

# Preliminary Results

Year ended 31 March 2016



# 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 pleased to report another year of progress in every respect; a strong growth in new mortgages advanced to home owners, an increase in savings balances that funded the growth in total mortgage balances and an increasing level of profitability which supported a further strengthening of our capital position.**

**The West Brom is now positioned as a well capitalised, efficient and modern Society, built on the traditional principles of supporting homeowners, providing a safe home for savers and delivering excellent customer service and satisfaction.**

Profit before tax was 9% ahead of last year at £13.5m (2014/15: £12.4m), a sound and sustainable performance.

Gross prime residential mortgage lending increased by 51% to £673m (2014/15: £446m) and residential lending balances increased by £213m (2014/15: £73m). This growth was funded entirely by an increase in retail savings deposits which increased by £397m (2014/15 £248m reduction). This meant that the Society's total assets grew from £5.6bn to £5.8bn, the first increase since 2008 when the Society undertook a strategic repositioning with a focus on reducing its non-core activities, primarily commercial lending. For the year to 31 March 2016 we have seen a strong residential lending performance resulting in an increase in loan balances which outstrips the reduction in commercial loans.

Importantly, this does not mean that progress is slowing on our carefully managed run down of the non-core commercial property loans. Total balances outstanding reduced a further 19% in the year to £0.68bn.

It is, however, satisfying to report that whilst delivering growth, the Society has continued to improve its Common Equity Tier 1 capital ratio, the key measure of capital strength, to 14.6% (2014/15: 14.4%).

## Strategic investment

In the Spring of 2016 our Head Office and central operations relocated to Providence Place in West Bromwich. The Society's former High Street premises served as our home for nearly 40 years, but had neither the physical space nor facilities to support our aspirations for growth. Our new Head Office is considerably larger, modern, well-equipped and has an open plan layout that supports collaborative working between key departments, thereby improving our operational efficiency. It represents an exciting new era for the Society and, together with continual investment in core infrastructure, enables us to provide members with the level of service they deserve.

## Serving our members

The core, traditional building society principle of mutuality remains our cornerstone. As a mutual organisation, the delivery of long-term member value informs all of our decision making.

The West Brom looks after the interests of its members by offering prime residential mortgages for homeowners, competitive retail savings and a range of ancillary products and services designed to meet individual financial needs.

As I have previously reported, a rate adjustment has been applied to certain buy to let loans in the Society's subsidiary West Bromwich Mortgage Company Ltd. Legal proceedings have been ongoing and following our successful defence of this challenge in the High Court an appeal was heard in April 2016, the outcome of which is not yet known.

The continuation of the low rate environment is generally good news for homeowner borrowers but conversely, it is not such good news for our savers. In 2015/16, we offered our savings members a range of products, many of which have featured regularly in the Best Buy tables. These are available through a variety of channels – branch, post and online – to suit the individual customer's preference.

## Listening to our members

The West Brom is run in the interests of its members and so it is important we provide opportunities for people to share their views and opinions.

A regular feature in the calendar are our Members' ViewPoint feedback events, which we host in venues located around the Society's branch network and use to capture suggestions for how we can improve our products and services. They also enable members to spend time with representatives from the senior management team in an informal environment and raise any queries or concerns.

To help monitor satisfaction levels we carry out occasional surveys and invite members to rate our service after a transaction in a branch or a telephone enquiry. Branches also now include feedback facilities, where members can conveniently access a web-based facility via their smartphone or mobile device.

The West Brom's Customer Panel continues to grow, with more than 2,000 registered users. During the year we have used the panel to gauge members' opinions on a variety of important topics, including taking out a mortgage and children's savings accounts. It is input such as this that helps us to design products which are properly in tune with members' needs.

## **Outlook**

The Society has grown both its mortgage lending and total assets in the year. This growth has been on the back of a sound profit performance and increased capital, underpinning our financial strength.

This means that we are well placed to continue with our programme of investment in 2016/17 and we expect to see further growth.

Looking forward, Mark Gibbard our Group Finance & Operations Director has informed the Board of his intention to retire at the end of the 2016/17 financial year. The recruitment of his successor has commenced.

The progress that the Society has made in 2015/16 also means that we can look forward to sustained profitability and further strengthening of our capital base, giving us an optimistic outlook notwithstanding the continued challenge of the low interest rate environment and political uncertainties.

### **Jonathan Westhoff**

Chief Executive  
25 May 2016

## Income Statement

for the year ended 31 March 2016

	Group 2016 £m	Group 2015 £m
Interest receivable and similar income	126.7	136.9
Interest expense and similar charges	(66.7)	(72.2)
<b>Net interest receivable</b>	<b>60.0</b>	64.7
Fees and commissions receivable	3.7	4.2
Other operating income	3.9	3.8
<b>Total operating income</b>	<b>67.6</b>	72.7
Fair value losses on financial instruments	(1.0)	(16.3)
Net realised profits	0.6	0.1
<b>Total income</b>	<b>67.2</b>	56.5
Administrative expenses	(42.0)	(40.6)
Depreciation and amortisation	(5.1)	(5.4)
<b>Operating profit before revaluation gains, impairment and provisions</b>	<b>20.1</b>	10.5
Gains on investment properties	5.5	5.5
Impairment on loans and advances	(8.1)	(0.2)
Provisions for liabilities	(4.0)	(3.4)
<b>Profit before tax</b>	<b>13.5</b>	12.4
Taxation	(4.1)	(3.2)
<b>Profit for the financial year</b>	<b>9.4</b>	9.2

## Statement of Comprehensive Income

for the year ended 31 March 2016

	Group 2016 £m	Group 2015 £m
<b>Profit for the financial year</b>	<b>9.4</b>	9.2
<b>Other comprehensive income</b>		
<b>Items that may subsequently be reclassified to profit or loss</b>		
Available for sale investments		
Valuation loss taken to equity	(2.2)	(1.0)
Amounts transferred to Income Statement	(0.6)	(0.1)
Cash flow hedge losses taken to equity	(0.2)	(0.3)
Taxation	0.2	0.2
<b>Items that will not subsequently be reclassified to profit or loss</b>		
Actuarial losses on defined benefit obligations	(0.9)	(10.7)
Taxation	0.1	2.1
<b>Other comprehensive income for the financial year, net of tax</b>	<b>(3.6)</b>	(9.8)
<b>Total comprehensive income for the financial year</b>	<b>5.8</b>	(0.6)

# Statement of Financial Position

at 31 March 2016

	Group 2016 £m	Group 2015 £m
<b>Assets</b>		
Cash and balances with the Bank of England	215.4	260.8
Loans and advances to credit institutions	204.0	186.5
Investment securities	410.1	274.3
Derivative financial instruments	8.9	19.0
Loans and advances to customers	4,739.0	4,677.4
Deferred tax assets	20.4	23.9
Trade and other receivables	2.7	2.7
Intangible assets	8.2	7.0
Investment properties	123.7	118.6
Property, plant and equipment	33.9	30.2
Retirement benefit assets	0.8	-
<b>Total assets</b>	<b>5,767.1</b>	5,600.4
<b>Liabilities</b>		
Shares	4,385.1	3,988.0
Amounts due to credit institutions	259.0	393.3
Amounts due to other customers	157.0	152.4
Derivative financial instruments	77.1	80.8
Debt securities in issue	368.6	467.1
Deferred tax liabilities	4.7	4.5
Trade and other payables	15.2	12.7
Provisions for liabilities	2.7	2.2
Retirement benefit obligations	-	7.5
<b>Total liabilities</b>	<b>5,269.4</b>	5,108.5
<b>Equity</b>		
Profit participating deferred shares	179.5	177.1
Subscribed capital	74.9	74.9
General reserves	239.3	233.1
Revaluation reserve	3.4	3.4
Available for sale reserve	0.9	3.5
Cash flow hedging reserve	(0.3)	(0.1)
<b>Total equity attributable to members</b>	<b>497.7</b>	491.9
<b>Total liabilities and equity</b>	<b>5,767.1</b>	5,600.4

## Statement of Changes in Members' Interest

### for the year ended 31 March 2016

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
<b>At 1 April 2015</b>	<b>177.1</b>	<b>74.9</b>	<b>233.1</b>	<b>3.4</b>	<b>3.5</b>	<b>(0.1)</b>	<b>491.9</b>
Profit for the financial year	2.4	-	7.0	-	-	-	9.4
<b>Other comprehensive income for the period</b>							
Available for sale investments: current year movement net of tax	-	-	-	-	(2.6)	-	(2.6)
Actuarial losses on defined benefit obligations	-	-	(0.8)	-	-	-	(0.8)
Cash flow hedge losses	-	-	-	-	-	(0.2)	(0.2)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(0.8)</b>	<b>-</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>(3.6)</b>
<b>Total comprehensive income for the year</b>	<b>2.4</b>	<b>-</b>	<b>6.2</b>	<b>-</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>5.8</b>
<b>At 31 March 2016</b>	<b>179.5</b>	<b>74.9</b>	<b>239.3</b>	<b>3.4</b>	<b>0.9</b>	<b>(0.3)</b>	<b>497.7</b>

### 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
<b>At 1 April 2014</b>	<b>174.7</b>	<b>74.9</b>	<b>234.9</b>	<b>3.4</b>	<b>4.4</b>	<b>0.2</b>	<b>492.5</b>
Profit for the financial year	2.4	-	6.8	-	-	-	9.2
<b>Other comprehensive income for the period</b>							
Available for sale investments: current year movement net of tax	-	-	-	-	(0.9)	-	(0.9)
Actuarial losses on defined benefit obligations	-	-	(8.6)	-	-	-	(8.6)
Cash flow hedge losses	-	-	-	-	-	(0.3)	(0.3)
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(8.6)</b>	<b>-</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>(9.8)</b>
<b>Total comprehensive income for the year</b>	<b>2.4</b>	<b>-</b>	<b>(1.8)</b>	<b>-</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>(0.6)</b>
<b>At 31 March 2015</b>	<b>177.1</b>	<b>74.9</b>	<b>233.1</b>	<b>3.4</b>	<b>3.5</b>	<b>(0.1)</b>	<b>491.9</b>

## Statement of Cash Flows

for the year ended 31 March 2016

	Group 2016 £m	Group 2015 £m
<b>Net cash inflow from operating activities (below)</b>	<b>220.3</b>	103.9
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(386.7)	(187.9)
Proceeds from disposal of investment securities	298.0	305.6
Proceeds from disposal of investment properties	0.4	2.1
Purchase of property, plant and equipment and intangible assets	(8.8)	(16.8)
<b>Net cash flows from investing activities</b>	<b>(97.1)</b>	103.0
<b>Cash flows from financing activities</b>		
Repayment of mortgage backed loan notes	(98.5)	(134.1)
<b>Net cash flows from financing activities</b>	<b>(98.5)</b>	(134.1)
Net increase in cash	24.7	72.8
Cash and cash equivalents at beginning of year	444.1	371.3
<b>Cash and cash equivalents at end of year</b>	<b>468.8</b>	444.1

	Group 2016 £m	Group 2015 £m
<b>Analysis of cash and cash equivalents</b>		
Cash in hand (including Bank of England Reserve account)	208.7	253.6
Loans and advances to credit institutions	204.0	186.5
Investment securities	56.1	4.0
	<b>468.8</b>	444.1

	Group 2016 £m	Group 2015 £m
<b>Cash flows from operating activities</b>		
Profit on ordinary activities before tax from continuing activities	13.5	12.4
Movement in prepayments and accrued income	(0.2)	0.3
Movement in accruals and deferred income	(0.4)	-
Impairment on loans and advances	8.1	0.2
Depreciation and amortisation	5.1	5.4
Revaluations of investment properties	(5.5)	(5.5)
Movement in provisions for liabilities	0.5	(2.9)
Movement in derivative financial instruments	6.4	33.6
Movement in fair value adjustments	(2.3)	(14.0)
Change in retirement benefit obligations	(9.2)	(4.6)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>16.0</b>	24.9



## Statement of Cash Flows (continued)

for the year ended 31 March 2016

	Group 2016 £m	Group 2015 £m
<b>Cash flows from operating activities (continued)</b>		
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>16.0</b>	24.9
Movement in loans and advances to customers	<b>(72.4)</b>	13.2
Movement in loans and advances to credit institutions	<b>0.6</b>	1.0
Movement in shares	<b>407.1</b>	(242.3)
Movement in deposits and other borrowings	<b>(129.7)</b>	308.5
Movement in trade and other receivables	<b>2.4</b>	(0.2)
Movement in trade and other payables	<b>(3.7)</b>	0.3
Tax paid	<b>-</b>	(1.5)
<b>Net cash inflow from operating activities</b>	<b>220.3</b>	103.9

## Ratios

for the year ended 31 March 2016

	Group 2016 %	Statutory limit %
Lending limit	<b>13.7</b>	25.0
Funding limit	<b>8.7</b>	50.0

  

	Group 2016 %	Group 2015 %
As a percentage of shares and borrowings:		
Gross capital	<b>10.37</b>	10.85
Free capital	<b>7.29</b>	7.78
Liquid assets	<b>17.28</b>	15.92
As a percentage of mean total assets:		
Profit for the financial year	<b>0.17</b>	0.16
Management expenses	<b>0.83</b>	0.82

  

Common Equity Tier 1 capital ratio	<b>14.6</b>	14.4
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