Business Review

(including Summary Financial Statement)

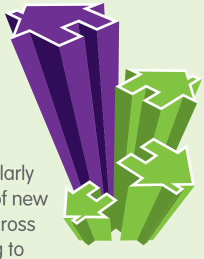
Year ended 31 March 2019

the West Brom

Key highlights of the 2018/19 financial year

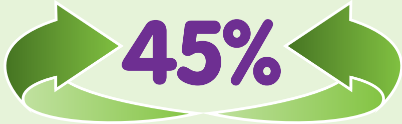
New mortgage lending

£691m



Despite intensified competition, particularly in the second half of the year, £691m of new mortgage lending (2017/18: £837m) across an extended product range, continuing to support home ownership and enabling more than 2,700 borrowers (2017/18: more than 3,100) to purchase their first home.

Average rate earned



45%

more than market average

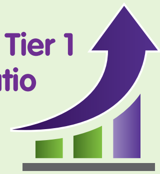
Delivering savers a significant increase in the average rate earned on their savings compared with the market average[1]; during the year, on average, we paid savers some 45% more than the market average (2017/18: 26% above).

Profit before tax

£10.5m

Common Equity Tier 1 (CET 1) capital ratio

16.0%



Profit before tax of £10.5m (2017/18: £8.8m), representing a 19% increase year on year which, along with the successful modernisation of the Society's capital structure through a liability management exercise (announced in March 2018 and completed in April 2018), resulted in a 14.5% increase in members' general reserves and further strengthening of the Society's capital position. The Common Equity Tier 1 ratio increased to 16.0% from 14.8%.

High

Customer satisfaction and Net Promoter Score

Sustained high levels of customer satisfaction of 94% (2017/18: 94%) and higher customer service Net Promoter Score®[2] of +72 (2017/18: +65) which compares favourably with the Financial Services Benchmark of +50 (2017/18: +45).

Member Council

Enhanced stakeholder engagement, following the establishment of Member and Employee Councils and the sector first of a binding vote on Executive Director Remuneration Policy in July 2018.

9%

reduction in non-core commercial loan book

Continued success in rebalancing the lending portfolio: a 9% reduction in the non-core commercial loan book (2017/18: 17%) and 5% (2017/18: 13%) increase in prime owner occupied balances.

[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.*

Chief Executive's Business Review

Dear fellow members,

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.

19% increase

in profit before tax
to £10.5m (2017/18: £8.8m)

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.

The main factors underlying the financial performance and position of the Society are described in more detail below.

Net interest income

Net interest income of £58.5m (2017/18: £55.5m) increased by 5% and net interest margin improved from 0.96% to 1.03%. The reduction in asset yields driven by increased competition in the mortgage market was offset by a reduction in overall funding costs which continued to benefit from the low cost term funding made available via the Bank of England's Term Funding Scheme (which closed for new drawdowns in February 2018).

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

As a mutual, it is not our role to maximise the interest rate differential between borrowers and savers. Instead, we aim to offer competitive rates and manage net interest margin at a level which allows us to cover costs, maintain our robust capital position and invest in the future. This is why, when Bank Rate increased in August 2018 by 0.25% to 0.75%, with no appreciable increase (in fact relative reductions) in new mortgage market rates, we still raised savings rates, wherever possible, to deliver value to our saving members. Indeed, we paid our savers 0.29% above the market average for the 12 months to 31 March 2019 (31 March 2018: 0.16%)[1].

Intense competition in the mortgage markets during 2018/19 exerted pressure on net interest margin; however, this was partly offset by improved returns on the Society's free capital resulting from increases in Bank Rate during the year.

Fees, commissions and other income

The Society partners with a number of providers to offer home insurance, financial advice, will writing, life cover and funeral planning. Fees and commissions of £2.6m (2017/18: £2.7m) were earned on these products and services, which are made available to support our members' wider financial wellbeing.

In its capacity as responsible landlord, the Group earned net rental income of £4.1m (2017/18: £4.0m) on residential properties let through subsidiary company, West Bromwich Homes Limited.

Fair value (losses)/gains on financial instruments

Of the £4.4m fair value losses (2017/18: £2.5m gains) in the year £1.7m (2017/18: £nil) relates to the closed equity release portfolio measured at fair value through profit or loss under the new accounting standard IFRS 9, £2.7m (2017/18: £2.0m gain) represents fair value movements on derivatives held to hedge impaired commercial loans for which the criteria to apply hedge accounting are not met and the remaining balance, not material for 2018/19 but a gain of £0.5m in 2017/18, mainly relates to hedge ineffectiveness where the fair value movements on hedging derivatives do not fully offset the fair value changes in the corresponding hedged assets (i.e. fixed rate mortgages) and liabilities (i.e. fixed rate savings).

Management expenses

Administrative expenses have reduced from £50.7m in 2017/18 to £49.5m. As a proportion of mean total assets, management expenses remained stable at 0.87% (2017/18: 0.87%).

During the year the Society identified a number of areas where services could be provided more efficiently, resulting in cost savings, after absorbing inflationary pressures, of 2.4%. Excluding a one-off past service cost of £0.4m, for the equalisation of Guaranteed Minimum Pension (GMP) benefits between men and women - an obligation impacting all UK defined benefit schemes – the reduction in costs was 3.2%.

The Society will continue to invest in IT infrastructure, in order to meet members' expectations in a dynamic digital environment, whilst maintaining its focus on providing long-term value for members by spending their money wisely.

Gains on investment properties

The Society provides residential housing for rental through its subsidiary company, West Bromwich Homes Limited. These properties are concentrated in the West Midlands, the South West and South Wales.

House price inflation, whilst fairly slow during the year, has been positive, especially in the areas where many of the properties are situated. During the year, the market value of the properties held rose by £2.6m compared with £3.8m in the previous year.

Impairment on loans and advances

The Group adopted IFRS 9 'Financial Instruments' from 1 April 2018. Impairment is now measured on an expected loss basis rather than the incurred loss approach prescribed by IAS 39, under which the comparative information for 2018 is reported.

Residential impairment

Under IFRS 9, the calculation of expected credit losses (ECLs) incorporates forecasts of future economic conditions. During the year, in the wake of Brexit-related uncertainty, the economic outlook, in particular the assumptions surrounding house price inflation, worsened. Whilst the quality of the Society's residential mortgage books remains strong, under IFRS 9, the increased probability of a downturn drives the recognition of additional

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

residential impairment charges, with £1.2m reported in 2018/19 (2017/18: £0.4m credit on an IAS 39 basis, excluding equity release impairment charge of £0.3m).

As mentioned previously, equity release mortgages are held at fair value through profit or loss under IFRS 9 and are therefore not subject to an impairment assessment, with changes in credit risk now reflected as fair value gains or losses in the income statement.

Commercial impairment

All commercial loans are individually assessed using cash flow scenario modelling, which considers a range of possible outcomes to calculate ECL requirements.

Under IFRS 9, commercial impairment charges of £1.8m were recognised for the year compared with an IAS 39 charge in 2017/18 of £8.0m. After adjusting for the offsetting movements in derivatives held to hedge the impaired loans and also a £1.1m adjustment to recognise interest net of provisions for stage 3 loans (i.e. loans in default), the charges were more comparable at £5.6m and £6.0m for the current and prior year respectively.

The implementation of IFRS 9 has increased commercial provision balances which, at £70.7m (2017/18: £42.1m), represent 15.9% of the current loan book (2017/18: 8.6%). As commented upon in previous years, the commercial property sector is especially vulnerable to economic uncertainty and, under IFRS 9, this sensitivity is captured within the calculation of the provision requirement. The charge in the year is due in particular to a weakening in the economic view for the retail sector, to which the commercial portfolio is exposed.

At 31 March 2019, 58% (2017/18: 55%) of non-core commercial balances were managed by a Law of Property Act Receiver (LPAR), appointed to assist in the management of future cash flows and debt recovery.

The exit from the commercial property sector, which is deemed non-core, continues to be a strategic objective.

Provisions for liabilities

The income statement charge, in relation to provisions for liabilities, has reduced to £0.3m (2017/18: £0.9m). During the year, the Financial Services Compensation Scheme (FSCS) repaid its loan from HM Treasury and confirmed no further loan interest would be levied. An FSCS levy charge of £0.3m was recognised in the previous year.

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.

43%

of all new borrowers were first time buyers
(2017/18: 34%)

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*

45%
more than the market average rate paid to savers[1] (2017/18: 26%)

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.

+72
Net Promoter Score®[2] (2017/18: +65)

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.

The New Square Shopping Centre now provides the location for the Society's West Bromwich branch.

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

[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.*

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.

16.0%

Common Equity Tier 1 Capital Ratio
(2017/18: 14.8%), up 1.2%

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

The Employee Council is sharing colleagues' views directly with our Board and business leaders.

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

Summary Financial Statement

Year ended 31 March 2019

This Financial Statement is a summary of the information in the audited Annual Accounts, the Directors' Report and the Annual Business Statement, all of which will be available to members and depositors free of charge on request at every office of West Bromwich Building Society from 5 June 2019.

Summary Directors' Report

The information contained in the Chief Executive's Business Review on pages 3 to 8 of this document addresses the requirements of the Summary Directors' Report.

Summary Financial Statement

Group results for the year	2019 £m	2018 £m
Net interest receivable	58.5	55.5
Other income and charges	6.6	6.5
Fair value (losses)/gains	(4.4)	2.5
Administrative expenses	(49.5)	(50.7)
Operating profit before revaluation gains, impairment and provisions	**11.2**	**13.8**
Gains on investment properties	2.6	3.8
Impairment losses	(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**

Group financial position at end of year	2019 £m	2018 £m
Assets		
Liquid assets	598.5	757.2
Mortgages	4,746.7	4,805.4
Derivative financial instruments	6.5	19.5
Fixed and other assets	202.2	199.4
Total assets	**5,553.9**	**5,781.5**
Liabilities		
Shares	3,991.2	4,051.4
Borrowings	1,089.1	1,197.7
Derivative financial instruments	39.3	38.7
Other liabilities	25.3	23.7
Subordinated liabilities	22.8	-
Core capital deferred shares	127.0	-
Profit participating deferred shares	-	175.0
Subscribed capital	8.9	75.0
Reserves	247.0	216.6
Revaluation reserve	3.3	3.4
Total liabilities	**5,553.9**	**5,781.5**

Summary Financial Statement (continued)

Year ended 31 March 2019

Summary of key financial ratios	2019 %	2018 %
Gross capital As a percentage of shares and borrowings	**8.05**	8.95
Liquid assets As a percentage of shares and borrowings	**11.78**	14.43
Profit for the year As a percentage of mean total assets	**0.16**	0.14
Management expenses As a percentage of mean total assets	**0.87**	0.87

'Gross capital' represents the aggregate of reserves, revaluation reserve, subscribed capital, subordinated liabilities, core capital deferred shares and profit participating deferred shares.

'Shares and borrowings' represent the total of shares and borrowings, in each case including accrued interest.

'Management expenses' represent administrative expenses.

This Summary Financial Statement was approved by the Board of Directors on 29 May 2019.

Mark Nicholls
Chairman

Jonathan Westhoff
Chief Executive

Ashraf Piranie
Group Finance & Operations Director

Independent Auditor's Statement to the Members and Depositors of West Bromwich Building Society

Opinion

We have examined the summary financial statement of West Bromwich Building Society (the Society) for the year ended 31 March 2019 set out on pages 9 to 10.

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full financial statements, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 March 2019.

We also read the other information contained in the Business Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Directors' responsibilities

The directors are responsible for preparing the summary financial statement within the Business Review, in accordance with applicable United Kingdom law.

Auditor's responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the Society's members, as a body, and to the Society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the Society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body and the Society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Andrew Walker
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
29 May 2019

Braille, audio and large print versions of this leaflet are available upon request. Please contact us on 0345 241 3784.

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