

the West Brom

Preliminary Results

Year Ended 31 March 2012



Chief Executive's Review

Jonathan Westhoff



Performance

Given the challenging economic environment, it is pleasing to report that the West Brom has again shown progress over the last year. Our Back to Basics strategy and its emphasis on the core building society priorities of retail savings, investments and prime residential mortgages has delivered increased capital ratios and strong levels of high quality liquidity.

The Group's financial results showed another improvement with a reduction of some 31% in the pre-tax loss figure, to £9.5m.

An integral part of our Back to Basics strategy is looking after the financial interests of our members through a range of savings and investment products, alongside the offer of prime residential mortgages.

Bank Rate remains historically low and while this does bring a benefit for many of our residential mortgage borrowers it also places pressure on those seeking to maximise the return on their savings.

Our commitment to savers has seen the West Brom feature consistently in the Best Buy tables over the course of the year, providing competitive products to customers whichever way they prefer to manage their accounts, be it through a branch, directly by telephone or post, or via the internet.

The Society's ability to attract retail deposits which, in the 12 months to 31 March 2012, amounted to a gross inflow of some £2.4bn, meant we were more than able to maintain the proportion of our funding that comes directly from members' deposits. At 86.6% of total funding, these deposits have enabled us to comfortably fund residential mortgages at 1.31 times cover.

Shortly after the year end, we were able to complete a securitisation transaction of residential mortgage assets, the Society's first for six years, to diversify and extend the term of our funding sources.

Non-Core Activities

At the heart of the Society's Back to Basics strategy is an orderly withdrawal from those areas of operation into which we previously diversified – notably commercial lending, residential property letting and second charge lending.

Continued progress is evident, with a reduction of almost 30%, to £1.2bn, over the last three years in the Group's total exposure to commercial lending. Whilst maintaining a prudent level of provisions against our commercial loans, we were able to reduce the level of impairment charges in the year to £6.2m (2010/11: £8.7m).

We intend to exit the residential letting operation – West Bromwich Homes – when market conditions are opportune. However, the current state of the property market is not likely to lead to a portfolio sale in the near future. Thanks to more efficient management the division reported a very pleasing increase in its underlying trading profit, to £0.6m (2010/11: £0.2m).

In terms of the Group's second charge mortgage business – Insignia – it was decided, in 2009, that we would not do any further lending. Since then, careful management of the existing loans has seen balances reduce from £56.1m to £39.6m.

Moving Ahead with Confidence

A renewed emphasis on the Society's strengths as a traditional regionally-based building society does not preclude innovation and development.

We have lived up to our promise of upgrading our branch network, and the feedback from staff and customers alike suggests the project has exceeded expectations. The modernisation programme has given West Brom branches a vibrant profile that is more than a match for our competitors in high streets across the region.

The Society took another step forward after completing the necessary work to re-establish ourselves in the prime residential mortgage market. This involved the implementation of a new highly automated processing and support system, which is now live and enabling the delivery of a new range of mortgage products.

It is still very much our intention to relocate the Society to new head office premises. Progress has been frustrating and negotiations with potential partners have been protracted. However, we are clear that we will only sign up for premises that are right for our business and are in the best long-term interests of our members and staff.

Outlook – playing to our strengths

The overall economic situation both here in the UK and across much of Europe remains unsettled and it would be unwise to predict any immediate upturn. This will have inevitable repercussions for the financial services sector, especially if Bank Rate remains at its all-time low level, and means that the Society's financial performance will continue to be constrained.

Our strengths are embodied in our Back to Basics strategy, which has produced a framework for stability and renewal. The Society's performance over the last year does give some grounds for optimism, while the impressive modernisation of our branches and the re-establishment of the West Brom in the prime residential mortgage market are two noteworthy achievements that will stand us in good stead going forward.

Jonathan Westhoff

Chief Executive

31 May 2012

Income Statement

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m
Interest receivable and similar income	180.8	190.7
Interest expense and similar charges	(145.9)	(156.3)
Net interest receivable	34.9	34.4
Fees and commissions receivable	6.1	5.7
Other operating income	4.4	4.1
Total operating income	45.4	44.2
Fair value losses on financial instruments	(3.0)	(9.1)
Net realised profits from financial instruments	5.2	15.6
Total income	47.6	50.7
Administrative expenses - ongoing	(38.2)	(36.1)
Administrative expenses - restructuring	(0.1)	(0.3)
Depreciation and amortisation	(4.7)	(5.0)
Operating profit before impairments, provisions and revaluation losses	4.6	9.3
Losses on investment properties	(1.0)	(1.9)
Impairment losses on loans and advances	(10.5)	(16.8)
Provisions for liabilities - FSCS Levy	(2.9)	(2.2)
Provisions for liabilities - other	0.3	(1.5)
Loss before tax	(9.5)	(13.1)
Taxation	0.3	3.4
Loss for the financial year from continuing operations	(9.2)	(9.7)
Discontinued operations		
Loss from discontinued operations	-	(0.7)
Loss for the financial year	(9.2)	(10.4)

Statement of Comprehensive Income

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m
Loss for the financial year	(9.2)	(10.4)
Other comprehensive income		
Available for sale investments		
Valuation gain taken to equity	10.5	14.0
Amounts transferred to Income Statement	(5.2)	(15.6)
Actuarial (loss)/gain on retirement benefit obligations	(4.3)	0.7
Cash flow hedge gains/(losses) taken to equity	0.1	(0.3)
Tax on items taken directly to equity	(0.5)	1.1
Other comprehensive income for the financial year, net of tax	0.6	(0.1)
Total comprehensive income for the financial year	(8.6)	(10.5)

Statement of Financial Position

at 31 March 2012

	Group 2012 £m	Group 2011 £m
Assets		
Cash and balances with the Bank of England	769.2	385.4
Loans and advances to credit institutions	117.5	124.7
Investment securities	924.5	918.6
Derivative financial instruments	64.5	73.4
Loans and advances to customers	5,373.6	5,880.1
Current tax assets	-	1.9
Deferred tax assets	25.7	23.8
Trade and other receivables	4.3	5.8
Intangible assets	7.5	7.2
Investment properties	112.7	113.7
Property, plant and equipment	17.6	12.6
Retirement benefit assets	-	1.8
Total assets	7,417.1	7,549.0
Liabilities		
Shares	5,672.8	5,711.9
Amounts due to credit institutions	48.6	64.3
Amounts due to other customers	129.7	131.6
Derivative financial instruments	107.8	79.8
Debt securities in issue	927.4	1,025.3
Deferred tax liabilities	8.2	6.2
Trade and other payables	19.9	18.6
Provisions for liabilities	6.4	6.8
Retirement benefit obligations	0.4	-
Total liabilities	6,921.2	7,044.5
Equity		
Profit participating deferred shares	175.0	177.3
Subscribed capital	74.9	74.9
General reserves	241.1	251.3
Revaluation reserve	3.7	3.7
Available for sale reserve	1.2	(2.6)
Cashflow hedging reserve	-	(0.1)
Total equity attributable to members	495.9	504.5
Total liabilities and equity	7,417.1	7,549.0

Included above are £262.8m of commercial mortgage balances held in two bankruptcy remote Special Purpose Entities (SPEs), Sandwell Commercial Finance No.1 Plc (Sandwell 1) and Sandwell Commercial Finance No.2 Plc (Sandwell 2). The Group's exposure to losses in Sandwell 1 and Sandwell 2 is capped by a first loss at £3.75m and £7.0m respectively. Loans and advances to customers are shown net of provisions of £5.3m in Sandwell 1 and £15.2m in Sandwell 2. The excess over the first loss has been deducted from the carrying value of debt securities which funded the SPEs.

Statements of Changes in Members' Interest

for the year ended 31 March 2012

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 2011	177.3	74.9	251.3	3.7	(2.6)	(0.1)	504.5
Loss for the financial year	(2.3)	-	(6.9)	-	-	-	(9.2)
Other comprehensive income for the period							
Available for sale investments: valuation gain taken to equity	-	-	-	-	3.8	-	3.8
Actuarial loss on retirement benefit obligations	-	-	(3.3)	-	-	-	(3.3)
Cash flow hedge gains taken to equity	-	-	-	-	-	0.1	0.1
Total other comprehensive income	-	-	(3.3)	-	3.8	0.1	0.6
Total comprehensive income for the year	(2.3)	-	(10.2)	-	3.8	0.1	(8.6)
At 31 March 2012	175.0	74.9	241.1	3.7	1.2	-	495.9

Group	Profit participating deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Cash flow hedging reserve £m	Total £m
At 1 April 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)
At 31 March 2011	177.3	74.9	251.3	3.7	(2.6)	(0.1)	504.5

Statement of Cash Flows

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m
Net cash inflow/(outflow) from operating activities (see below)	465.8	(368.8)
Cash flows from investing activities		
Purchase of investment securities	(2,018.8)	(3,756.7)
Proceeds from disposal of investment securities	2,201.4	3,781.9
Purchase of property, plant and equipment and intangible assets	(10.3)	(4.4)
Proceeds from disposal of property, plant and equipment	0.2	1.7
Purchase of investment property	-	(0.3)
Proceeds from disposal of investment properties	-	0.7
Net cash flows from investing activities	172.5	22.9
Cash flows from financing activities		
Net (repayment)/issue of other debt securities	(27.6)	216.0
Repayment of mortgage backed loan notes	(52.1)	(63.1)
Net cash flows from financing activities	(79.7)	152.9
Net increase/(decrease) in cash	558.6	(193.0)
Cash and cash equivalents at beginning of year	575.2	768.2
Cash and cash equivalents at end of year	1,133.8	575.2

	Group 2012 £m	Group 2011 £m
Analysis of cash balances		
Cash in hand (including Bank of England reserve account)	763.7	379.6
Loans and advances to credit institutions	116.1	124.7
Investment securities	254.0	70.9
	1,133.8	575.2

	Group 2012 £m	Group 2011 £m
Cash flows from operating activities		
Loss on ordinary activities before tax from continuing activities	(9.5)	(13.1)
Loss on ordinary activities before tax from discontinued activities	-	(0.7)
Movement in prepayments and accrued income	(0.8)	0.4
Movement in accruals and deferred income	4.3	(3.1)
Impairment losses on loans and advances	10.5	16.8
Depreciation and amortisation	4.7	5.0
Disposal of fixed assets and investment properties	-	(0.4)
Revaluations of investment properties, land and buildings	1.0	1.9
Movement in provisions for liabilities	(0.4)	0.8
Movement in derivative financial instruments	36.9	(11.9)
Movement in fair value adjustments	(15.0)	11.9
Change in retirement benefit obligations	(2.1)	(3.1)
Cash flows from operating activities before changes in operating assets and liabilities	29.6	4.5

Statement of Cash Flows (continued)

for the year ended 31 March 2012

	Group 2012 £m	Group 2011 £m
Cash flows from operating activities (continued)		
Cash flows from operating activities before changes in operating assets and liabilities	29.6	4.5
Movement in loans and advances to customers	517.1	518.0
Movement in loans and advances to credit institutions	(1.1)	-
Movement in shares	(38.1)	(831.8)
Movement in deposits and other borrowings	(42.8)	(70.4)
Movement in trade and other receivables	2.3	(0.2)
Movement in trade and other payables	(3.3)	11.1
Tax received	2.1	-
Net cash inflow/(outflow) from operating activities	465.8	(368.8)

Ratios

for the year ended 31 March 2012

	Group 2012 %	Statutory limit %
Lending limit	19.1	25.0
Funding limit	13.4	50.0

	Group 2012 %	Group 2011 %
As a percentage of shares and borrowings:		
Gross capital	7.57	7.58
Free capital	5.83	5.86
Liquid assets	27.64	21.47
As a percentage of mean total assets:		
Loss for the financial year	(0.12)	(0.13)
Management expenses	0.57	0.52
Core liquidity buffer as a percentage of total liquidity	62.4	47.0
Solvency ratio	16.2	15.6
Tier 1 capital ratio	15.7	15.1
Core Tier 1 capital ratio	13.3	12.8

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