 30 September 2019 (unaudited)

	FSCS £m	Other £m	Total £m
At beginning of period	-	1.4	**1.4**
Utilised in the period	-	(0.6)	**(0.6)**
Charge for the period	-	0.7	**0.7**
At end of period	**-**	**1.5**	**1.5**

6 months ended 30 September 2018 (unaudited)

	FSCS £m	Other £m	Total £m
At beginning of period	0.2	1.9	2.1
Utilised in the period	(0.2)	(0.4)	(0.6)
Charge for the period	-	-	-
At end of period	-	1.5	1.5

Year ended 31 March 2019 (audited)

	FSCS £m	Other £m	Total £m
At beginning of year	0.2	1.9	2.1
Utilised in the year	(0.2)	(0.8)	(1.0)
Charge for the year	-	0.3	0.3
At end of year	-	1.4	1.4

Other provisions

Other provisions primarily relate to Payment Protection Insurance (PPI) redress for which, following a number of media campaigns, the volume of claims increased significantly leading up to the 29 August 2019 deadline set by the Financial Conduct Authority (FCA). The PPI provision represents the Group's best estimate of the costs to settle its remaining obligations in respect of PPI claims.

8. Loans and advances to customers

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Amortised cost			
Loans fully secured on residential property	**4,303.7**	4,476.4	4,383.2
Loans fully secured on land	**382.1**	417.5	394.9
	4,685.8	4,893.9	4,778.1
Fair value through profit or loss			
Loans fully secured on residential property	**14.3**	16.4	14.8
	4,700.1	4,910.3	4,792.9
Fair value adjustment for hedged risk	**42.0**	17.0	30.5
Less: impairment provisions	**(74.7)**	(83.7)	(76.7)
	4,667.4	4,843.6	4,746.7

Included within loans and advances to customers are £432.5m (31 March 2019: £444.3m) of commercial lending balances of which £25.8m (31 March 2019: £32.4m) have been sold by the Group to bankruptcy remote structured entities.

The tables below illustrate the IFRS 9 staging distribution of residential and commercial loans and advances to customers held at amortised cost and related credit loss provisions. Stage 2 loans have been further analysed to show those which are more than 30 days past due, the IFRS 9 backstop for identifying a significant increase in credit risk (SICR) and those which meet other SICR criteria. For the purposes of this disclosure, gross exposures and expected credit loss provisions are rounded to the nearest £0.1m whereas the provision coverage percentages are based on the underlying data prior to rounding.

At 30 September 2019 (unaudited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	**3,793.3**	**0.4**	**0.01**
Stage 2			
> 30 days past due	**17.4**	**0.1**	**0.64**
Other SICR indicators	**416.9**	**0.8**	**0.18**
Stage 3	**56.7**	**3.0**	**5.33**
	4,284.3	**4.3**	**0.10**

8. Loans and advances to customers (continued)

At 30 September 2018 (unaudited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	4,029.1	0.6	0.01
Stage 2			
> 30 days past due	20.3	0.2	1.00
Other SICR indicators	350.6	2.1	0.61
Stage 3	58.4	3.4	5.88
	4,458.4	6.3	0.14

At 31 March 2019 (audited)

	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Residential loans held at amortised cost			
Stage 1	3,887.2	0.6	0.02
Stage 2			
> 30 days past due	15.1	0.2	1.42
Other SICR indicators	399.8	0.9	0.21
Stage 3	61.7	4.3	6.97
	4,363.8	6.0	0.14

At 30 September 2019 (unaudited)

	Gross exposure £m	**Expected credit loss provision £m**	**Provision coverage %**
Commercial loans held at amortised cost			
Stage 1	**71.0**	**0.4**	**0.57**
Stage 2			
> 30 days past due	**-**	**-**	**-**
Other SICR indicators	**97.3**	**5.7**	**5.90**
Stage 3	**264.2**	**64.3**	**24.33**
	432.5	**70.4**	**16.28**

8. Loans and advances to customers (continued)

At 30 September 2018 (unaudited)	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans held at amortised cost			
Stage 1	70.7	0.1	0.08
Stage 2			
> 30 days past due	-	-	-
Other SICR indicators	97.0	11.1	11.41
Stage 3	296.7	66.2	22.33
	464.4	77.4	16.66

At 31 March 2019 (audited)	Gross exposure £m	Expected credit loss provision £m	Provision coverage %
Commercial loans held at amortised cost			
Stage 1	74.1	0.3	0.42
Stage 2			
> 30 days past due	11.5	0.3	2.74
Other SICR indicators	121.6	8.5	6.94
Stage 3	237.1	61.6	25.99
	444.3	70.7	15.91

9. Shares

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Held by individuals	**3,981.3**	3,867.9	3,990.2
Other shares	**1.0**	1.1	1.0
Fair value adjustment for hedged risk	**-**	0.2	-
	3,982.3	3,869.2	3,991.2

10. Property, plant, equipment and intangible assets

6 months ended 30 September 2019 (unaudited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 31 March 2019	16.5	28.4
Changes on initial application of IFRS 16	-	2.6
At 1 April 2019 including impact of IFRS 16 adoption	16.5	31.0
Additions	2.7	0.8
Disposals	-	(0.5)
Depreciation, amortisation, impairment and other movements	(2.0)	(1.5)
Net book value at 30 September 2019	**17.2**	**29.8**

6 months ended 30 September 2018 (unaudited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2018	15.3	30.2
Additions	1.4	1.1
Depreciation, amortisation, impairment and other movements	(1.6)	(1.7)
Net book value at 30 September 2018	15.1	29.6

Year ended 31 March 2019 (audited)

	Intangible assets £m	Property, plant and equipment £m
Net book value at 1 April 2018	15.3	30.2
Additions	5.1	1.2
Depreciation, amortisation, impairment and other movements	(3.9)	(3.0)
Net book value at 31 March 2019	16.5	28.4

11. Investment properties

	6 months ended 30 Sep 19 unaudited £m	6 months ended 30 Sep 18 unaudited £m	Year ended 31 Mar 19 audited £m
Valuation			
At beginning of period	**134.7**	132.2	132.2
Disposals	**-**	-	(0.1)
Revaluation gains	**2.8**	1.8	2.6
At end of period	**137.5**	134.0	134.7

12. Debt securities in issue

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Certificates of deposit	**1.0**	1.0	1.0
Non-recourse finance on securitised advances	**321.0**	368.7	343.1
	322.0	369.7	344.1

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. Core capital deferred shares

	Number of shares	CCDS nominal amount £m	Share premium £m	Total £m
At 30 September 2019 (unaudited)	**1,288,813**	**1.3**	**125.7**	**127.0**
At 30 September 2018 (unaudited)	1,288,813	1.3	125.7	**127.0**
At 31 March 2019 (audited)	1,288,813	1.3	125.7	**127.0**

CCDS are perpetual instruments and a form of Common Equity Tier 1 (CET 1) capital.

CCDS are the most junior-ranking capital instrument of the Society, ranking behind the claims of all depositors, payables and investing members.

The CCDS holders are entitled to receive a distribution at the discretion of the Society. The total distribution paid on each CCDS in respect of any given financial year of the Society is subject to a cap provided for in the Rules of the Society and adjusted annually for inflation. In line with the forecast distribution policy, the Directors did not declare a distribution in respect of the year ended 31 March 2019. Subsequent to the balance sheet date, the Directors have declared an interim distribution of £0.50 per CCDS in respect of the period to 30 September 2019 which will be paid in February 2020. The interim distribution is not reflected in these financial statements as distributions to the CCDS holders are recognised with reference to the date they are declared.

In the event of a winding up or dissolution of the Society, the share of surplus assets (if any) a CCDS holder would be eligible to receive is determined by the calculation of a core capital contribution proportion, limited to a maximum of the average principal amount, currently £100 per CCDS.

14. Related party transactions

Related party transactions for the six months to 30 September 2019 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 2019.

15. Subscribed capital

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Permanent interest bearing shares	**8.9**	8.9	8.9

The 6.15% permanent interest bearing shares (PIBS) comprise 8,891 PIBS of £1,000 each issued at a price of 99.828% of their principal amount, with the issue premium amortised.

The PIBS are repayable at the option of the Society in whole on 5 April 2021 or any scheduled interest payment thereafter, subject to approval by the Prudential Regulation Authority (PRA).

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 core capital deferred shares (CCDS). The holders of PIBS are not entitled to any share in any final surplus upon winding up or dissolution of the Society.

Future interest payments are at the discretion of the Society, up to a maximum 6.15% prior to 5 April 2021 and, thereafter, a rate of interest reset periodically and equal to the applicable 5-year gilt rate plus a margin of 2.8%. As announced on 2 October 2019, in accordance with the published distribution policy, the Board resolved not to make an interest payment on the scheduled interest payment date of 5 October 2019.

16. Subordinated liabilities

	30 Sep 19 unaudited £m	30 Sep 18 unaudited £m	31 Mar 19 audited £m
Subordinated notes due 2038 – 11.0%	**22.8**	22.8	22.8

The Society's subordinated notes rank behind all other creditors of the Society, with the exception of holders of CCDS and PIBS.

17. 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.

At 30 September 2019 (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	**197.7**	197.7	-	-	**197.7**
Loans and advances to credit institutions	**126.9**	-	126.9	-	**126.9**
Loans and advances to customers	**4,653.1**	-	-	4,645.3	**4,645.3**
	4,977.7	**197.7**	**126.9**	**4,645.3**	**4,969.9**
Financial liabilities					
Shares	**3,982.3**	-	-	3,948.2	**3,948.2**
Amounts due to credit institutions	**631.9**	-	631.9	-	**631.9**
Amounts due to other customers	**105.2**	-	105.2	-	**105.2**
Debt securities in issue	**322.0**	306.4	15.5	-	**321.9**
	5,041.4	**306.4**	**752.6**	**3,948.2**	**5,007.2**

At 30 September 2018 (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	130.1	130.1	-	-	130.1
Loans and advances to credit institutions	106.0	-	106.0	-	106.0
Loans and advances to customers	4,827.2	-	-	4,837.7	4,837.7
	5,063.3	130.1	106.0	4,837.7	5,073.8
Financial liabilities					
Shares	3,869.2	-	-	3,849.4	3,849.4
Amounts due to credit institutions	760.1	-	760.1	-	760.1
Amounts due to other customers	96.7	-	96.7	-	96.7
Debt securities in issue	369.7	347.2	16.0	-	363.2
	5,095.7	347.2	872.8	3,849.4	5,069.4

17. Financial instruments (continued)

At 31 March 2019 (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	182.5	182.5	-	-	182.5
Loans and advances to credit institutions	106.7	-	106.7	-	106.7
Loans and advances to customers	4,731.9	-	-	4,669.9	4,669.9
	5,021.1	182.5	106.7	4,669.9	4,959.1
Financial liabilities					
Shares	3,991.2	-	-	3,955.5	3,955.5
Amounts due to credit institutions	667.3	-	667.3	-	667.3
Amounts due to other customers	77.7	-	77.7	-	77.7
Debt securities in issue	344.1	327.2	15.8	-	343.0
	5,080.3	327.2	760.8	3,955.5	5,043.5

a) Loans and advances to customers
The fair value of loans and advances to customers has been determined 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 2019.

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 2019.

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.

Financial assets and financial liabilities held at fair value
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.

At 30 September 2019 (unaudited)	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Financial assets				
Investment securities	331.2	-	-	**331.2**
Derivative financial instruments	-	4.4	-	**4.4**
Loans and advances to customers	-	-	14.3	**14.3**
	331.2	**4.4**	**14.3**	**349.9**
Financial liabilities				
Derivative financial instruments	**-**	**52.7**	**-**	**52.7**

17. Financial instruments (continued)

At 30 September 2018 (unaudited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities	259.4	-	-	259.4
Derivative financial instruments	-	17.9	-	17.9
Loans and advances to customers	-	-	16.4	16.4
	259.4	17.9	16.4	293.7
Financial liabilities				
Derivative financial instruments	-	33.0	-	33.0

At 31 March 2019 (audited)	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Investment securities	309.3	-	-	309.3
Derivative financial instruments	-	6.5	-	6.5
Loans and advances to customers	-	-	14.8	14.8
	309.3	6.5	14.8	330.6
Financial liabilities				
Derivative financial instruments	-	39.3	-	39.3

The table below analyses movements in the level 3 portfolio during the period.

	6 months ended 30 Sep 19 unaudited	6 months ended 30 Sep 18 unaudited	Year ended 31 Mar 19 audited
Equity release portfolio	**£m**	£m	£m
At beginning of period	**14.8**	18.4	18.4
Items recognised in the Income Statement			
Interest receivable and similar income	**0.5**	0.5	1.0
Fair value losses on financial instruments	**(0.1)**	(0.9)	(1.7)
Redemption payments	**(0.9)**	(1.6)	(2.9)
At end of period	**14.3**	16.4	14.8

There have been no transfers of financial assets or liabilities between levels of the valuation hierarchy in 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 2019. Subsequent to the publication of the Annual Report, on 25 July 2019, Martin Ritchley stepped down from the Board after serving a full nine years as a member of the Board.

Signed on behalf of the Board of Directors:

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

26 November 2019

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the West Brom

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