Preliminary Results

Year ended 31 March 2019

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 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

I'm pleased to report that the Society has had another successful year supporting the financial wellbeing of our members through the delivery of safe, good value products and services. During the year we have continued to support first-time buyers to own their own home, launched a market-leading easy access savings account and paid on average a 45% higher rate to our savers than the market average rate[1], all of which have been achieved in a fiercely competitive market environment. This year's achievements, coupled with our long-term strategies to reduce legacy risk and keep control of costs have helped support a 19% increase in profits before tax and improved capital ratios, which provide a robust base for future investments as we celebrate our 170th year.

Balancing the benefits of savers and borrowers in a highly competitive marketplace

The forces of change in mainstream financial services have perhaps never been greater with economic forces, consumer behaviour, technology and regulation all combining to drive a challenging agenda. Within this environment it's important the Society remains true to its mutual purpose and continues to balance the needs of savers and borrowers appropriately.

With market growth in gross residential lending moderated at 3.0%, HPI remaining relatively flat, the withdrawal of the Bank of England's Term Funding Scheme package and the increased lending capacity of both ring-fenced and challenger banks, in the second half of this year we took the decision to reduce our lending in those markets where, put simply, the rates we would be charging to our new borrowers would, in some cases, be uneconomic. Indeed, while the Bank of England increased the Bank Rate in August by 0.25%, the average rate paid by the market on new mortgages reduced relative to Bank Rate, which meant that there was a risk of an imbalance between the value distributed to our saving and borrowing members.

At £691m (2017/18: £837m) our level of gross residential lending has achieved an appropriate balance and therefore represents a responsible decision to reposition ourselves and strengthen our lending proposition in markets that allow us to offer safe, secure returns to saving members.

Refining our focus on purpose

It gives me great pride that 43% (2017/18: 34%) of all new borrowers welcomed to the Society have been first-time buyers, evidencing further the Society's commitment to help the next generation of home owners. Throughout the year we have worked hard to extend our lending proposition to support borrowers who align to our traditional building society purpose but are potentially lesser served by mainstream lenders. What we like to call 'new-traditional' lending. Increasingly, we are now able to support a diverse range of borrower needs: whether that be those looking to buy their first home with the help of a sponsor, build a home using a self-build mortgage, remortgage an existing Help to Buy property or support the private rented sector as a portfolio landlord. In the forthcoming financial year we will continue to extend our product range further whilst also introducing online functionality to our existing customers and our intermediary partners looking to change products at the end of their initial incentive periods.

Safe, good returns for savers

Our savers provide balances that support 84% (2017/18: 84%) of all our mortgage lending and are very much fundamental to the continued success of our mutual model. I'm pleased to say that following the decision of the Bank of England to increase Bank Rate we rewarded our savers by increasing the average rate of interest from 0.78% in 2017/18 to 0.94%. The rate we pay is 45% (2017/18: 26%) above the average rate paid across the rest of the market of 0.65% (2017/18: 0.62%)[1] which, in simple terms, means that the Society has paid £11.4m (2017/18: £6.5m) in mutual benefit to savers.

While the trajectory of Bank Rate remains somewhat uncertain, in the short term at least, our savings proposition will continue to offer members safe, good value products that complement a range of needs, allowing us to support sustainable levels of residential lending.

[1] Average market rates sourced from Bank of England Bankstats table A6.1

Commitment to outstanding service

With price competition remaining intense, we recognise the decision of many of our members to borrow or save with us will be based as much on service as it is on price. To this end we set ourselves ambitious targets to maintain outstanding levels of service that meet the principles of our customer proposition; offering products and services that reflect *individual* customer needs, are *easy* to use and understand and help our members *trust* us with their financial wellbeing. Over the year the Society's Net Promoter Score®[2] was an impressive +72 (2017/18: +65) and customer satisfaction was maintained at 94%.

As a regional building society which lends across the country the service offered by our mortgage intermediary partners really is something the Society values. We also recognise that maintaining this relationship is a two-way endeavour with the Society striving to extend products and services that are as accessible as possible. During the year our service standards to intermediary partners were independently recognised at the 2018 Financial Adviser Service Awards, where the Society received the highest accolade, a coveted five star rating for its quality of service. Further extensions of both our product and service offerings are planned for our intermediary partners in the coming year.

Presence in our heartland

With many main banks reducing their presence on the high street, it's also pleasing that our high-street proposition has continued to prove attractive with branch balances growing by 3% (£85m). While it's important to acknowledge that the branch network is expensive to run and is being used less year on year, we also recognise that the value of our branches extends beyond being an important source of funding, contributing 69% of all retail funding balances (2017/18: 66%), with the network seen by many of our members as an essential part of the West Brom's regional identity. This was a view confirmed by our Member Council.

Over the last year we have maintained our commitment to the network by taking an opportunity to secure a new flagship premises right in the heart of West Bromwich. We had been actively engaged in the search for a new West Bromwich position for a number of years so securing a position in the vibrant New Square shopping area really is something to be celebrated, offering members a brand new branch right in the heart of our home town. The opening of this new site has also provided the opportunity to consolidate the two existing, poorly located, West Bromwich positions (Dartmouth Square and High Street) into one central location. We encourage our members to visit the new branch and will continue to seek opportunities to deliver a more efficient network that adds value to the membership as a whole.

Responsible approach to risk

The impressive strides the Society has made to reduce exposure to those areas of lending that do not fit our mutual purpose have remained a consistent theme for the last 10 years. The scale of the progress we have made here should not be underestimated with non-core commercial exposures now reduced to just 26% of their peak position. This long-term progress to shift materially the composition and riskiness of the Society's lending activities has not however reduced our focus on pursuing opportunities to exit individual positions where these make economic sense for members. Indeed over the course of the last 12 months we have reduced non-core commercial assets by a further 9% with total remaining exposures now below £450m, which when combined with the growth in residential lending has once again supported a reduction in balance sheet risk and an improved capital position.

Our responsible approach to risk is also evidenced in the performance of new lending that has been originated in the last five years with only 2 new mortgage members in arrears of three months or more. When you consider across that period we have welcomed some 35,000 new mortgage members to the Society this figure goes to evidence the responsible safeguards we put in place to ensure new borrowers can afford their mortgages both now and at interest rates much higher than they are today. Moreover when borrowers do struggle to meet their payments the West Brom prides itself on taking an individual approach that also meets our responsibility as a mutual lender.

Welcoming our Member and Employee Councils

As a building society the interests of our members guide the decisions we make and, as a member of the Society's Board, I frequently receive questions on how we make these decisions and how much consideration is given to other people's views. Following last year's introduction of a binding vote on Directors' Remuneration Policy, a position unique within the building society sector, this year we have taken our commitment to stakeholder engagement as a key principle of good, mutual corporate governance further through the creation of two consultative groups, the Member and Employee Councils.

We've formed these bodies to include as diverse a range of views as possible to ensure the views expressed are a representative cross-section of the diversity we observe, celebrate and promote in both our membership and our employee populations. Crucially the purpose of the Councils extends beyond feedback with members able to articulate stakeholder views back to the Society's Board and senior leadership team on particular matters of strategic importance. Agendas have included a variety of topics, from Directors' remuneration to the boundaries between comply or explain under the Corporate Governance Code, and a proposition to grow home ownership from the rented sector. Each meeting has been chaired by myself, or the

[1] Average market rates sourced from Bank of England Bankstats table A6.1

[2] Net Promoter Score and NPS are trademarks of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

chair of the Remuneration Committee where the subject matter has required, with representation from senior managers and Non-Executive Directors where appropriate.

I would like to take this opportunity to thank formally all members and employees who have helped create this pioneering initiative, setting a new standard amongst other mutuals in terms of stakeholder engagement. I would also encourage members who feel they can contribute to register their interest via our website or in person to support future recruitment to the panel.

Our people and communities

The Society takes its role as a regional building society seriously both as an employer and as a community partner. During the year we have supported another 22 members of staff to study for professional qualifications, including a Masters in Strategic Leadership in partnership with Loughborough University and the Building Societies Association. We have promoted the government's apprenticeship agenda, with 23 apprentices now working towards qualifications with the support of the Society, and continued an active programme of both in-house and external training.

Diversity of viewpoint is an essential ingredient of good decision-making. The Society has again made strides to support the Women in Finance Charter with women now occupying 33% and 29% of positions on the Board and senior management respectively. We have also encouraged diversity and inclusion through the formation of the 'Connect' group which provides a staff diversity forum to discuss and share ideas, experiences and challenges with activities held around key cultural celebrations such as Vaisakhi, Eid, Diwali and Christmas.

We also recognise that our responsibility to support financial wellbeing extends beyond the products and services we offer to members and into the wider community. This is perhaps no better evidenced than through our 'Money Go Round' education initiative which aims to give the next generation of savers and borrowers an early insight into the value of money and impact of good financial management. Throughout the year this initiative led to delivery of presentations to schools within our heartland, involving circa 2,000 students, supporting the development of financial literacy and the key role this plays in how confident people feel in managing their finances.

The Society takes pride in its wider community work and encourages all staff to partake in 2 days volunteering per year. This has provided some 750 hours of work to our charity partners in support of much needed regional causes. This year we have partnered with Black Country Women's Aid as our charity of the year with activities throughout the year raising over £30,000 to help the much-needed work they do supporting the victims of domestic abuse, violence and exploitation. I would like to take this opportunity to thank everyone associated with the charity for their work during this relationship which has been a privilege for the Society.

Continuity, change and investment

The resilience of our mutual model throughout our 170 year history has been based on our ability to deliver both continuity and change. While the core of what the Society offers to members, both borrowers and savers, remains very much unchanged, the way in which we deliver products and services has changed beyond recognition. We now operate in an environment where our members expect us to be on the high street, on the telephone, accessible via post, on the internet and accessible by mobile and/or tablet. With this in mind it's important that we do not take our 170 year history for granted but continue to invest in the Society's core systems so we can continue to meet the product, service and security expectations of both current and future members long into the future.

As we look into the future, putting the immediate uncertainty of Brexit to one side, it remains likely that competition within core mortgage and savings markets will continue for some time. By way of response, the Society will, as it has done in the past 12 months, continue to take responsible decisions to encourage lending growth only in those markets where sustainable returns can be evidenced, whilst seeking all available opportunities to run our Society as efficiently as possible for the benefits of our members. In this sense our approach will remain allied fundamentally to our core building society purpose.

As a building society the West Brom exists for its members, bringing those who want to borrow and those who want to save together to achieve a common purpose – financial wellbeing. For us this purpose remains as relevant today as when the Society was founded and as we complete our 170th year, I'm confident that our delivery will remain resolute as we adapt to support further new-traditional methods of home ownership and embrace the opportunities created by digital innovation.

Jonathan Westhoff
Chief Executive
29 May 2019

Income Statement

for the year ended 31 March 2019

	Group 2019 £m	Group 2018* £m
Interest receivable and similar income		
Calculated using the effective interest method	**118.5**	113.3
On instruments measured at fair value through profit or loss	**(6.9)**	(16.0)
Total interest receivable and similar income	**111.6**	97.3
Interest expense and similar charges	**(53.1)**	(41.8)
Net interest receivable	**58.5**	55.5
Fees and commissions receivable	**2.6**	2.7
Other operating income	**4.0**	3.8
Fair value (losses)/gains on financial instruments	**(4.4)**	2.5
Total income	**60.7**	64.5
Administrative expenses	**(42.6)**	(43.5)
Depreciation and amortisation	**(6.9)**	(7.2)
Operating profit before revaluation gains, impairment and provisions	**11.2**	13.8
Gains on investment properties	**2.6**	3.8
Impairment on loans and advances	**(3.0)**	(7.9)
Provisions for liabilities	**(0.3)**	(0.9)
Profit before tax	**10.5**	8.8
Taxation	**(1.4)**	(0.9)
Profit for the financial year	**9.1**	7.9

Statement of Comprehensive Income

for the year ended 31 March 2019

	Group 2019 £m	Group 2018* £m
Profit for the financial year	**9.1**	7.9
Other comprehensive income		
Items that may subsequently be reclassified to profit or loss		
Available for sale investments		
Valuation losses taken to equity	**-**	(1.1)
Fair value through other comprehensive income investments		
Valuation losses taken to equity	**(1.1)**	-
Cash flow hedge gains taken to equity	**-**	0.8
Taxation	**0.2**	0.1
Items that will not subsequently be reclassified to profit or loss		
Actuarial losses on defined benefit obligations	**(2.5)**	(1.6)
Taxation	**0.5**	0.4
Other comprehensive income for the financial year, net of tax	**(2.9)**	(1.4)
Total comprehensive income for the financial year	**6.2**	6.5

*The Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018 and comparatives have not been restated. The Income Statement and Statement of Comprehensive Income are therefore presented on an IFRS 9 basis for the financial year ended 31 March 2019 and an IAS 39 basis for the year ended 31 March 2018.

Statement of Financial Position

at 31 March 2019

	Group 2019 £m	Group 2018* £m
Assets		
Cash and balances with the Bank of England	**182.5**	324.7
Loans and advances to credit institutions	**106.7**	120.6
Investment securities	**309.3**	311.9
Derivative financial instruments	**6.5**	19.5
Loans and advances to customers	**4,746.7**	4,805.4
Deferred tax assets	**18.9**	15.3
Trade and other receivables	**3.7**	6.4
Intangible assets	**16.5**	15.3
Investment properties	**134.7**	132.2
Property, plant and equipment	**28.4**	30.2
Total assets	**5,553.9**	5,781.5
Liabilities		
Shares	**3,991.2**	4,051.4
Amounts due to credit institutions	**667.3**	571.3
Amounts due to other customers	**77.7**	133.1
Derivative financial instruments	**39.3**	38.7
Debt securities in issue	**344.1**	493.3
Current tax liabilities	**1.1**	-
Deferred tax liabilities	**5.8**	4.5
Trade and other payables	**12.1**	12.0
Provisions for liabilities	**1.4**	2.1
Retirement benefit obligations	**4.9**	5.1
Subordinated liabilities	**22.8**	-
Total liabilities	**5,167.7**	5,311.5
Members' interests and equity		
Profit participating deferred shares	**-**	175.0
Core capital deferred shares	**127.0**	-
Subscribed capital	**8.9**	75.0
General reserves	**247.1**	215.8
Revaluation reserve	**3.3**	3.4
Available for sale reserve	**-**	0.8
Fair value reserve	**(0.1)**	-
Total members' interests and equity	**386.2**	470.0
Total members' interests, equity and liabilities	**5,553.9**	5,781.5

*The Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018 and comparatives have not been restated. The Statement of Financial Position is therefore presented on an IFRS 9 basis at 31 March 2019 and an IAS 39 basis at 31 March 2018.

Statement of Changes in Members' Interests and Equity

for the year ended 31 March 2019

Group	Profit participating deferred shares £m	Core capital deferred shares £m	Subscribed capital £m	General reserves £m	Revaluation reserve £m	Available for sale reserve £m	Fair value reserve £m	Total £m
At 1 April 2018	175.0	-	75.0	215.8	3.4	0.8	-	**470.0**
Changes on initial application of IFRS 9*	-	-	-	(27.8)	-	(0.8)	0.8	**(27.8)**
At 1 April 2018 including impact of IFRS 9 adoption	175.0	-	75.0	188.0	3.4	-	0.8	**442.2**
Profit for the financial year	-	-	-	9.1	-	-	-	**9.1**
Other comprehensive income for the period (net of tax)								
Retirement benefit obligations	-	-	-	(2.0)	-	-	-	**(2.0)**
Realisation of previous revaluation gains	-	-	-	0.1	(0.1)	-	-	**-**
Fair value through other comprehensive income investments	-	-	-	-	-	-	(0.9)	**(0.9)**
Total other comprehensive income	**-**	**-**	**-**	**(1.9)**	**(0.1)**	**-**	**(0.9)**	**(2.9)**
Total comprehensive income for the year	**-**	**-**	**-**	**7.2**	**(0.1)**	**-**	**(0.9)**	**6.2**
Capital restructuring	(175.0)	127.0	(66.1)	51.9	-	-	-	**(62.2)**
At 31 March 2019	**-**	**127.0**	**8.9**	**247.1**	**3.3**	**-**	**(0.1)**	**386.2**

for the year ended 31 March 2018

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 2017	173.0	75.0	211.0	3.5	1.7	(0.7)	463.5
Profit for the financial year	2.0	-	5.9	-	-	-	7.9
Other comprehensive income for the period (net of tax)							
Available for sale investments	-	-	-	-	(0.9)	-	(0.9)
Retirement benefit obligations	-	-	(1.2)	-	-	-	(1.2)
Realisation of previous revaluation gains	-	-	0.1	(0.1)	-	-	-
Cash flow hedge gains	-	-	-	-	-	0.7	0.7
Total other comprehensive income	-	-	(1.1)	(0.1)	(0.9)	0.7	(1.4)
Total comprehensive income for the year	2.0	-	4.8	(0.1)	(0.9)	0.7	6.5
At 31 March 2018	175.0	75.0	215.8	3.4	0.8	-	470.0

*The Group has adopted IFRS 9 'Financial Instruments' with effect from 1 April 2018 and comparatives have not been restated. The Statement of Changes in Members' Interests and Equity is therefore presented on an IFRS 9 basis for the financial year ended 31 March 2019 and an IAS 39 basis for the year ended 31 March 2018.

Statement of Cash Flows

for the year ended 31 March 2019

	Group 2019 £m	Group 2018 £m
Net cash inflow/(outflow) from operating activities (below)	**30.7**	(323.4)
Cash flows from investing activities		
Purchase of investment securities	**(120.1)**	(155.6)
Proceeds from disposal of investment securities	**87.8**	267.7
Proceeds from disposal of investment properties	**0.1**	0.5
Purchase of property, plant and equipment and intangible assets	**(6.7)**	(7.1)
Net cash flows from investing activities	**(38.9)**	105.5
Cash flows from financing activities		
Issue of debt securities	**1.0**	348.5
Repayment of debt securities	**(149.2)**	(113.4)
Capital restructuring	**(36.2)**	-
Interest paid on subordinated liabilities	**(1.2)**	-
Net cash flows from financing activities	**(185.6)**	235.1
Net (decrease)/increase in cash	**(193.8)**	17.2
Cash and cash equivalents at beginning of year	**492.5**	475.3
Cash and cash equivalents at end of year	**298.7**	492.5

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following balances with less than 90 days maturity:

Analysis of cash and cash equivalents	Group 2019 £m	Group 2018 £m
Cash in hand (including Bank of England Reserve account)	**172.0**	318.1
Loans and advances to credit institutions	**106.7**	120.6
Investment securities	**20.0**	53.8
	298.7	492.5

The Group is required to maintain certain mandatory balances with the Bank of England which, at 31 March 2019, amounted to £10.5m (2017/18: £6.6m). The movement in these balances is included within cash flows from operating activities.

Statement of Cash Flows (continued)

for the year ended 31 March 2019

Cash flows from operating activities	Group 2019 £m	Group 2018* £m
Profit before tax	**10.5**	8.8
Adjustments for non-cash items included in profit before tax		
Impairment on loans and advances	**3.0**	7.9
Depreciation and amortisation	**6.9**	7.2
Revaluations of investment properties	**(2.6)**	(3.8)
Changes in provisions for liabilities	**(0.7)**	(1.0)
Interest on subordinated liabilities	**2.4**	-
Fair value losses on equity release portfolio	**1.7**	-
Other non-cash movements	**(12.3)**	24.1
	8.9	43.2
Changes in operating assets and liabilities		
Loans and advances to customers	**30.0**	(69.5)
Loans and advances to credit institutions	**(3.9)**	0.6
Derivative financial instruments	**13.6**	(43.5)
Shares	**(59.9)**	(373.2)
Deposits and other borrowings	**42.0**	123.1
Trade and other receivables	**2.4**	(2.9)
Trade and other payables	**0.3**	1.7
Retirement benefit obligations	**(2.7)**	(3.0)
Tax received	**-**	0.1
Net cash inflow/(outflow) from operating activities	**30.7**	(323.4)

*Comparatives have been recategorised, where applicable, to align to the current period presentation of cash flows from operating activities.

Ratios

for the year ended 31 March 2019

	Group 2019 %	Statutory limit %
Lending limit	**9.7**	25.0
Funding limit	**15.8**	50.0

	Group 2019 %	Group 2018 %
As a percentage of shares and borrowings:		
Gross capital	**8.05**	8.95
Free capital	**4.52**	5.88
Liquid assets	**11.78**	14.43
As a percentage of mean total assets:		
Profit for the financial year	**0.16**	0.14
Management expenses	**0.87**	0.87

	Group 2019 %	Group 2018 %
Common Equity Tier 1 capital ratio	**16.0**	14.8

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