

Preliminary Results

for the year ended 31 March 2011



Chief Executive's Review

Jonathan Westhoff



Performance

Our progress over the past year has again proved the effectiveness of the Society's Back to Basics strategy, which emphasises the West Brom's identity as a traditional regional building society with a clear focus on the core activities of savings, investments and prime residential lending.

While the Society has reported a post tax loss for the year of £10.4m, this represents a further reduction from last year's £17.0m – and, more significantly, we have seen profits return at the operating profit level, at £9.3m. This performance is very encouraging, especially in light of the unrelenting pressure on interest margins from Bank Rate which, at 0.5%, has remained at an all-time low for a prolonged period of time.

Despite this, and prevailing difficulties in the trading environment, the Society has continued to offer its savers a range of diverse products offering returns well above the Bank Rate. Indeed, the Society featured consistently in the Best Buy tables throughout the year, illustrating the competitiveness both of our branch-based accounts and new WeBSave channel, which proved an immediate success with customers who prefer the convenience and flexibility of managing their accounts online.

During the financial year, the Society attracted £1.9bn of new retail balances. As a result, at the year end, the Society's residential lending was covered 1.22 times by retail deposits.

The Society keeps its operating costs under constant review, especially given the challenges of the current economic landscape and our responsibility to members to run the business efficiently. In this context, the Society has delivered a further reduction in its underlying cost base, down some 4.2%, although we expect a small increase going forward as the Society re-establishes itself in the residential lending market.

The Society's capital and liquidity positions continue to be strong, with an emphasis on enhancing the quality of our liquid assets. During 2010, the Financial Services Authority introduced 'Individual Liquidity Guidance', which determines the minimum level of high quality assets that the Society is required to hold. The Society has consistently maintained a comfortable surplus above this requirement.

Given the economic turbulence of recent years, the level of capital held by financial institutions has been under scrutiny. This focus is primarily on Core Tier 1, which is the highest quality capital. Here again, the Society has continued its progress with the Group's Core Tier 1 ratio strengthened still further to 12.8%, up from the previous year's figure of 11.8%. This represents one of the strongest amongst UK banks and building societies.

Effective management of the exit from non-core operations

Integral to the Society's Back to Basics strategy has been the concerted and carefully managed run-off of non-core operations – commercial lending, residential property letting, second charge mortgage lending and mortgage broking – where, once more, continued progress is evident from the year's performance.

The commercial property sector is facing a particularly demanding operating environment, but our highly experienced work-out teams are making major strides in managing the Group's commercial lending book, which was closed to new business in 2008. The effect of this approach is reflected by a 12.1% reduction to £1.4bn in the total exposure to commercial lending.

With regards to the residential letting operation – West Bromwich Homes – a thorough review of the property portfolio, as well as the appointment of a new property manager, resulted in an underlying trading profit for the year of £0.2m, compared with a loss of £1.2m in the previous year. While our intention is to withdraw from this market altogether this may take some time to realise in view of the subdued housing market and its effect on sale prices.

In terms of the Group's second charge mortgage business – Insignia – it was decided, in 2009, that no further lending would take place. With careful management of the portfolio, we have seen a reduction in outstanding balances from £50.6m to £44.8m in the course of the last financial year.

In March 2011, we completed the sale of the Group's mortgage broking business – Mortgage Force – to its existing management team.

Building on change

The Society's Back to Basics strategy is very much about our identity as a traditional and independent regional building society. It also reflects our determination to re-establish the West Brom as a modern, forward-thinking building society that is equipped to meet the needs of its customers within a highly competitive market place.

Accordingly, during the last year, the Society has taken the opportunity presented by the requirement to modernise the branch network to launch a new brand identity. The new colours and logo, which has consciously retained the image of the oak tree with its connotations of strength and growth, reflects a modern style as befits a Society which is looking to the future with genuine optimism. We have embarked on this extensive modernisation programme throughout the branch network, which will provide customers and staff with the modern, comfortable surroundings and facilities they rightly expect of the region's largest building society.

Outlook – a picture of promise

It would appear that the fallout from one of the worst economic crises in generations will continue to have an impact for some time to come. Operating in such challenging conditions, our aim has been to position the Society to withstand these pressures and, as we look ahead, to be able to compete as opportunities arise.

The financial environment remains a demanding one but, I can confidently say that the initial goals set by my predecessor, Robert Sharpe, have been realised, in particular returning the Society to strength and putting in place a high quality management team that can take the West Brom forward.

The improvement in our performance, our new brand image, branch modernisation programme and proposed new head office, serve to emphasise the progress the West Brom has made in the last year. We are clearly heading in the right direction with an assured leadership team who share my fervent belief that the Society should always have at its heart the aim of serving its members and earning their loyalty.

Jonathan Westhoff
Chief Executive
25 May 2011

Income Statement

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m
Interest receivable and similar income	214.1	246.5
Interest expense and similar charges	(179.7)	(220.6)
Net interest receivable	34.4	25.9
Fees and commissions receivable	5.7	6.7
Other operating income	4.1	3.7
Total operating income	44.2	36.3
Fair value (losses)/gains on financial instruments	(9.1)	2.7
Net realised profits	15.6	3.8
Total income	50.7	42.8
Administrative expenses - ongoing	(36.1)	(38.9)
Administrative expenses - restructuring	(0.3)	(3.3)
Depreciation and amortisation	(5.0)	(4.0)
Operating profit/(loss) before impairments, provisions and revaluation gains or losses	9.3	(3.4)
(Losses)/Gains on investment properties	(1.9)	1.4
Impairment losses on loans and advances	(16.8)	(20.6)
Provisions for liabilities - FSCS Levy	(2.2)	5.4
Provisions for liabilities - Other	(1.5)	(1.3)
Loss before tax	(13.1)	(18.5)
Taxation	3.4	7.3
Loss for the financial year from continuing operations	(9.7)	(11.2)
Discontinued operations		
Loss from discontinued operations	(0.7)	(5.8)
Loss for the financial year	(10.4)	(17.0)

Statement of Comprehensive Income

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m
Loss for the financial year	(10.4)	(17.0)
Other comprehensive income:		
Available for sale investments: valuation (loss)/gain taken to equity	(1.6)	22.4
Losses on revaluation of properties	-	(1.2)
Actuarial gain/(loss) on retirement benefit obligations	0.7	(6.8)
Cash flow hedge losses taken to equity	(0.3)	(0.1)
Tax on items taken directly to equity	1.1	(4.5)
Other comprehensive income for the financial year, net of tax	(0.1)	9.8
Total comprehensive income for the financial year	(10.5)	(7.2)

Statement of Financial Position

at 31 March 2011

	Group 2011 £m	Group 2010 £m
Assets		
Cash and balances with the Bank of England	385.4	9.6
Loans and advances to credit institutions	124.7	192.9
Investment securities: Available for sale	918.6	1,449.2
Derivative financial instruments	73.4	78.4
Loans and advances to customers	5,880.1	6,437.0
Current tax assets	1.9	2.2
Deferred tax assets	23.8	20.1
Trade and other receivables	5.8	6.2
Intangible assets	7.2	7.2
Investment properties	113.7	116.0
Property, plant and equipment	12.6	14.6
Retirement benefit assets	1.8	-
	7,549.0	8,333.4
Held for sale	-	2.2
Total assets	7,549.0	8,335.6
Liabilities		
Shares	5,711.9	6,544.1
Amounts due to credit institutions	64.3	92.6
Amounts due to other customers	131.6	144.3
Derivative financial instruments	79.8	96.7
Debt securities in issue	1,025.3	911.3
Deferred tax liabilities	6.2	6.9
Trade and other payables	18.6	16.2
Provisions for liabilities	6.8	6.0
Retirement benefit obligations	-	2.0
	7,044.5	7,820.1
Held for sale	-	0.5
Total liabilities	7,044.5	7,820.6
Equity		
Profit participating deferred shares	177.3	179.9
Subscribed capital	74.9	74.9
General reserves	251.3	258.5
Revaluation reserve	3.7	3.8
Available for sale reserve	(2.6)	(2.3)
Cashflow hedging reserve	(0.1)	0.2
Total equity attributable to members	504.5	515.0
Total liabilities and equity	7,549.0	8,335.6

Statements of Changes in Members' Interest

for the year ended 31 March 2011

	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 2010	179.9	74.9	258.5	3.8	(2.3)	0.2	515.0
Loss for the financial year	(2.6)	-	(7.8)	-	-	-	(10.4)
Other comprehensive income for the period:							
Available for sale investments: valuation loss taken to equity	-	-	-	-	(0.3)	-	(0.3)
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	-	-
Actuarial gain on retirement benefit obligations	-	-	0.5	-	-	-	0.5
Cash flow hedge losses taken to equity	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	-	-	0.6	(0.1)	(0.3)	(0.3)	(0.1)
Total comprehensive income for the year	(2.6)	-	(7.2)	(0.1)	(0.3)	(0.3)	(10.5)
Balance as at 31 March 2011	177.3	74.9	251.3	3.7	(2.6)	(0.1)	504.5

	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

Statement of Cash Flows

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m
Net cash outflow from operating activities (see below)	(368.8)	(372.2)
Cash flows from investing activities		
Purchase of investment securities	(3,756.7)	(5,545.5)
Proceeds from disposal of investment securities	3,781.9	5,476.6
Purchase of property, plant and equipment and intangible assets	(4.4)	(4.5)
Proceeds from disposal of property, plant and equipment	1.7	0.2
Purchase of investment property	(0.3)	(0.4)
Proceeds from disposal of investment properties	0.7	0.2
Net cash flows from investing activities	22.9	(73.4)
Cash flows from financing activities		
Interest paid on subordinated liabilities	-	(3.1)
Dividend paid on subscribed capital	-	(2.1)
Issue of other debt securities	216.0	36.4
Repayment of mortgage backed loan notes	(63.1)	(48.0)
Net cash flows from financing activities	152.9	(16.8)
Net decrease in cash	(193.0)	(462.4)
Cash and cash equivalents at beginning of year	768.2	1,230.6
Cash and cash equivalents at end of year	575.2	768.2

	Group 2011 £m	Group 2010 £m
Cash flows from operating activities		
Loss on ordinary activities before tax from continuing activities	(13.1)	(18.5)
Loss on ordinary activities before tax from discontinued activities	(0.7)	(5.8)
Movement in prepayments and accrued income	0.4	2.1
Movement in accruals and deferred income	(3.1)	(5.5)
Impairment losses on loans and advances	16.8	20.6
Depreciation and amortisation	5.0	4.0
Goodwill impairment	-	4.9
Interest on subordinated liabilities	-	3.1
Gain on disposal of fixed assets and investment properties	(0.4)	-
Revaluations of investment properties, land and buildings	1.9	(1.4)
Movement in provisions for liabilities	0.8	(6.2)
Movement in derivative financial instruments	(11.9)	(44.9)
Movement in fair value adjustments for hedged risk	11.9	(5.1)
Change in retirement benefit obligations	(3.1)	(6.4)
Cash flows from operating activities before changes in operating assets and liabilities	4.5	(59.1)

Statement of Cash Flows (continued)

for the year ended 31 March 2011

	Group 2011 £m	Group 2010 £m
Cash flows from operating activities (continued)		
Cash flows from operating activities before changes in operating assets and liabilities	4.5	(59.1)
Movement in loans and advances to customers	518.0	482.3
Movement in shares	(831.8)	(10.9)
Movement in deposits and other borrowings	(70.4)	(793.5)
Movement in trade and other receivables	(0.2)	2.0
Movement in trade and other payables	11.1	(1.9)
Tax received	-	8.9
Net cash outflow from operating activities	(368.8)	(372.2)

	Group 2011 £m	Group 2010 £m
Analysis of cash balances		
Cash in hand (including Bank of England reserve account)	379.6	3.1
Loans and advances to credit institutions	124.7	192.9
Investment securities	70.9	572.2
	575.2	768.2

Ratios

for the year ended 31 March 2011

	Group 2011 %	Statutory Limit %
Lending limit	19.1	25.0
Funding limit	14.2	50.0

	Group 2011 %	Group 2010 %
As a percentage of shares and borrowings:		
Gross capital	7.58	7.01
Free capital	5.86	5.38
Liquid assets	21.47	22.47
Loss for the financial year as a percentage of mean total assets	(0.13)	(0.19)
Management expenses as a percentage of mean total assets	0.52	0.53
Core liquidity buffer as a percentage of total liquidity	47.0	34.0
Solvency ratio	15.6	14.3
Tier 1 capital ratio	15.1	13.9
Core Tier 1 capital ratio	12.8	11.8

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