

the West Brom

Preliminary Results

Year Ended 31 March 2014



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 UK economic recovery has followed a steady upward path during the past year – reflected in renewed market confidence. Against this backdrop, the Society delivered another very encouraging year with a return to profit – a landmark achievement and a direct result of the 'Back to Basics' strategy implemented in 2009. Through delivery of this strategy we have maintained a constant commitment to the traditional building society model and the delivery of long-term value for our members.

Profit before tax was £2.1m (2012/13 restated: loss of £9.1m), with the prime driver being a rise in the net interest margin to 0.81% (2012/13: 0.49%). The improvement in 2013/14 was in part due to the government economic stimulus, which resulted in the cost of funding starting to reduce in the second half of the financial year. However, in relative terms these funding costs remain significantly above pre-crisis levels, and hence, to offset in part the impact of this, rates on certain buy to let loans were increased. The result for the year also includes a £5.1m gain on the revaluation of the investment property portfolio, evidencing the improving economic landscape and the upward trend in UK property prices.

In maintaining a balanced and stable funding base, the majority of the Society's funding requirements were met by retail savings balances supported by cost effective wholesale funding. During May 2013 the Society took advantage of the opportunity to obtain term wholesale funding and raised £380m via a residential mortgage backed securitisation.

Underpinned by a new mortgage processing platform and a comprehensive suite of products, the Society's return to the residential lending market gathered pace with gross lending of £213.6m (2012/13: £19.3m). Our unwavering commitment to reducing exposure to non-core lending has resulted in total lending assets reducing by £290.6m.

Aligned to the principles of a traditional building society and fundamental to the Society's return to profit, the replacement of legacy higher risk assets with lower risk prime residential mortgages has resulted in the continued strengthening of the Society's capital position. This progress has delivered an improvement in the Common Equity Tier 1 capital ratio (the key measure of financial resilience) to 13.4% (2012/13: 12.8%).

Strategic investment

While cost effectiveness remains a priority, strategic investment is essential to facilitate growth and deliver an efficient operation which will generate member value in the future.

This year we have invested further in our mortgage platform, focusing on delivering a high quality intermediary system. Our overhaul of the mortgage operations now means that the Society has a scalable operation, sufficient to support lending plans for the years to come.

Head Office staff will move premises in 2015 to Providence Place within West Bromwich. This new building represents a modern, efficient and environmentally friendly base from which the business can expand with our people fully equipped to support and serve our membership.

Putting members first

The Board's commitment to core building society principles directs the Society's strategy. As a mutual organisation the delivery and preservation of member value underpins all decisions.

Throughout 2013/14, the West Brom has continued to support members in purchasing their own homes by consistently offering a range of competitive mortgages. We have responded to the difficulty many prospective homeowners have in raising large deposits by opening up accessibility to higher loan to value (LTV) products. With 14% of our lending in 2013/14 to first time buyers (up to 90% LTV), the extent of this support is clearly seen.

During the year the effect of the low interest rate environment on savers was exacerbated, with savings rates falling further across the market. The West Brom has sought to moderate the effect on its savers by keeping rates competitive, maintaining a presence in the Best Buy tables and ensuring rates paid to existing savers average 0.95% higher than Bank Rate.

The Financial Conduct Authority's Retail Distribution Review has led to many banks and building societies ceasing their provision of financial planning services. However, in recognising the importance of providing our customers with this valuable service, we partnered with Towergate Financial – a leading national financial advisor – to give members independent financial advice and access to the full spectrum of financial products.

Mutuality – valuing members’ views

Being a building society means that the Society is owned by and run for the benefit of its members, which is why finding out their views and opinions is of paramount importance.

Through the past year, we have continued to employ a variety of methods to engage with our members and listen to their views. The Society’s AGM provides members with an opportunity to voice their views and ask questions on key issues.

This year, I have hosted three ‘Members’ Viewpoint’ events, where feedback was provided on a range of subjects – a valuable insight for us. Also during the year, a survey measuring the satisfaction of members who have completed a mortgage with us was launched.

Outlook

Reflecting on the return to profit, strengthened capital position, our strong investment in infrastructure and improving economic environment, the West Brom can face the future with considerable optimism. Whilst there remain some legacy issues to resolve, which might result in some volatility in financial performance in future years, the trend remains very positive.

Residential mortgage activities are expected to increase in 2014/15 as the Society supports yet more members with their home ownership aspirations, all within a framework of responsible lending.

Going forward, the West Brom will continue its programme of investment. Having completely renewed our branch network and lending capabilities, we look forward to unveiling the new Head Office in Spring 2015.

Jonathan Westhoff

Chief Executive

28 May 2014

Income Statement

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m
Interest receivable and similar income	135.9	161.1
Interest expense and similar charges	(87.7)	(127.4)
Net interest receivable	48.2	33.7
Fees and commissions receivable	5.7	5.6
Other operating income	3.6	4.3
Total operating income	57.5	43.6
Fair value gains/(losses) on financial instruments	4.6	(1.7)
Net realised (losses)/profits	(0.2)	7.3
Total income	61.9	49.2
Administrative expenses	(40.6)	(39.3)
Depreciation and amortisation	(4.4)	(5.6)
Operating profit before impairments, provisions and revaluation gains/(losses)	16.9	4.3
Gains/(Losses) on investment properties	5.1	(0.2)
Impairment on loans and advances	(13.6)	(10.8)
Provisions for liabilities	(6.3)	(2.4)
Profit/(Loss) before tax	2.1	(9.1)
Taxation	(1.1)	4.4
Profit/(Loss) for the financial year	1.0	(4.7)

Statement of Comprehensive Income

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m
Profit/(Loss) for the financial year	1.0	(4.7)
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Available for sale investments		
Valuation (loss)/gain taken to equity	(6.2)	15.6
Amounts transferred to Income Statement	0.2	(4.8)
Gains on revaluation of land and buildings	0.5	-
Cash flow hedge gains taken to equity	0.2	-
Taxation	1.0	(2.6)
Items that will not subsequently be reclassified to profit or loss		
Actuarial loss on retirement benefit obligations	(6.2)	(1.7)
Taxation	1.4	0.4
Other comprehensive income for the financial year, net of tax	(9.1)	6.9
Total comprehensive income for the financial year	(8.1)	2.2

Statement of Financial Position

at 31 March 2014

	Group 2014 £m	Group 2013* £m
Assets		
Cash and balances with the Bank of England	136.3	392.3
Loans and advances to credit institutions	169.4	147.1
Investment securities	461.6	499.5
Derivative financial instruments	33.8	29.5
Loans and advances to customers	4,680.5	4,971.1
Deferred tax assets	23.8	23.2
Trade and other receivables	2.8	2.8
Intangible assets	8.7	7.9
Investment properties	115.2	112.5
Property, plant and equipment	18.4	16.5
Retirement benefit assets	-	0.4
Total assets	5,650.5	6,202.8
Liabilities		
Shares	4,235.6	4,652.2
Amounts due to credit institutions	38.7	28.5
Amounts due to other customers	121.0	193.0
Derivative financial instruments	62.0	99.4
Debt securities in issue	677.0	709.1
Deferred tax liabilities	3.6	4.3
Trade and other payables	13.6	12.5
Provisions for liabilities	5.1	3.2
Retirement benefit obligations	1.4	-
Total liabilities	5,158.0	5,702.2
Equity		
Profit participating deferred shares	174.7	174.4
Subscribed capital	74.9	74.9
General reserves	234.9	238.2
Revaluation reserve	3.4	3.7
Available for sale reserve	4.4	9.4
Cash flow hedging reserve	0.2	-
Total equity attributable to members	492.5	500.6
Total liabilities and equity	5,650.5	6,202.8

Statement of Changes in Members' Interest

for the year ended 31 March 2014

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 2013 (restated)	174.4	74.9	238.2	3.7	9.4	-	500.6
Profit for the financial year	0.3	-	0.7	-	-	-	1.0
Other comprehensive income for the period							
Available for sale investments: current year movement net of tax	-	-	-	-	(5.0)	-	(5.0)
Actuarial loss on retirement benefit obligations	-	-	(4.8)	-	-	-	(4.8)
Gain on revaluation of land and buildings	-	-	-	0.5	-	-	0.5
Realisation of previous revaluation gains	-	-	0.8	(0.8)	-	-	-
Cash flow hedge gains	-	-	-	-	-	0.2	0.2
Total other comprehensive income	-	-	(4.0)	(0.3)	(5.0)	0.2	(9.1)
Total comprehensive income for the year	0.3	-	(3.3)	(0.3)	(5.0)	0.2	(8.1)
At 31 March 2014	174.7	74.9	234.9	3.4	4.4	0.2	492.5

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 (as reported)	175.0	74.9	241.1	3.7	1.2	-	495.9
Change in accounting policy	0.6	-	1.9	-	-	-	2.5
At 1 April 2012 (restated)	175.6	74.9	243.0	3.7	1.2	-	498.4
Loss for the financial year (restated)	(1.2)	-	(3.5)	-	-	-	(4.7)
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 (restated)	(1.2)	-	(4.8)	-	8.2	-	2.2
At 31 March 2013 (restated)	174.4	74.9	238.2	3.7	9.4	-	500.6

Statement of Cash Flows

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m
Net cash outflow from operating activities (below)	(235.0)	(566.8)
Cash flows from investing activities		
Purchase of investment securities	(141.8)	(672.1)
Proceeds from disposal of investment securities	229.3	870.7
Proceeds from disposal of investment properties	2.3	-
Purchase of property, plant and equipment and intangible assets	(6.2)	(5.0)
Proceeds from disposal of property, plant and equipment	0.5	0.2
Net cash flows from investing activities	84.1	193.8
Cash flows from financing activities		
Issue of mortgage backed loan notes	380.0	175.0
Repayment of mortgage backed loan notes	(105.8)	(67.3)
Net repayment of other debt securities	(302.3)	(318.2)
Net cash flows from financing activities	(28.1)	(210.5)
Net decrease in cash	(179.0)	(583.5)
Cash and cash equivalents at beginning of year	550.3	1,133.8
Cash and cash equivalents at end of year	371.3	550.3

	Group 2014 £m	Group 2013* £m
Analysis of cash and cash equivalents		
Cash in hand (including Bank of England Reserve account)	128.1	386.8
Loans and advances to credit institutions	169.4	147.0
Investment securities	73.8	16.5
	371.3	550.3

	Group 2014 £m	Group 2013* £m
Cash flows from operating activities		
Profit/(Loss) on ordinary activities before tax from continuing activities	2.1	(9.1)
Movement in prepayments and accrued income	(0.1)	0.9
Movement in accruals and deferred income	1.2	(3.6)
Impairment on loans and advances	13.6	10.8
Depreciation and amortisation	4.4	5.6
Revaluations of investment properties	(5.1)	0.2
Movement in provisions for liabilities	1.9	0.1
Movement in derivative financial instruments	(41.7)	26.6
Movement in fair value adjustments	40.3	(11.8)
Change in retirement benefit obligations	(4.4)	(2.5)
Cash flows from operating activities before changes in operating assets and liabilities	12.2	17.2

Statement of Cash Flows (continued)

for the year ended 31 March 2014

	Group 2014 £m	Group 2013* £m
Cash flows from operating activities (continued)		
Cash flows from operating activities before changes in operating assets and liabilities	12.2	17.2
Movement in loans and advances to customers	237.9	387.5
Movement in loans and advances to credit institutions	(2.6)	1.3
Movement in shares	(418.9)	(1,009.5)
Movement in deposits and other borrowings	(62.8)	40.2
Movement in trade and other receivables	0.1	0.5
Movement in trade and other payables	(0.9)	(4.0)
Net cash outflow from operating activities	(235.0)	(566.8)

Ratios

for the year ended 31 March 2014

	Group 2014 %	Statutory limit %
Lending limit	19.1	25.0
Funding limit	5.3	50.0

	Group 2014 %	Group 2013* %
As a percentage of shares and borrowings:		
Gross capital	11.01	9.53
Free capital	8.18	7.21
Liquid assets	17.15	19.77
As a percentage of mean total assets:		
Profit/(Loss) for the financial year	0.02	(0.07)
Management expenses	0.76	0.66

	Group 2014 %	Group 2013 %
Common Equity Tier 1 capital ratio	13.4	12.8

* Restated due to a change in accounting policy, following the guidance set out in International Financial Reporting Interpretations Committee (IFRIC) 21, 'Levies'.

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