

the West Brom

Preliminary Results

Year Ended 31 March 2015



the
**West
Brom**

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

I am very pleased to report we have built on the improved performance seen in the previous year, with a significant increase in pre-tax profit. We have continued to deliver on the objectives set in our strategy of realigning the business to return to the traditional building society model. The UK's strengthening economy has inspired consumer confidence and resulted in increased demand in the housing market. We are delighted that we have been able to support our members' home ownership aspirations and can report a more than doubling of our gross lending on residential mortgages.

Profit before tax improved from £2.1m to £12.4m. The main driver for this is a rise in the net interest margin from 0.81% to 1.15%.

The result for the year includes a £5.5m gain (2013/14: £5.1m gain) on the revaluation of the West Bromwich Homes investment property portfolio as a result of the house price increases we have seen in the year.

The Society's return to the residential lending market gained momentum with gross lending more than doubling to £446m (2013/14: £214m). Within this, 21% supported first time buyers.

Exposure to non-core commercial lending has continued to reduce. Since the Society exited the market in 2008/9, total exposure has reduced from £1.7bn to £0.8bn, of which £0.13bn is securitised.

The level of accounts in arrears by three months or more in our core residential mortgage book has remained low at 1.34%, in line with the sector average.

The return to profit, and the substitution of prime, residential lending for the higher risk legacy assets has resulted in the continued strengthening of the Society's capital position. The Common Equity Tier 1 capital ratio, benefiting also from capital treatments effective from 1st January 2015, under European regulations, increased to 14.4% (2013/14: 13.4%).

Strategic investment

Later this year the Society's Head Office will relocate to Providence Place in West Bromwich. This modern, environmentally friendly and functional workplace together with our continued investment in our core infrastructure and mortgage system, will ensure the business can grow, and is equipped with all the facilities needed to provide the efficient, friendly and professional service our members expect.

Members and mutuality

The Board remains committed to the core building society principles. As a mutual organisation the delivery and preservation of member value underpins all decisions.

Being guided by this model of a traditional building society, the West Brom looks after the interests of its members by offering prime residential mortgages, retail savings and investments which meet their specific needs.

In 2014 I reported that the rates on certain buy to let loans were increased, within the original terms and conditions of the mortgages. The increase was made to reflect changing market conditions and the need for the Society to carry out our business prudently, efficiently, competitively and in the best interests of all of our members. A number of borrowers formed an action group and challenged this in a legal case. I am pleased to say that the Court upheld the Society's position. Whilst the trial judge did not feel that there was any merit in an appeal, the action group wish to pursue one, and we await to hear when that might be.

As a demonstration of the Society's desire to support our borrowing members, during the course of the year, the Standard Variable Rate was reduced to 3.99%.

However, it has been another challenging year for savers with retail market rates falling. We continue to strive to balance the needs of our savings and mortgages members, and have tried to contain the reduction in rates, but we do have to respond to market pricing otherwise we generate retail savings inflows which we are unable to use given the level of demand for mortgages which is still at less than 60% of its 2007 peak. We did rationalise our savings product range in 2014/15 to offer a simple, clear range and whilst this did involve reducing the rates on some of our leading products more customers saw their rates increase than decrease.

Valuing members' views

Mutuality 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.

I host Members' ViewPoint events in a variety of the Society's core locations, offering the opportunity for members to provide feedback on a range of subjects. These events offer valuable insight from our members and are used to help refine our products and services. In the financial year three events were held.

During 2014/15 we have continued to measure customer satisfaction. On average 9.4 out of 10 customers were satisfied with their experience when contacting the West Brom. When asked if they would recommend the West Brom to their family and friends, an impressive three quarters of customers confirmed that they would.

During the year we launched our Customer Panel where members are canvassed for their views on our products and services and give feedback on how we can improve the way we operate. This is done via short on-line surveys, and is open to any West Brom mortgage or savings customer aged 16 or over. Some 2,000 members have now joined this panel.

At the Society's Annual General Meeting (AGM), members can also voice their views, ask questions on key issues and vote on the election of the West Brom's Board of Directors and other resolutions.

Outlook

Reflecting on the materially increased profitability, strengthened capital position 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 2015/16 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 strategic investment. Having completely renewed our branch network and lending capabilities, we look forward to unveiling the new Head Office later in the year.

Jonathan Westhoff

Chief Executive

27 May 2015

Income Statement

for the year ended 31 March 2015

	Group 2015 £m	Group 2014 £m
Interest receivable and similar income	136.9	135.9
Interest expense and similar charges	(72.2)	(87.7)
Net interest receivable	64.7	48.2
Fees and commissions receivable	4.2	5.7
Other operating income	3.8	3.6
Total operating income	72.7	57.5
Fair value (losses)/gains on financial instruments	(16.3)	4.6
Net realised profits/(losses)	0.1	(0.2)
Total income	56.5	61.9
Administrative expenses	(40.6)	(40.6)
Depreciation and amortisation	(5.4)	(4.4)
Operating profit before revaluation gains, impairments and provisions	10.5	16.9
Gains on investment properties	5.5	5.1
Impairment on loans and advances	(0.2)	(13.6)
Provisions for liabilities	(3.4)	(6.3)
Profit before tax	12.4	2.1
Taxation	(3.2)	(1.1)
Profit for the financial year	9.2	1.0

Statement of Comprehensive Income

for the year ended 31 March 2015

	Group 2015 £m	Group 2014 £m
Profit for the financial year	9.2	1.0
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Available for sale investments		
Valuation loss taken to equity	(1.0)	(6.2)
Amounts transferred (from)/to Income Statement	(0.1)	0.2
Cash flow hedge (losses)/gains taken to equity	(0.3)	0.2
Taxation	0.2	1.0
Items that will not subsequently be reclassified to profit or loss		
Gains on revaluation of land and buildings	-	0.5
Remeasurement losses on defined benefit obligations	(10.7)	(6.2)
Taxation	2.1	1.4
Other comprehensive income for the financial year, net of tax	(9.8)	(9.1)
Total comprehensive income for the financial year	(0.6)	(8.1)

Statement of Financial Position

at 31 March 2015

	Group 2015 £m	Group 2014 £m
Assets		
Cash and balances with the Bank of England	260.8	136.3
Loans and advances to credit institutions	186.5	169.4
Investment securities	274.3	461.6
Derivative financial instruments	19.0	33.8
Loans and advances to customers	4,677.4	4,680.5
Deferred tax assets	23.9	23.8
Trade and other receivables	2.7	2.8
Intangible assets	7.0	8.7
Investment properties	118.6	115.2
Property, plant and equipment	30.2	18.4
Total assets	5,600.4	5,650.5
Liabilities		
Shares	3,988.0	4,235.6
Amounts due to credit institutions	393.3	113.2
Amounts due to other customers	152.4	121.0
Derivative financial instruments	80.8	62.0
Debt securities in issue	467.1	602.5
Deferred tax liabilities	4.5	3.6
Trade and other payables	12.7	13.6
Provisions for liabilities	2.2	5.1
Retirement benefit obligations	7.5	1.4
Total liabilities	5,108.5	5,158.0
Equity		
Profit participating deferred shares	177.1	174.7
Subscribed capital	74.9	74.9
General reserves	233.1	234.9
Revaluation reserve	3.4	3.4
Available for sale reserve	3.5	4.4
Cash flow hedging reserve	(0.1)	0.2
Total equity attributable to members	491.9	492.5
Total liabilities and equity	5,600.4	5,650.5

Statement of Changes in Members' Interest

for the year ended 31 March 2015

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 2014	174.7	74.9	234.9	3.4	4.4	0.2	492.5
Profit for the financial year	2.4	-	6.8	-	-	-	9.2
Other comprehensive income for the period							
Available for sale investments: current year movement net of tax	-	-	-	-	(0.9)	-	(0.9)
Remeasurement losses on defined benefit obligations	-	-	(8.6)	-	-	-	(8.6)
Cash flow hedge losses	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive income	-	-	(8.6)	-	(0.9)	(0.3)	(9.8)
Total comprehensive income for the year	2.4	-	(1.8)	-	(0.9)	(0.3)	(0.6)
At 31 March 2015	177.1	74.9	233.1	3.4	3.5	(0.1)	491.9

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	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)
Remeasurement losses on defined 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

Statement of Cash Flows

for the year ended 31 March 2015

	Group 2015 £m	Group 2014 £m
Net cash inflow/(outflow) from operating activities (below)	103.9	(537.3)
Cash flows from investing activities		
Purchase of investment securities	(187.9)	(141.8)
Proceeds from disposal of investment securities	305.6	229.3
Proceeds from disposal of investment properties	2.1	2.3
Purchase of property, plant and equipment and intangible assets	(16.8)	(6.2)
Proceeds from disposal of property, plant and equipment	-	0.5
Net cash flows from investing activities	103.0	84.1
Cash flows from financing activities		
Issue of mortgage backed loan notes	-	380.0
Repayment of mortgage backed loan notes	(134.1)	(105.8)
Net cash flows from financing activities	(134.1)	274.2
Net increase/(decrease) in cash	72.8	(179.0)
Cash and cash equivalents at beginning of year	371.3	550.3
Cash and cash equivalents at end of year	444.1	371.3

	Group 2015 £m	Group 2014 £m
Analysis of cash and cash equivalents		
Cash in hand (including Bank of England Reserve account)	253.6	128.1
Loans and advances to credit institutions	186.5	169.4
Investment securities	4.0	73.8
	444.1	371.3

	Group 2015 £m	Group 2014 £m
Cash flows from operating activities		
Profit on ordinary activities before tax from continuing activities	12.4	2.1
Movement in prepayments and accrued income	0.3	(0.1)
Movement in accruals and deferred income	-	1.2
Impairment on loans and advances	(0.2)	13.6
Depreciation and amortisation	5.4	4.4
Revaluations of investment properties	(5.5)	(5.1)
Movement in provisions for liabilities	(2.9)	1.9
Movement in derivative financial instruments	33.6	(41.7)
Movement in fair value adjustments	(14.0)	40.3
Change in retirement benefit obligations	(4.6)	(4.4)
Cash flows from operating activities before changes in operating assets and liabilities	24.5	12.2

Statement of Cash Flows (continued)

for the year ended 31 March 2015

	Group 2015 £m	Group 2014 £m
Cash flows from operating activities (continued)		
Cash flows from operating activities before changes in operating assets and liabilities	24.5	12.2
Movement in loans and advances to customers	13.6	237.9
Movement in loans and advances to credit institutions	1.0	(2.6)
Movement in shares	(242.3)	(418.9)
Movement in deposits and other borrowings	308.5	(365.1)
Movement in trade and other receivables	(0.2)	0.1
Movement in trade and other payables	0.3	(0.9)
Tax paid	(1.5)	-
Net cash inflow/(outflow) from operating activities	103.9	(537.3)

Ratios

for the year ended 31 March 2015

	Group 2015 %	Statutory limit %
Lending limit	17.1	25.0
Funding limit	12.1	50.0

	Group 2015 %	Group 2014 %
As a percentage of shares and borrowings:		
Gross capital	10.85	11.01
Free capital	7.78	8.18
Liquid assets	15.92	17.15
As a percentage of mean total assets:		
Profit for the financial year	0.16	0.02
Management expenses	0.82	0.76

Common Equity Tier 1 capital ratio	14.4	13.4
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