WEST BROMWICH BUILDING SOCIETY
ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED
31 MARCH 2010

West Bromwich Building Society today announces its financial results for the year ended 31 March 2010 and reports significant progress in implementing its 'Back to Basics' strategy.

Key highlights from the 2009/10 financial year include the following:

- Post tax losses from continuing operations reduced by more than two-thirds, from £39.3m to £11.2m.
- Our Tier 1 ratio increased from 8.8% to 13.9% and the Core Tier 1 ratio strengthened from 6.8% to 11.8% – one of the strongest in the sector.
- Underlying costs, excluding one-off items such as restructuring costs and a pension cessation windfall, reduced by 26.0%.
- Savings members benefited from market leading rates, with the average rate earned by savers increasing by 1.1% relative to Bank Rate.
- The Society attracted just over 72,500 new customers, contributing to retail balance inflows of £2.9bn and residential mortgages are now covered 1.29 times by retail balances.
- The wholesale funding ratio reduced from 19.3% to just 11.0%.
- Prudential Liquidity strengthened from 20.3% to 25.5%.

Robert Sharpe, Chief Executive, commented:

"The improvement on last year's results clearly indicates that we are starting to see the benefits of the West Brom's 'Back to Basics' strategy with its renewed focus upon our traditional strengths as a regionally-based building society and concentrating on our core activities of savings and residential mortgages.

This means that we have split the Group between the traditional building society operations and those that are now in run-off, such as commercial lending, and we are applying the right management focus and skills to each.

As with the rest of the financial services world, the Society has encountered some of the most difficult economic and market conditions in generations as evidenced by the fact that the Bank of England Bank Rate has remained at its lowest ever point throughout the whole of our financial year.

Despite this, and the inevitable squeeze on margins, the Society has continued to offer market leading products to compensate savers for the ultra low interest rate environment, whilst its residential mortgage borrowers benefited from an average fall in rates of 2.1%. We also significantly improved our Core Tier 1 capital, giving us one of the strongest capital bases in the sector and, importantly, underpinning the Society's reputation in the eyes of savers as a safe and secure place for their money.

The economic outlook is likely to stay unsettled for some time but the West Brom's 'Back to Basics' strategy, about which we expect to make further announcements in the near future, allows us to look forward with genuine confidence as market conditions gradually recover."

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Note to editors:

Core Tier 1 capital for building societies comprises the aggregate of members' reserves and PPDS, less deductions with respect to intangible assets and certain other adjustments. PIBS are not included in Core Tier 1.

CHIEF EXECUTIVE'S REVIEW

Performance

At the beginning of 2009, the Society introduced a 'Back to Basics' strategy to reposition the West Brom as a traditional and independent building society with a business structure to emerge confidently from these unprecedented economic times.

This new strategy underpins the re-launching of the core building society operation, putting into run-off the non-core and, in some cases, loss-making activities into which the Group had diversified over the last 10 years.

Whilst the Society has again reported a post-tax loss for the year of £17.0m, this is a marked improvement on the £39.3m loss reported in the year to March 2009. For continuing operations the improvement is more dramatic, with post-tax losses reducing to £11.2m. This performance demonstrates substantial progress over the last 12 months in delivering our 'Back to Basics' strategy. Our financial performance would have been even stronger had it not been for historically low interest rates which continue to have a significant adverse impact on our margin at a time when the Society is committed to offering savers market leading interest returns.

The trading environment remained extremely difficult, but the Society continued to provide significant benefits to members, offering returns well above the Bank Rate. Indeed, the Society was virtually ever-present throughout the year in the Best Buy tables. During the year, the West Brom attracted just over 72,500 new customers, contributing retail balances of £2.9bn. This allowed the Society to reduce materially the wholesale funding ratio to just 11.0%, with residential mortgage assets now funded 1.29 times by retail deposits.

Despite the losses incurred from what we describe as the 'non-core businesses', that is those either discontinued or in run-off, the Society has sought to ensure such losses have not impeded our ability to give members exceptional value. This was reflected in the fact that, on average, the amount of interest earned by our savers relative to Bank Rate since 2008/9 has increased by some 1.1%.

Total assets reduced by some 9.4% to £8.3bn, principally as a result of a managed reduction in lending assets of 7%. Conversely, retail savings balances increased marginally. This reduction in the balance sheet is fully in line with our 'Back to Basics' strategy.

In the last 18 months, the Society has taken steps to bring costs into line with the requirements of its operating model and the prevailing economic and marketing conditions. This has seen a decrease in the underlying cost base of 26.0% and a reduction in staffing from just over 1,000 to around 800 currently.

Both the capital and liquidity positions of the Society remain strong, with capital strengthened significantly after the issue of £182.5m of Profit Participating Deferred Shares (PPDS) in July 2009. This gave the Society one of the strongest capital positions in the sector and, importantly, further underlined the security of our members' funds.

The loss for the year ended 31 March 2010 means there will be no dividend on the Society's Profit Participating Deferred Shares (PPDS) in respect of that year, and, in addition, 25% of the loss will be absorbed by a reduction in the nominal value of the PPDS. This, in turn, means that the conditions of the PPDS, which provide for yield equivalence between the Society's Permanent Interest Bearing Shares (PIBS) and the PPDS, will require the Society to cancel the interest payments that would otherwise be made on the PIBS on each of 5 October 2010 and 5 April 2011.

Managing the exit from the non-core operations

A critical part of our ‘Back to Basics’ strategy involves exiting from non-core activities, specifically commercial lending, mortgage broking, residential property letting and second charge lending.

Since 2008, the Group no longer lends to the commercial property sector and is focused on rigorously managing down its commercial portfolio through a dedicated and highly experienced team. The benefits of this approach are already being felt with a net reduction, from £48.7m in 2009 to £15.7m, in the charge for impairments against commercial loans.

With regard to the second charge mortgage business, Insignia, we decided, in 2009, that no further loans would be made and the Group is now managing the portfolio as a closed operation. Having also identified that the mortgage broking subsidiary, Mortgage Force, is not a core activity, the Board intends to exit this business at the earliest opportunity. We have today announced that the Society has agreed, in principle, to sell Mortgage Force to the management for a nominal consideration whilst retaining a small minority interest.

The Group has also seen an improvement in its residential letting operation, West Bromwich Homes, with a £0.2m profit compared with the £12.6m loss recorded for the year to 31 March 2009. Again, in line with the objective of exiting from non-core activities, the Board concluded that there would be no new residential property investments. Instead, the Group will respond to any opportunities to dispose of properties where it is economically advantageous.

All of the subsidiary operations, though placed in run-off, are still being managed vigorously and commercially. While we expect to return them to profit, the Group is still determined to exit these businesses as, in the long term, they do not fit the West Brom’s ‘Back to Basics’ building society model, with the traditional core competencies of retail savings and prime residential mortgages, as well as a modest appetite for risk.

Branch restructure

The West Brom believes that a vibrant branch network, with a distinctive regional identity, is fundamental to the Society’s strategy. With this in mind, the West Brom announced a major restructure of the branch network in March 2010, reflecting our desire to focus on the Society’s heartland, primarily Birmingham and the Black Country, together with a small presence in mid-Wales.

This wide-ranging restructure includes proposals to open new branches in localities within the Society's heartland where we do not currently have a presence. Inevitably, it also means the closure of branches lying outside our core operating area. Above all, it will enable us to embark on a major refurbishment and relocation programme so that the Society can provide customers with comfortable and modern branch premises, and a level of friendly, professional customer service appropriate for a leading regional building society. Our expectation is that before the end of September we will be able to announce our plans for modernising the branch network.

An accessible Society

While our branch network is our primary distribution channel, we are also developing other channels to cater for the differing ways that customers wish to do business with us. For example, during the year, our post and telephony operations processed some £2.0bn of new savings. We also extended the way customers can access our savings products by introducing WeBSave, an online facility. This was launched soon after the end of financial year.

Summary – positive prospects

We have experienced one of the most precarious economic periods in living memory and any prospective recovery is still at a very early stage. The West Brom, as with many in the building society sector, has certainly felt the impact of the recession. However, the last financial year, as our results reveal, has seen the Society taking very positive and decisive steps to ensure we are equipped to take advantage of improved market conditions as the recovery gains momentum.

I have outlined the way in which the West Brom has positioned itself to look ahead with a renewed focus on its traditional strengths as a large building society with a strong regional identity. I believe this will establish the West Brom as a building society that is modern and forward-thinking and one that will never lose sight of the overriding priority which has guided the Society since it first came into being – the unwavering determination to serve and reward the support and loyalty of all our members and to be a safe and secure place for their savings.

Robert Sharpe
CHIEF EXECUTIVE

26 May 2010

Income Statement

for the year ended 31 March 2010

	Group 2010 £m	Re - presented Group 2009 £m
Interest receivable and similar income	**250.3**	508.7
Interest expense and similar charges	**(220.6)**	(441.7)
Net interest receivable	**29.7**	67.0
Fees and commissions receivable	**6.7**	14.3
Fees and commissions payable	**-**	(3.0)
Other operating income	**6.4**	14.5
Total operating income	**42.8**	92.8
Administrative expenses - ongoing	**(38.9)**	(52.4)
Administrative expenses - restructuring	**(3.3)**	(4.1)
Administrative expenses - pension curtailment	**-**	8.0
Depreciation and amortisation	**(4.0)**	(5.6)
Operating (loss)/profit before impairments, provisions and revaluation gains or losses	**(3.4)**	38.7
Gains/(losses) on investment properties	**1.4**	(10.9)
Impairment losses on loans and advances	**(20.6)**	(65.2)
Provisions for liabilities - FSCS Levy	**5.4**	(12.2)
Provisions for liabilities - Other	**(1.3)**	0.8
Loss before tax	**(18.5)**	(48.8)
Tax credit	**7.3**	9.5
Loss for the financial year from continuing operations	**(11.2)**	(39.3)
Discontinued operations		
Loss from discontinued operation	**(5.8)**	-
Loss for the financial year	**(17.0)**	(39.3)

The 2009 results have been represented to provide comparatives for the 2010 discontinued operations and the restructuring costs shown on the face of the Income Statement.

Statement of Comprehensive Income

at 31 March 2010

	Group 2010 £m	Group 2009 £m
Loss for the financial year	**(17.0)**	(39.3)
Other comprehensive income:		
Available for sale investments: valuation gain/(loss) taken to equity	**22.4**	(17.6)
Losses on revaluation of properties	**(1.2)**	(1.5)
Actuarial loss on retirement benefit obligations	**(6.8)**	(5.7)
Cash flow hedge (losses)/gains taken to equity	**(0.1)**	0.1
Tax on items taken directly to equity	**(4.5)**	5.3
Other comprehensive income for the year, net of tax	**9.8**	(19.4)
Total comprehensive income for the year	**(7.2)**	(58.7)

Statement of Financial Position

at 31 March 2010

	Group 2010 £m	Group 2009 £m
Assets		
Cash and balances with the Bank of England	**9.6**	8.5
Loans and advances to credit institutions	**192.9**	318.7
Investment securities: Available for sale	**1,449.2**	1,695.1
Derivative financial instruments	**78.4**	62.1
Loans and advances to customers	**6,437.0**	6,923.2
Intangible assets	**7.2**	11.1
Investment properties	**116.0**	114.4
Property, plant and equipment	**14.6**	16.5
Current tax asset	**2.2**	6.9
Deferred tax assets	**20.1**	22.9
Trade and other receivables	**6.2**	16.1
	8,333.4	9,195.5
Held for sale	**2.2**	-
Total assets	**8,335.6**	9,195.5
Liabilities		
Shares	**6,544.1**	6,541.3
Amounts due to credit institutions	**92.6**	461.5
Amounts due to other customers	**144.3**	497.3
Derivative financial instruments	**96.7**	125.3
Debt securities in issue	**911.3**	992.6
Deferred tax liabilities	**6.9**	8.4
Trade and other payables	**16.2**	25.1
Provisions for liabilities	**6.0**	12.2
Retirement benefit obligations	**2.0**	1.6
Subordinated debt	**-**	190.0
	7,820.1	8,855.3
Held for sale	**0.5**	-
Total liabilities	**7,820.6**	8,855.3
Equity		
Profit participating deferred shares	**179.9**	-
Subscribed capital	**74.9**	74.9
General reserves	**258.5**	278.3
Revaluation reserve	**3.8**	4.6
Available for sale reserve	**(2.3)**	(17.9)
Cashflow reserve	**0.2**	0.3
Total equity attributable to members	**515.0**	340.2
Total liabilities and equity	**8,335.6**	9,195.5

Statement of Changes in Members' Interest

for the year ended 31 March 2010

	Profit participating deferred shares	**Subscribed capital**	**General reserve**	**Revaluation reserve**	**Available for sale reserve**	**Cash flow hedging reserve**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Balance as at 1 April 2009	**-**	**74.9**	**278.3**	**4.6**	**(17.9)**	**0.3**	**340.2**
Issue of equity instrument	184.1	-	-	-	-	-	**184.1**
Loss for the financial year	(4.2)	-	(12.8)	-	-	-	**(17.0)**
Other comprehensive income for the period:							
Available for sale investments: Valuation gain taken to equity	-	-	-	-	15.6	-	**15.6**
Losses on revaluation of properties	-	-	-	(0.8)	-	-	**(0.8)**
Actuarial loss on retirement benefit obligations	-	-	(4.9)	-	-	-	**(4.9)**
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.1)	**(0.1)**
Total other comprehensive income	**-**	**-**	**(4.9)**	**(0.8)**	**15.6**	**(0.1)**	**9.8**
Total comprehensive income for the year	**(4.2)**	**-**	**(17.7)**	**(0.8)**	**15.6**	**(0.1)**	**(7.2)**
Interest on subscribed capital	-	-	(2.1)	-	-	-	**(2.1)**
Balance as at 31 March 2010	**179.9**	**74.9**	**258.5**	**3.8**	**(2.3)**	**0.2**	**515.0**

	Profit participating deferred shares	Subscribed capital	General reserve	Revaluation reserve	Available for sale reserve	Cash flow hedging reserve	Total
	£m	£m	£m	£m	£m	£m	£m
Balance as at 1 April 2008 as previously stated	-	74.9	327.9	6.1	(5.3)	0.2	403.8
Prior year adjustment	-	-	(1.6)	-	-	-	(1.6)
Balance as at 1 April 2008 as restated	-	74.9	326.3	6.1	(5.3)	0.2	402.2
Loss for the financial year	-	-	(39.3)	-	-	-	(39.3)
Other comprehensive income for the period:							
Available for sale investments: Valuation loss taken to equity	-	-	-	-	(12.6)	-	(12.6)
Losses on revaluation of properties	-	-	-	(1.5)	-	-	(1.5)
Actuarial loss on retirement benefit obligations	-	-	(5.4)	-	-	-	(5.4)
Cash flow hedge gain taken to equity	-	-	-	-	-	0.1	0.1
Total other comprehensive income	-	-	(5.4)	(1.5)	(12.6)	0.1	(19.4)
Total comprehensive income for the year	-	-	(44.7)	(1.5)	(12.6)	0.1	(58.7)
Interest on subscribed capital	-	-	(3.3)	-	-	-	(3.3)
Balance as at 31 March 2009	-	74.9	278.3	4.6	(17.9)	0.3	340.2

Cash Flow Statement

for the year ended 31 March 2010

	Group 2010 £m	Group 2009 £m
Net cash (outflow)/inflow from operating activities (see below)	**(340.7)**	449.7
Cash flows from investing activities		
Purchase of investment securities	**(5,545.5)**	(5,998.2)
Proceeds from disposal of investment securities	**5,476.6**	5,632.9
Purchase of property, plant and equipment and intangible assets	**(0.1)**	(2.9)
Proceeds from disposal of property, plant and equipment	**0.7**	0.1
Purchase of investment property	**(0.4)**	(1.4)
Proceeds from disposal of investment properties	**0.2**	0.2
Net cash flows from investing activities	**(68.5)**	(369.3)
Cash flows from financing activities		
Interest paid on subordinated liabilities	**(3.1)**	(12.0)
Dividend paid on subscribed capital	**(2.1)**	(4.6)
Repayment of mortgage backed loan notes	**(48.0)**	(476.9)
Net cash flows from financing activities	**(53.2)**	(493.5)
Net decrease in cash	**(462.4)**	(413.1)
Cash and cash equivalents at beginning of year	**1,230.6**	1,643.7
Cash and cash equivalents at end of year	**768.2**	1,230.6

	Group 2010 £m	Group 2009 £m
Cash in hand	**3.1**	2.5
Loans and advances to credit institutions	**192.9**	318.7
Investment securities	**572.2**	909.4
	768.2	1,230.6

Cash Flow Statement (cont'd)

for the year ended 31 March 2010

	Group 2010 £m	Group 2009 £m
Cash flows from operating activities		
Loss on ordinary activities before tax from continuing activities	**(18.5)**	(48.8)
Loss on ordinary activities before tax from discontinued activities	**(5.8)**	-
Movement in prepayments and accrued income	**2.1**	(2.9)
Movement in accruals and deferred income	**(5.5)**	(0.4)
Impairment losses on loans and advances	**20.6**	65.2
Depreciation and amortisation	**4.0**	5.6
Interest on subordinated liabilities	**3.1**	12.0
Gain on disposal of fixed assets and investment properties	**-**	1.1
Revaluations of investment properties, land and buildings	**(1.4)**	10.9
Movement in provisions for liabilities	**(6.2)**	11.4
Movement in derivative financial instruments	**(44.9)**	75.9
Movement in fair value adjustments for hedged risk	**(5.1)**	(67.2)
Change in retirement benefit obligations	**(6.4)**	(9.2)
Cash flows from operating activities before changes in operating assets and liabilities	**(64.0)**	53.6
Movement in loans and advances to customers	**482.3**	371.7
Movement in shares	**(10.9)**	1,011.9
Movement in deposits and other borrowings	**(757.1)**	(990.6)
Movement in loans and advances to credit institutions	**-**	22.3
Movement in trade and other receivables	**2.0**	(8.8)
Movement in trade and other payables	**(1.9)**	(5.5)
Tax received/(paid)	**8.9**	(4.9)
Net cash (outflow)/inflow from operating activities	**(340.7)**	449.7

Ratios

for the year ended 31 March 2010

	Group 2010	Statutory Limit
Lending limit	**19.4%**	25.0%
Funding limit	**11.0%**	50.0%

	Group 2010	Group 2009
As a percentage of shares and borrowings:		
Gross capital	**7.01%**	6.54%
Free capital	**5.38%**	5.05%
Liquid assets	**22.47%**	24.95%
Loss for the financial year as a percentage of mean total assets	**(0.19%)**	(0.42%)
Management expenses as a percentage of mean total assets	**0.53%**	0.58%
Prudential liquidity ratio	**25.5%**	20.3%
Solvency ratio	**14.3%**	14.1%
Tier 1 ratio	**13.9%**	8.8%
Core Tier 1 ratio	**11.8%**	6.8%

The financial information set out above, which was approved by the Board of Directors on 26 May 2010, does not constitute accounts within the meaning of the Building Societies Act 1986.