

Preliminary Results

Year Ended 31 March 2013



Forward Looking Statements

Statements in this document are forward looking with respect to plans, goals and expectations relating to the future financial position, business performance and results of the West Brom. 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 including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuation in interest rates and exchange rates, inflation/deflation, the impact of competition, changes in customer preferences, risks concerning borrower credit quality, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which the West Brom operates. 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.

Chief Executive's Review

Jonathan Westhoff



Performance

The economic conditions over the year have remained extremely challenging and volatile, with a return to recession narrowly being avoided. Against this backdrop, the West Brom produced another very satisfactory performance, confirming once again the validity of our Back to Basics strategy with its focus on the core building society activities of retail savings, investments and prime residential mortgages.

Since the start of our strategic repositioning in 2009, the Society has reported four consecutive years of improved financial performance, with the pre-tax loss for the year reducing to £9.4m. It is encouraging to report this result despite persistent pressure on interest margins, arising from Bank Rate remaining at 0.5%, and a further deterioration in the commercial property market.

The Society continues to maintain a robust and balanced funding base and the majority of our funding remains retail savings balances supported by complementary wholesale funding programmes.

During the course of the year, the Society attracted gross retail inflows of £1.7bn and raised £250m of wholesale funds via a residential mortgage backed securitisation transaction. Shortly after the year end, we were successful in completing our second securitisation transaction, raising a further £380m of long term funding.

This diversification in our funding base, combined with a general easing of funding costs in the second half of the year following the introduction of the Government's Funding for Lending Scheme, contributed to the rise in net interest margin during the year.

The responsible and efficient use of member funds dictates the need to keep the Society's costs under constant review. We have taken steps to improve our operational systems and processes as part of the Society's future aspirations. These improvements are integral to the aims of the West Brom and support the provision of efficient and excellent service and market leading facilities for customers.

We have not diverted from our primary strategic objective of increasing the strength of our balance sheet and concentrating on the core building society activities of prime residential mortgages, savings and investments. Our continued progress in this respect is also evident in a reduction of a further 11% in the commercial lending book last year, a fall of circa £600m, or 35%, since exiting the market in this higher risk activity.

The success of this de-risking programme is reflected by the improvement in the Core Tier 1 capital ratio (a fundamental measure of financial strength) which increased from 13.3% to 14.1%. This ratio has now more than doubled since the implementation of the Back to Basics strategy, giving the West Brom one of the highest Core Tier 1 ratios among UK banking and building societies.

Commitment to members

The Society's activities are guided by the defining principle of a traditional building society: looking after the interests of our members.

We have made substantial progress in positioning ourselves to support the aspirations of people wishing to buy their own home. Our mortgage range has been enhanced to offer greater choice and value for both new borrowers and those customers looking to remortgage.

And while the savings market is unquestionably experiencing a downward shift in interest rates on offer, due in part to the impact of the Funding for Lending Scheme, we have maintained a regular presence in the Best Buy tables and consistently offered a selection of competitive products.

Perhaps the most visible improvement can be seen in our branch network, now completely modernised to a standard befitting our position as the region's largest building society. Our branches are not just more aesthetically pleasing, they also offer better customer facilities, including welcome desks, information screens and more space for private consultations.

A confident outlook

The unpredictable economic climate continues to have a restraining influence on the Society's financial performance and it would be unwise to make any bold predictions about when the country's recovery might gather pace.

Nevertheless we are actively investing for the future and maintaining a clear focus on our Back to Basics strategy. Our progress in the mortgage market and major improvements to the branch network show how we are catering for the needs of our members, both now and in the long term.

Our new head office development in West Bromwich town centre, due to begin construction later this year, is also very much a symbol of a building society that sees a positive future for itself.

The investments we have made, when combined with the successful reshaping of the balance sheet and our improving financial performance, demonstrate that the West Brom is well positioned both to deal with the current pressures in the UK economy and to prosper as and when the recovery gathers pace.

Jonathan Westhoff

Chief Executive

31 May 2013

Income Statement

for the year ended 31 March 2013

| | Group 2013 £m | Group 2012 £m |
|---|---------------------|---------------------|
| Interest receivable and similar income | 161.1 | 180.8 |
| Interest expense and similar charges | (127.4) | (145.9) |
| Net interest receivable | 33.7 | 34.9 |
| Fees and commissions receivable | 5.6 | 6.1 |
| Other operating income | 4.3 | 4.4 |
| Total operating income | 43.6 | 45.4 |
| Fair value losses on financial instruments | (1.7) | (3.0) |
| Net realised profits | 7.3 | 5.2 |
| Total income | 49.2 | 47.6 |
| Administrative expenses | (39.3) | (38.3) |
| Depreciation and amortisation | (5.6) | (4.7) |
| Operating profit before impairments, provisions and revaluation losses | 4.3 | 4.6 |
| Losses on investment properties | (0.2) | (1.0) |
| Impairment losses on loans and advances | (10.8) | (10.5) |
| Provisions for liabilities - FSCS Levy | (2.7) | (2.9) |
| Provisions for liabilities - other | - | 0.3 |
| Loss before tax | (9.4) | (9.5) |
| Taxation | 4.4 | 0.3 |
| Loss for the financial year | (5.0) | (9.2) |

Statement of Comprehensive Income

for the year ended 31 March 2013

| | Group 2013 £m | Group 2012 £m |
|--|---------------------|---------------------|
| Loss for the financial year | (5.0) | (9.2) |
| Other comprehensive income | | |
| Available for sale investments | | |
| Valuation gain taken to equity | 15.6 | 10.5 |
| Amounts transferred to Income Statement | (4.8) | (5.2) |
| Actuarial loss on retirement benefit obligations | (1.7) | (4.3) |
| Cash flow hedge gains taken to equity | - | 0.1 |
| Tax on items taken directly to equity | (2.2) | (0.5) |
| Other comprehensive income for the financial year, net of tax | 6.9 | 0.6 |
| Total comprehensive income for the financial year | 1.9 | (8.6) |

Statement of Financial Position

at 31 March 2013

| | Group 2013 £m | Group 2012 £m |
|---|---------------------|---------------------|
| Assets | | |
| Cash and balances with the Bank of England | 392.3 | 769.2 |
| Loans and advances to credit institutions | 147.1 | 117.5 |
| Investment securities | 499.5 | 924.5 |
| Derivative financial instruments | 29.5 | 64.5 |
| Loans and advances to customers | 4,971.1 | 5,373.6 |
| Deferred tax assets | 24.0 | 25.7 |
| Trade and other receivables | 2.8 | 4.3 |
| Intangible assets | 7.9 | 7.5 |
| Investment properties | 112.5 | 112.7 |
| Property, plant and equipment | 16.5 | 17.6 |
| Retirement benefit assets | 0.4 | - |
| Total assets | 6,203.6 | 7,417.1 |
| Liabilities | | |
| Shares | 4,652.2 | 5,672.8 |
| Amounts due to credit institutions | 28.5 | 48.6 |
| Amounts due to other customers | 193.0 | 129.7 |
| Derivative financial instruments | 99.4 | 107.8 |
| Debt securities in issue | 709.1 | 927.4 |
| Deferred tax liabilities | 4.3 | 8.2 |
| Trade and other payables | 12.5 | 19.9 |
| Provisions for liabilities | 6.8 | 6.4 |
| Retirement benefit obligations | - | 0.4 |
| Total liabilities | 5,705.8 | 6,921.2 |
| Equity | | |
| Profit participating deferred shares | 173.7 | 175.0 |
| Subscribed capital | 74.9 | 74.9 |
| General reserves | 236.1 | 241.1 |
| Revaluation reserve | 3.7 | 3.7 |
| Available for sale reserve | 9.4 | 1.2 |
| Total equity attributable to members | 497.8 | 495.9 |
| Total liabilities and equity | 6,203.6 | 7,417.1 |

Statement of Changes in Members' Interest

for the year ended 31 March 2013

| 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 2012 | 175.0 | 74.9 | 241.1 | 3.7 | 1.2 | - | 495.9 |
| Loss for the financial year | (1.3) | - | (3.7) | - | - | - | (5.0) |
| Other comprehensive income for the period | | | | | | | |
| Available for sale investments: current year movement net of tax | - | - | - | - | 8.2 | - | 8.2 |
| Actuarial loss on retirement benefit obligations | - | - | (1.3) | - | - | - | (1.3) |
| Total other comprehensive income | - | - | (1.3) | - | 8.2 | - | 6.9 |
| Total comprehensive income for the year | (1.3) | - | (5.0) | - | 8.2 | - | 1.9 |
| At 31 March 2013 | 173.7 | 74.9 | 236.1 | 3.7 | 9.4 | - | 497.8 |

| 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: current year movement net of tax | - | - | - | - | 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 |

Statement of Cash Flows

for the year ended 31 March 2013

| | Group 2013 £m | Group 2012 £m |
|--|---------------------|---------------------|
| Net cash (outflow)/inflow from operating activities (see below) | (566.8) | 465.8 |
| Cash flows from investing activities | | |
| Purchase of investment securities | (672.1) | (2,018.8) |
| Proceeds from disposal of investment securities | 870.7 | 2,201.4 |
| Purchase of property, plant and equipment and intangible assets | (5.0) | (10.3) |
| Proceeds from disposal of property, plant and equipment | 0.2 | 0.2 |
| Net cash flows from investing activities | 193.8 | 172.5 |
| Cash flows from financing activities | | |
| Issue of mortgage backed loan notes | 175.0 | - |
| Repayment of mortgage backed loan notes | (67.3) | (52.1) |
| Net repayment of other debt securities | (318.2) | (27.6) |
| Net cash flows from financing activities | (210.5) | (79.7) |
| Net (decrease)/increase in cash | (583.5) | 558.6 |
| Cash and cash equivalents at beginning of year | 1,133.8 | 575.2 |
| Cash and cash equivalents at end of year | 550.3 | 1,133.8 |

| | Group 2013 £m | Group 2012 £m |
|--|---------------------|---------------------|
| Analysis of cash and cash equivalents | | |
| Cash in hand (including Bank of England Reserve account) | 386.8 | 763.7 |
| Loans and advances to credit institutions | 147.0 | 116.1 |
| Investment securities | 16.5 | 254.0 |
| | 550.3 | 1,133.8 |

| | Group 2013 £m | Group 2012 £m |
|--|---------------------|---------------------|
| Cash flows from operating activities | | |
| Loss on ordinary activities before tax from continuing activities | (9.4) | (9.5) |
| Movement in prepayments and accrued income | 0.9 | (0.8) |
| Movement in accruals and deferred income | (3.6) | 4.3 |
| Impairment losses on loans and advances | 10.8 | 10.5 |
| Depreciation and amortisation | 5.6 | 4.7 |
| Revaluations of investment properties, land and buildings | 0.2 | 1.0 |
| Movement in provisions for liabilities | 0.4 | (0.4) |
| Movement in derivative financial instruments | 26.6 | 36.9 |
| Movement in fair value adjustments | (11.8) | (15.0) |
| Change in retirement benefit obligations | (2.5) | (2.1) |
| Cash flows from operating activities before changes in operating assets and liabilities | 17.2 | 29.6 |

Statement of Cash Flows (continued)

for the year ended 31 March 2013

| | Group 2013 £m | Group 2012 £m |
|--|---------------------|---------------------|
| Cash flows from operating activities (continued) | | |
| Cash flows from operating activities before changes in operating assets and liabilities | 17.2 | 29.6 |
| Movement in loans and advances to customers | 387.5 | 517.1 |
| Movement in loans and advances to credit institutions | 1.3 | (1.1) |
| Movement in shares | (1,009.5) | (38.1) |
| Movement in deposits and other borrowings | 40.2 | (42.8) |
| Movement in trade and other receivables | 0.5 | 2.3 |
| Movement in trade and other payables | (4.0) | (3.3) |
| Tax received | - | 2.1 |
| Net cash (outflow)/inflow from operating activities | (566.8) | 465.8 |

Ratios

for the year ended 31 March 2013

| | Group 2013 % | Statutory limit % |
|---------------|--------------------|-------------------------|
| Lending limit | 19.2 | 25.0 |
| Funding limit | 11.5 | 50.0 |

| | Group 2013 % | Group 2012 % |
|--|--------------------|--------------------|
| As a percentage of shares and borrowings: | | |
| Gross capital | 9.47 | 7.57 |
| Free capital | 7.16 | 5.83 |
| Liquid assets | 19.77 | 27.64 |
| As a percentage of mean total assets: | | |
| Loss for the financial year | (0.07) | (0.12) |
| Management expenses | 0.66 | 0.57 |
| Core liquidity buffer as a percentage of total liquidity | 56.2 | 62.4 |
| Solvency ratio | 17.2 | 16.2 |
| Tier 1 capital ratio | 16.8 | 15.7 |
| Core Tier 1 capital ratio | 14.1 | 13.3 |

**Braille, audio and large print versions
of this document are available upon request.
Please contact us on 0845 33 00 622.**

**To find out more, visit your local branch,
call us on the number above or visit our
website at www.westbrom.co.uk**

Head Office: 374 High Street, West Bromwich, West Midlands B70 8LR.
www.westbrom.co.uk

Registered Number: 651B

Calls and electronic communications may be monitored and/or recorded for your security and may be used for training purposes. Your confidentiality will be maintained. The West Brom is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Register No. 104877. 'the West Brom' is a trading name of West Bromwich Building Society.

